



How Ted Cruz Would Balance The Budget

Peter Ferrara

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At the CNBC debate on October 28, Ted Cruz released his tax reform proposal, which I believe is the best of all the presidential candidates' plans. At Tuesday night's debate, Cruz released a spending reduction plan showing how he will pay for the tax cut involved in the tax reform plan.

For the individual income tax under his tax reform, Cruz's plan provides for one flat rate of 10% on everything – wages, capital gains, dividends, personal business income, rent, interest, and all other forms of individual income. The corporate income tax would be abolished, and replaced with a 16% Business Flat Tax, which applies to sales of goods and services, minus all purchases and expenses for inputs for production. It automatically provides for immediate “expensing,” or an immediate deduction for all purchases of plant and equipment, and all other capital investment, which inherently involves purchases of inputs from other businesses. It is essentially a consumption tax for business.

That net business tax, which also automatically abolishes all special-interest, corporate-welfare loopholes, raises an enormous amount of revenue, \$25.4 trillion over the first 10 years alone. This enables the plan to include abolishing the Social Security and Medicare payroll tax, which is the highest tax most working people pay, with Social Security and Medicare financed in full. It also enables the plan to include abolishing the death tax, the Alternative Minimum Tax, and all Obamacare taxes, as well as the corporate income tax. With a standard deduction of \$10,000 per adult, and a \$4,000 personal exemption, the first \$36,000 of income for a family of four would be exempt from all significant federal taxes.

Because such tax reform would be enormously pro-growth, the Tax Foundation scores it on a dynamic basis as a net tax cut of \$768 billion over the first 10 years. The Tax Foundation, which has developed a formal, sophisticated, and thorough economic model of the economy, estimates Cruz's tax reform would create nearly 5 million new jobs, increase wages by 12%, and increase real economic growth over the next decade by nearly 14% more than under current tax policies. The after tax income of all workers would increase by 21.3% on average, with those in the bottom 20% of the income ladder seeing income increases of 15.3%.

John Kasich is trying to use the Tax Foundation score of the Trump tax reform plan, which shows a revenue loss of over \$10 trillion, to dismiss all the tax reform plans of all the other candidates. But that does not apply to the Cruz tax reform plan in particular.

Cruz's tax reform plan was explicitly not designed to be revenue neutral, because Cruz is campaigning to reduce the size of government, not raise the same revenue to finance the same government expenditures. Tuesday night, in conjunction with the Fox Business/Wall Street Journal debate, Cruz released part of his plan to reduce federal spending as well. He proposed to abolish four federal departments, plus the Internal Revenue Service, and 25 more named federal agencies, along with other policies, saving \$500 billion over 10 years.

One is the Department of Energy, which President Obama has shown can be used to reduce rather than increase U.S. energy production. With the technological breakthrough of fracking, America has the resources to be the world's No. 1 producer of oil, No. 1 producer of natural gas, and No. 1 producer of coal. That would form the backbone of a renewed economic boom in America. Senator Cruz has already introduced legislation to maximize energy production on federal lands and waterways.

Another is the Department of Commerce, which is a hotbed of corporate welfare handouts to crony socialists posing as business moguls. Statistics gathering and free trade authority sub-departments can be transferred to Treasury.

A third is the Department of Education, which interferes with the education function properly belonging in our federalist system to the state and local governments closest to the people. Federal financial aid for education would be sent back to the states in block grants.

Fourth is the Department of Housing and Urban Development (HUD), which has long been a hotbed of corruption, criminally prosecuted even during the Reagan years. This department has only managed 50 years of decline and fall for America's inner cities. Its housing aid and other public assistance programs should also be sent back to the states, as part of a general initiative to return the function of welfare to the states as well, where the entire public assistance system can be reformed to free and empower the poor to climb out of poverty, rather than trap them in it. A quarter of a trillion dollars can be saved over 10 years through this one change alone.

The IRS can be abolished because Cruz's tax reform plan simplifies taxes so much that it is no longer necessary. Working people would be able to file their taxes on a postcard, saving them hundreds of billions in tax compliance and collection costs every year. This would end as well the political targeting and favoritism abuses at the IRS so prevalent under President Obama.

Other bureaucracies that would be abolished include the Consumer Financial Protection Bureau, which specializes in regulatory burdens that deny credit to those in need, the outdated Corporation for Public Broadcasting, the Corporation for Travel Promotion, the Legal Services Corporation (which sues farmers, small businesses, and local governments, driving up costs for

taxpayers), the National Endowment for the Arts and National Endowment for the Humanities, as government should stay out of insulting religion, sugar-subsidy corporate welfare programs, Renewable Fuel Standard Mandates, the Saint Lawrence Seaway Development Corporation, and all other forms of corporate welfare.

Cruz would also adopt a federal hiring freeze, and federal pay reforms so annual federal pay increases would not be automatic, but based on merit. He proposes to appoint another “Grace Commission” made up of experienced private sector managers who would scour the federal bureaucracy for waste, fraud, and abuse. Reagan’s Grace Commission proposed 2,478 cost-cutting measures that did not weaken national defense or harm social welfare.

This would just be the first down payment in balancing the budget. Cruz recognizes that permanently balancing the budget over the long run would require entitlement reform. Not cuts for the poor and vulnerable. But reforms that would make the programs more efficient and effective over the long run.

CBO scored Paul Ryan’s proposal to block-grant Medicaid back to the states as saving nearly a trillion dollars over 10 years. In 1996, the block grants of the old, New Deal, AFDC program saved taxpayers 50% of the cost of the program after 10 years, based on prior trends. But the incomes of the two-thirds of the poor dependent on that program who left and went to work were documented by academic studies to increase by 25% on average. Those block grants can be extended to all of the remaining 150 or more federal-means tested welfare programs, saving trillions more.

Repealing and replacing Obamacare, to which Cruz is pledged, could save nearly a trillion in further spending over 10 years. Cruz’s legislation to maximize energy production on federal lands and waterways can provide nearly a trillion dollars over 10 years in increased royalties and tax payments from a further booming economy.

I would also address the problem of excessive federal land holdings in the Western states, where the federal government owns over half the land in those states. Property which is not environmentally sensitive, such as National Parks and Forests, and designated Wilderness Land, should be sold back to the people over 8 to 10 years (current grazing rights, water rights, mining rights, etc. can be preserved). That can raise trillions more.

Through these means, and the more than \$7 trillion in further proposed federal spending cuts over 10 years in Congressional Republican Budget Committee proposals, not to mention the trillions more in proposed federal spending cuts from the Heritage Foundation and the Cato Institute, the federal budget can be balanced entirely within two presidential terms. That is even with the necessary federal spending to modernize our nation’s badly lagging armed forces, which Cruz also spoke up for at Tuesday night’s debate.

Reagan built a 600-ship Navy, which dominated all of the seven seas, the first time in world history any one nation has achieved such global naval dominance. That U.S. Navy dominance kept open and protected all of the world's shipping lanes, which promoted American and global prosperity. But today we have less than half as many ships, 273, the smallest U.S. Navy since before World War I! Retired admirals say that is far short of what America needs to satisfy its national defense needs.

America is on course for the smallest Air Force since before World War I as well, only about half of what retired generals say is needed to meet national defense commitments. America is also building down to the smallest Army since before World War II, only about half of what would be required to support our national defense.

Under President Obama's outdated, totally unnecessary, 2010 nuclear arms treaty with Russia, America is actually tearing down nuclear missiles and warheads to the lowest levels since the early 1950s, when our nuclear deterrent was first being built up. But under the terms of that same treaty, Russia today is modernizing its nuclear program, and building and deploying still more, new, nuclear missiles. America's missile defense program is also badly lagging, with no defenses at all for missiles coming from the south, and far short of necessary defenses for the East Coast.

A trillion dollars over 10 years to fully remodernize U.S. military forces would be a bargain, buying America Reagan's Peace through Strength. That would further boost the economy, rebuilding manufacturing to the benefit of blue collar workers in particular. For just a couple of billion, we could harden our energy grid against a possible EMP attack, which could shut down all of American electricity indefinitely with just a couple of nuclear missiles exploded miles above the American land mass. That alone could save the lives of most of the American people alive today.