

TheStreet



If Jeb Bush Becomes President, Here's What Would Happen to the U.S. Economy

Tobias Burns

October 27, 2015

While Jeb Bush cuts costs and salaries in an effort to "rightsized" his campaign, his critics are wondering whether he'll be able to do the same for the federal budget.

So far, Jeb has proposed tax cuts that would add between \$1.2 trillion and \$3.4 trillion to the national deficit -- and he hasn't said much at all about how he plans to pay for them, if he gets elected and can win the support of Congress. This has left some in Washington feeling antsy.

"He's got to cut the entitlements if he wants to make a dent on any of the deficit issues," Chris Edwards, an economist at the libertarian Cato Institute in Washington, said in an interview. "The candidates know this, but they're making the usual dodges."

Jeb is recommending a top tax rate of 28% for the wealthy, as opposed to the 39.6% they pay now. The top corporate tax rate will be only 20%, instead of the current 35%. As a result, gross domestic product, he says, will grow at a blistering 4% a year -- nearly double the rate during the Obama administration.

But experts are dubious that such a spike in productivity is even achievable, let alone capable of offsetting a dramatic reduction in government revenues.

Jeb isn't the only candidate maintaining radio silence on spending issues. In fact, the only Republican to offer any definitive language on the subject so far is Ohio Gov. John Kasich. The "Kasich Action Plan," as his website calls it, involves major cuts to the Department of Transportation and Department of Education as part of a pledge to balance the federal budget within eight years.

Entitlement Programs

Kasich also calls out Medicare and Medicaid as examples of "broken entitlement programs" but refrains from referring to Social Security or Social Security Disability Insurance by name, both of which are fiercely defended by retirees and others across the political spectrum. To those who would censure him for making the cuts, Kasich has said, "Get over it."

When the time comes for Jeb to discuss spending, these so-called "autopilot" programs will likely be among the first he suggests restructuring, largely by raising the barriers to access.

"Basic Social Security reforms like increasing the retirement age are on everyone's radar," Edwards said. "Food stamps could also be a likelihood because it has major fraud and abuse problems that need to be addressed."

Tax Cuts

Jeb's budgets in the past haven't exactly been anemic: He increased Florida state spending by 45% during the eight years through 2006 when he was governor, according to a 2014 report by the Cato Institute. The housing boom that tarnished his brother's presidency exempted Florida from budgetary crises during Jeb's tenure and propelled the state's economic growth to over 4% a year.

Achieving that rate nationally is a "worthy aspiration," according to the nonpartisan Center for Global Enterprise, a corporate think tank that examined Jeb's plan. Its review didn't reach a conclusion on whether the goal is realistic, but noted that President Ronald Reagan's tax and regulatory changes pushed real GDP growth in the U.S. to an average of 4.8% in the six years after the 1981-82 recession.

The tax cuts that would help Jeb accomplish the same are basically par for the Republican course. Fellow candidate and New Jersey Gov. Chris Christie put forward many of the same numbers, including a three-tiered tax code with a 28% top-bracket tax rate, though his corporate tax rate is 25% instead of Jeb's 20%.

Donald Trump increases the number of tax brackets to four from three but eliminates many of the same deductions.

Health Care & Energy

On the healthcare front, Jeb wants to repeal and replace the Affordable Care Act, also known as Obamacare. That would add 0.7% to U.S. GDP over four years, his website says. He also blames Obamacare for suppressing wages by 2.3%.

Jeb's energy agenda centers on lifting the ban on oil and natural gas exports, which will likely expand these industries domestically and further depress already-low energy prices. Jeb also wants to pass the Keystone pipeline, which he says would add \$3 billion a year to GDP.

Conspiring against any would-be reformer, however, are a host of entrenched interests that will resist spending cuts at every juncture.

"It's going to be very, very difficult to see these kinds of changes made," James Pethokoukis, a columnist at the right-leaning American Enterprise Institute, said in an interview. "The headwinds in the labor force alone are impressive."

Cost of Change

There is the possibility, of course, that Jeb could pass his tax reforms without any accompanying budget cuts.

After all, his brother, President George W. Bush, cut taxes while increasing spending -- not only on two wars but also on the massive federal education policy No Child Left Behind. The initial request to Congress for the latter was \$24.4 billion, according to the [Heritage Foundation](#). By the end of Bush's tenure, the federal budget surpluses that accrued under his predecessor, President Bill Clinton, had been wiped out.

If Jeb wins the election, he'll likely take charge of the economy during a period of rising interest rates, which the U.S. Federal Reserve has been warning markets about for the last two years. The late 2010s and early 2020s will also see the generation of Baby Boomers "retiring in droves," according to Cato's Edwards.

"That's when it's going to get very expensive," he said. "Unless we get some budgetary reforms, it's going to look completely awful."