

The Columbus Dispatch

Kasich tax plan adheres to GOP tenets

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October 25, 2015

Republican presidential candidate John Kasich rejected a sweeping overhaul of the tax code with his new economic plan and instead offered a more traditional Republican blueprint that he says will spark the U.S. economy and eventually balance the federal budget.

Although critics say that Kasich's plan, unveiled this month in New Hampshire, is based on overly optimistic projections of economic growth and illusory budget restraints, the Ohio governor steered clear of more-radical conservative ideas to scrap the tax code and substitute either a single-rate income tax or a tax solely on consumption.

The Dispatch took a closer look at the plan and found Kasich is employing concepts championed for the past three decades by establishment Republicans. For example, he wants to compress the seven current individual tax rates into three while avoiding more controversial ideas to sweep away scores of deductions and preferences in the tax code.

He blends his tax-reduction plan with a dose of federalism in which Washington will provide states with the money and authority to design their own education, transportation and Medicaid systems.

And he favors the old Republican brew of curbing federal environmental and financial regulations, boosting defense spending, and freezing spending on domestic programs such as the environment, criminal justice, housing and education.

"The flat tax is an attractive idea, especially in terms of simplification," said Scott Milburn, a senior adviser to Kasich's campaign. "He continues to be very interested in it, and we continue to explore it. At the same time, balancing the budget has a profound stimulative effect and our overall economic policy needs to continually be driving toward that goal. ...

"Conservatives know which ideas can work," Milburn said. "There's widespread agreement. That is why it is all the more frustrating when Washington makes so little progress in enacting the reforms so many people can agree on. We need someone who knows how to bring people together, knock a few heads together if needed, and produce the results Americans so badly want."

But even as budget experts credit Kasich for offering ideas to reduce the more than \$7 trillion in publicly held debt that will be added during the next decade, many flatly dismiss his insistence

that reducing tax rates will spark a major economic revival and generate larger tax revenue for the federal treasury.

“The way they rhetorically deal with the irresponsibility of their tax cuts is to claim those tax cuts will pay for themselves, which of course they don’t,” said Harry Stein, director of fiscal policy at the left-leaning Center for American Progress Action Fund in Washington.

“When you look at Kasich’s plan, it’s shocking — for somebody with a reputation for seriousness and moderation ... — how unserious and extreme Kasich’s plan is, and you really see this most on the tax side,” Stein said.

Critics say that Kasich provides only vague details on restraining the explosive growth of Medicaid and Medicare, which pay for health care for the poor and elderly. By 2025, federal spending on Social Security, Medicare and Medicaid will consume \$3.2 trillion of the projected \$6 trillion federal budget.

Max Richtman, president and CEO of the National Committee To Preserve Social Security and Medicare, said “the impact” of restraining Medicare’s growth to 5.3 percent annually as Kasich wants “would be either much higher out-of-pocket costs for beneficiaries or more substandard care or a combination of both.”

Since President Ronald Reagan and economic conservatives seized control of the Republican Party in 1980, Republicans have emphasized tax cuts, deregulation and more defense spending, saying the gusher of new tax revenue generated by a growing economy would sweep away federal deficits.

In practice, the income-tax cuts Reagan and President George W. Bush pushed through Congress in 1981 and 2001 helped usher in staggering deficits that never would have been acceptable to earlier Republican presidents.

Although Chris Edwards, an economist at the libertarian-leaning Cato Institute in Washington, acknowledged that “most tax cuts do not pay for themselves,” he said, “Some tax cuts can have substantial positive effects on gross domestic product because corporate tax-rate reductions will cause corporations to increase capital investment, which will increase employment.”

Kasich has made a career of preaching that huge deficits can hamper economic growth. But in his effort to simultaneously appeal to tax-cutting conservatives and those backing balanced budgets, he appears to be heading in opposite directions at the same time.

For example, he wants Congress to repeal key parts of the 2010 health-care law signed by President Barack Obama but keep the section that provides states with billions of federal dollars to expand Medicaid to millions of low-income people.

At the same time, Kasich wants to restrain the rate of growth of Medicaid to 3 percent annually. Richtman said, “There’s no way that will keep pace with medical inflation, which has run twice that rate.”

Such a challenge is daunting for Kasich. The nonpartisan Congressional Budget Office calculates that Medicaid spending this year will increase 16 percent primarily because governors such as Kasich took advantage of the 2010 health-care law to expand Medicaid enrollment in their states.

Kasich aides counter that providing states with greater authority to design their own Medicaid plans, such as funneling more people into managed care, will save billions. They also suggest Medicare savings can be achieved through managed-care programs such as Medicare Advantage and dealing more efficiently with chronic diseases such as diabetes.

Even those Medicare reforms may not save enough money. According to the Cato Institute's Edwards: "The way to reform the program is switch to a system where money goes to individual consumers in a fixed amount and the consumers use their dollars and force the hospitals and doctors to compete for their consumer cash."

The other key component of Kasich's plan is to freeze new federal regulations during his first year as president, which would delight companies that say the new financial regulations imposed by Congress during Obama's presidency stifled economic growth.

"As a practical matter, that would certainly be a confidence signal to the business community that the new president is serious about getting control of the regulatory process," said John D. Graham, dean of the School of Public and Environmental Affairs at Indiana University, who was consulted on the regulatory proposals.

Yet such a freeze is likely to provoke intense opposition from those who blame lax regulation for the 2008 collapse of the nation's financial system.

Richard Cordray, the director of the Consumer Financial Protection Bureau and former attorney general of Ohio, warned in a speech last March, "Anarchy in the marketplace has never worked and never will work."