Spotlight: Trump's tax plan draws doubts about impact on federal deficit

April 29, 2017

As his milestone 100th day in office nears, U.S. President Donald Trump has been bustling about making progress on his agenda. One of these latest efforts is the hasty introduction of the one-page tax reform proposals.

The tax plan which was released this week is far short of details, but has mirrored closely what Trump promised during the election campaign: big tax cuts for businesses and individuals.

It has long been the consensus in the United States that the country's tax system has contributed to anemic economic recovery and should be reformed. However, how to reform the system while addressing the country's already historically-high debt is at the center of the debate.

"The proposals are mainly supply-side in nature, meaning cuts to marginal tax rates and other changes designed to increase economic growth," said Chris Edwards, a senior fellow at the Cato Institute.

He downplayed effects of tax reform on the federal deficit, arguing that deep corporate rate cut to 15 percent from 35 percent could help enlarge the corporate tax base, which would mean that the government would lose little revenue in the long term.

However, the tax plan has drawn doubts about its impact on the country's federal deficit, because it skipped answers to an important question: how to make up for the government revenue loss in face of the big tax cuts.

U.S. Treasury Secretary Steven Mnuchin said at a press briefing this week that the tax plan will pay for itself with growth, reduction of different deductions and closing loopholes.

"The plan includes far more details on how the administration would cut taxes than on how they would pay for those cuts," said the Committee for a Responsible Federal Budget (CRFB), a nonpartisan watchdog group.

It estimated that the plan would cause a total of 5.5 trillion U.S. dollars in revenue loss over a decade, and would boost the country's debt to GDP ratio to 111 percent by 2027, a sharp increase from the current 77 percent of gross domestic product, a record high after World War II.

"The country would need roughly 4.5 percent sustained growth to pay for the entire tax plan," said the CRFB. However, the nonpartisan Congressional Budget Office expected the U.S. economy to grow at an annual average rate of 1.9 percent over the next decade.

Without adequate offsets, tax reform could drive up the federal debt, harming economic growth instead of boosting it, said the CRFB.

Some conservative think tanks also doubted Mnuchin's claim that the tax plan could pay for itself with growth.

"The absence of base-broadeners means that, taken at face value, it would create large and permanent deficits," said Douglas Holtz-Eakin, president of American Action Forum, a conservative think tank.

As the plan could add large deficits, policymakers need to open up the tax code in search for more revenue, which could lose the benefits of tax reform in the process, said Holtz-Eakin.

He added that it's not possible to pass a bill that creates long-term deficits, and the provisions would likely just be temporary instead of permanent. "Two years of tax cuts is no tax reform," said the expert.