



Written by [Raven Clabough](#) on January 13, 2015

Republicans Set Sights on Tax Reform, but What About Government Spending?

Congressional Republicans are eyeing the budget process to enact tax reform. Senator John Thune of South Dakota is leading the push for Republicans to utilize budget reconciliation to ultimately overhaul the corporate tax code.

As noted by *Politico*, the reconciliation process is a highly controversial one as it requires a simple Senate majority of 51 votes to pass legislation. It is often utilized by both parties to pass unpopular legislation.



In using the reconciliation process to overhaul the corporate tax code, Republicans are hoping to create enough revenue to pay for a five- or six-year transportation and infrastructure bill. Thune, who chairs the Commerce, Science and Transportation Committee, has indicated he was in discussions with senior administration officials, including Transportation Secretary Anthony Foxx, about using reconciliation to overhaul corporate tax laws.

Conservative Republicans advocate using the reconciliation process to gut ObamaCare, but GOP leaders believe it would be a waste to do so as it would most likely result in a veto. “I would rather use reconciliation to do tax reform, which I think is very pro-growth — and have votes on Obamacare” separately, said Thune, the number three Senate GOP leader. “There’s going to be a lot of interest in using it to repeal Obamacare, but you only get so many bites at the apple for reconciliation.”

Politico explained,

If GOP lawmakers try to use the budget maneuver to repeal Obamacare, they could send a powerful political message, which they’d be able to replicate after 2016 if they take back the White House and keep control of the Capitol — but it wouldn’t become law in the 114th Congress. And while focusing on tax reform and infrastructure funding could win presidential support, the move could anger conservatives who want to show voters that Republicans are prepared to use every means possible to attack the health law.

But Republicans are still in the process of determining the best use of reconciliation. “The conference has to decide, and will decide, whether or not the tools that we have in reconciliation ought to be used for things that we know provide a contrast with the president — we know that he will not support Obamacare repeal in reconciliation — or things that are possible for us to get a true change in public policy, with his signature,” Georgia Representative Tom Price, who chairs the House Budget Committee, told reporters last month. “We haven’t, as a conference, as a group, reached a strategic decision.”

Obama has reportedly indicated an interest in tax reform during this Congress in private conversations with GOP leaders, but has not offered specific details. Both Republicans and the White House have



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stated that they would like to cut the corporate tax rate, which currently stands at 35 percent.

And while Republicans and President Obama attempt to determine the best method to achieve tax reform, experts assert that proposals are flawed because they do not focus on the biggest detriment to economic growth and affordable taxation: out-of-control spending by an overgrown, bloated federal government.

According to Chris Edwards at the Cato Institute, the surest and most constitutional way to reduce taxes is to downsize every federal department by either cutting or eliminating the most harmful programs.

Edwards writes,

In recent decades, the federal government has expanded into hundreds of areas that should be left to state and local governments, businesses, charities, and individuals. That expansion is sucking the life out of the private economy and creating a top-down bureaucratic society that is alien to American traditions. Cutting federal spending would enhance civil liberties by dispersing power from Washington.

The Congressional Budget Office (CBO) projects that under current law federal spending will rise from 20.4 percent of GDP in 2013 to 22.1 percent by 2024.¹ Over the same period, federal tax revenues are expected to rise from 17.6 percent of GDP to 18.3 percent. Despite the growing revenues, the government would continue to run large deficits because spending would remain at high and rising levels.

When the federal government cuts taxes while maintaining or increasing current spending, the federal government typically uses borrowing to finance its spending, which increases the deficit and inflates the dollar.

Academic research shows that economic growth slows significantly at high levels of public debt. The Congressional Budget Office [observed](#) in 2013, "Such a large amount of federal debt will reduce the nation's output and income below what would occur if the debt was smaller, and it raises the risk of a fiscal crisis (in which the government would lose the ability to borrow money at affordable interest rates)."

Slow economic growth has a direct negative impact on American families, observes economist Salim Furth of the Heritage Foundation. Furth notes that a decade of debt drag would reduce the income of the typical American family by \$11,000. Low economic growth also means fewer jobs and few opportunities for Americans to improve their economic positions.

According to the Heritage Foundation, cuts to government spending promote economic growth by freeing resources in the economy for investment and job creation. Without significant cuts to federal spending, economic growth cannot be achieved:

Government spending changes the composition of total demand, such as by increasing consumption at the expense of investment. Poorly targeted deficit spending would boost GNP in the short term, but leave less available for productive investments in the future. Deficit spending shifts economic resources from the future to the present, leaving younger generations with a larger tax burden and fewer resources to invest. In reverse, lower government spending frees economic resources for investment in the private sector, which improves consumer wealth. In sum, additional government spending today harms economic growth in the long term, while budget cuts today would enable the



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economy to grow much faster tomorrow.

By cutting spending and reducing taxes, the economy would grow and individual freedoms would be restored.

So while Republicans and Democrats continue to debate the use of budget reconciliation to achieve a corporate tax overhaul, economic experts recognize that any proposal that advances tax cuts without significant spending cuts and downsizing of the overgrown government will only serve to hurt the economy and increase taxes indirectly through inflation.



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