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Growth key to Kasich tax plan

Critics say his projections are overly optimistic, unrealistic.

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WASHINGTON —

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 he claims will spark the U.S. economy and eventually balance the federal budget.

Although critics charge 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.

Instead, Kasich is clinging to concepts championed for the past three decades by more establishment Republicans as 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, the joint federal and state program that provides health care for low-income people.

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

Kasich has said he is intrigued by the idea of a flat tax but didn't offer it this time around.

"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."

Some budget experts immediately credited Kasich for offering ideas to reduce the more than $7 trillion in publicly held debt that will be added during the next decade. At the same time many flatly dismissed his insistence that reducing tax rates will spark a major economic revival and generate larger tax revenues 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 Democratic 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.

Others say Kasich is providing only vague details on restraining the explosive growth of Medicaid and Medicare, which pays for health care for the 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 chief executive officer 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.”

Tax cuts v. a balanced budget

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, claiming the gusher of new tax revenue generated by a growing economy would sweep away federal deficits.

But 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.

Chris Edwards, an economist at the libertarian leaning Cato Institute in Washington 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.”

But, he acknowledged, “Most tax cuts do not pay for themselves.”

For Kasich, who has made a career of preaching that huge deficits can hamper economic growth, his tightrope-walking task is to simultaneously appeal to tax-cutting conservatives and those backing balanced budgets, all the while allowing for a protective safety net to capture the nation’s most vulnerable citizens.

For example, he wants Congress to repeal key parts of the 2010 health 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 even as 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 non-partisan Congressional Budget Office calculates Medicaid spending this year will increase 16 percent primarily because governors such as Kasich took advantage of the 2010 health 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.

But Edwards said Kasich's plans fall short of a significant reform. "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," he said.

Regulation freeze

The other key component of Kasich's plan is to freeze new federal regulations during his first year as president, which would delight companies who contend 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 Environmental Affairs at Indiana University and 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. In a speech last March by Richard Cordray, the director of the Consumer Financial Protection Bureau and former attorney general of Ohio, warned "anarchy in the marketplace has never worked and never will work."

Milburn vowed that Kasich's ideas will resonate with the American public.

"Conservatives know which ideas can work. There's widespread agreement," he said. "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."

Key provisions of Kasich tax plan, which he says will balance the budget in eight years.

- Eliminate four of seven brackets and reduce the top rate from 39.6 percent to 28 percent.
- Reduce corporate tax from 35 percent to 25 percent, cut long-term capital gains tax to 15 percent and eliminate estate tax.
- Increase earned income tax credit by 10 percent and double the research and development tax credit for small businesses.
- Increase military spending by 17 percent and freeze non-defense discretionary spending at $593 billion.
- Distribute most federal gas tax revenue to the states to use for building highways and other infrastructure. Shift other federal spending to the states, such as for education and Medicaid, reducing the role and size of the federal government.
- Impose a one-year moratorium on major new federal regulations.