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Deficit hawks propose economic 'trigger' linked to tax cuts

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As they search for a final deal on tax cuts, Republican leaders are considering a proposal by deficit hawks to include a "trigger" that would halt the cuts if the economy doesn't grow fast enough to constrain the deficit.

The proposal has deeply divided conservatives. Some groups angrily denounce the plan as a betrayal of Republicans' commitment to tax cuts, but it could be the only way to win over a handful of others who worry about racking up more massive deficits.

The debate will play out over the next day or so, after the Senate voted 52-48 to begin debating the package on the floor Wednesday evening. The Senate now begins a sprint to final passage, likely this week.

The chamber is likely to vote on a proposal to raise the child tax credit, siphoning the money from corporate tax cuts and using it to give more money to families. Republicans will also have to fend off amendments from Democrats meant to soften support for the overall tax bill.

But the trigger could be the key to success. Backers say it's a way for Republicans to include an off-ramp if the tax cuts don't produce the kind of economic growth they are predicting.

Sen. Bob Corker, Tennessee Republican, is helping lead the push to include a trigger in the package and has consistently said he doesn't want to vote for something that will explode federal deficits.

"I think each of us has to understand in a bill like this you [get] things you like and things you don't," Mr. Corker said Wednesday. "You've got to decide, on balance, is it good for our country or not."

Mr. Corker was circumspect on details, but analysts said the trigger would kick in after five years to determine whether the tax cuts produce the dynamic growth Republicans expect.

Senators said the trigger would focus on the corporate tax rate, which is slated to drop from 35 percent to 20 percent. The rate would rise if the economic goals aren't met. Other spending cuts are also under discussion.

Sen. Jeff Flake of Arizona and Sen. James Lankford of Oklahoma — both staunch conservatives when it comes to government spending issues — are part of the push for triggers.

“It means a lot to me that we tell the public we’ve got a plan if we don’t hit our numbers, so Corker and Flake are right [to] insist upon it,” said Sen. Lindsey Graham of South Carolina.

Many Republicans were reluctant but prepared to acquiesce.

“We’re probably going to have one, but I’d prefer not having it. … [I’d] prefer having the bill do the job,” said Sen. Orrin G. Hatch, Utah Republican and Senate Finance Committee chairman.

Conservative pressure groups mocked the idea, saying tax cuts should stand on their own, regardless of their effect on the deficit. They also said uncertainty over future tax rates spawned by the trigger could undermine the very growth Republicans are trying to spur.

“No one invests in response to ‘maybe,’” said Grover Norquist, president of Americans for Tax Reform. “A trigger that threatens tax hikes is a self-fulfilling threat to kill jobs.”

Some senators, while stopping short of saying they would oppose a package with a trigger, said it shouldn’t be necessary.

“I think the concern is well-intentioned, but I don’t think it’s well-founded,” said Sen. Thom Tillis, North Carolina Republican.

Mr. Tillis, a former state House speaker in North Carolina, said his state went in the other direction and set tax cuts to kick in if the government outperformed its revenue goals, resulting in a gradual decrease in the corporate tax rate over a number of years.

The White House declined to take a firm stand on the proposal. Spokesman Raj Shah said only that they are “supportive of fiscal discipline” in general.

“We’re going to let Congress decide on some of these details, so I don’t have specifics on that provision,” Mr. Shah said.

Budget watchdogs said the trigger is a bad way to achieve fiscal reforms and that Congress should instead write a bill that is geared toward a sustainable budget.

As written, the Republican bill would keep the existing tax structure but cut rates for Americans. It eliminates some breaks, such as the deduction for state and local taxes, but increases others.

Republicans say that slashing rates, particularly on the corporate side, would supercharge the economy, but Democrats insist their projections are overly optimistic.

Chris Edwards, director of tax policy studies at the Libertarian-leaning Cato Institute, said a tax-hike trigger would be a terrible idea and that pinpointing one cause for resulting growth numbers is impossible.

“Let’s say they do the tax cut, but then the administration proceeds with protectionist policies, like pulling out of NAFTA,” he said. “The latter would damage GDP growth, but it wouldn’t be the fault of the tax cut.”

He said a mechanism involving automatic spending cuts would be better because federal revenue is tied to economic growth but Congress has direct control over discretionary spending.

“So putting a lever right on what they control makes more sense,” he said, adding that a projected increase in federal deficits in the coming years is tied to spending.

The trigger issue also surfaced in 2001, the last time Congress passed a major tax cut package.

Led by Sens. Olympia Snowe, Maine Republican, and Evan Bayh, Indiana Democrat, a bipartisan group from the House and Senate pushed unsuccessfully to pass a measure that would have delayed tax and spending proposals if certain debt reduction goals weren’t met.

At the time, the federal government was sitting on a budget surplus, and President George W. Bush said he wanted to return that money to the American people through a massive tax cut package.

“We want to be responsible stewards of the surplus,” Ms. Snowe said at the time.

“You really have to consider the alternative,” she said. “Is it better to be in a situation where we have the ability to control the situation, as opposed to the alternative where we return to a period or era of deficits and debt? I think we know the answer to that question.”

No trigger was included.

Months after the tax cuts were passed, the Sept. 11 terrorist attacks occurred and the U.S. quickly became enmeshed in two wars, upending government finances and beginning an uninterrupted string of annual deficits.

The federal debt, meanwhile, has exploded from less than $6 trillion in 2001 to more than $20.5 trillion now.