



Taxes and the GOP Candidates

A surprising divide on a core issue.

Michael Warren

May 18, 2015

Wisconsin Republican Paul Ryan has an unusual decoration on the wall of his Capitol Hill office: a framed Laffer curve. This totem of supply-siders everywhere is drawn on a napkin and signed by the economist Art Laffer himself. “To my friend, Paul Ryan,” reads the note.

Ryan is the chairman of the House Ways and Means Committee, which makes the memento all the more fitting. For decades, the concept illustrated by Laffer’s curve—that raising the rate of taxation past a certain point actually lowers revenue—has been the organizing principle of the Republican policy of lowering taxes by cutting marginal rates. Republicans aren’t ready to abandon that idea in spirit, but as the 2016 presidential election nears, there are signs of some divides within the party about what’s a priority—and what isn’t—when it comes to tax reform.

Ryan himself is pretty direct about where he sees the debate over taxes. Recently, a reporter in Washington asked him if lowering individual and corporate tax rates is still a top priority for him. “Yes,” he said immediately. Has interest in lowering rates waned? “No,” he said just as quickly. Is the goal to push the top marginal rate down below 30 percent? “Absolutely,” he said.

That may be the case for Ryan, but the path to a Republican consensus on taxes isn’t so straightforward. Texas senator and contender for the presidential nomination Ted Cruz has argued for a flat tax that would allow an American taxpayer’s return to “fit on the back of a postcard.” John Kasich, the Ohio governor who also may run for president, told reporters in Washington this month he’s been “in conversation” with conservative activist Steve Forbes about the flat tax as well. And the newest declared presidential candidate, former Arkansas governor Mike Huckabee, used his announcement speech to reiterate his support for the FairTax, a single-rate consumption tax replacing numerous federal taxes including the income tax.

But at the center of the debate is the proposal put forth by first-term senator and White House hopeful Marco Rubio of Florida. Coauthored by fellow senator Mike Lee of Utah, it’s the first serious tax plan by any presidential candidate this cycle. It’s also the first to break the strict “lower the rates” Republican mold. Briefly, Rubio and Lee propose two individual income-based

tax brackets of 15 percent and 35 percent; a corporate tax rate of 25 percent; stripping the code of all deductions except those for charitable contributions and mortgage interest; and—perhaps the most controversial feature on the right—a significant increase to the child tax credit. Rubio and Lee called it “pro-growth, pro-family” tax reform.

For the run-of-the-mill Republican voter—a middle-class homeowner, married with a few kids—the plan sounds too good to be true, and some tax wonks on the right think it is. The economists at the conservative-leaning Tax Foundation rained on the Rubio-Lee parade when it issued a report on the plan stating the federal government would likely lose \$1.7 trillion in revenue over the first 10 years before seeing gains. Daniel J. Mitchell, a tax scholar at the libertarian Cato Institute, found “several very attractive features” of the plan but called the top individual rate of 35 percent “disappointing.” Avik Roy of *Forbes* and the Manhattan Institute (and an adviser to former Texas governor Rick Perry) calls the child tax credit provision “social engineering” that would “increase the deficit without expanding the economy.”

Paul Ryan hasn’t exactly embraced Rubio-Lee. “I don’t want to be critical of any tax reform proposal on my end because I want to encourage people to put plans out there,” he said when asked about it. His counterpart on the Senate Finance Committee, Utah’s Orrin Hatch, was characteristically judicious but said he worried about how the proposal would add to the deficit. “I’d say Rubio-Lee is the first one I’ve seen recently that has some good ideas,” said Hatch in an interview. “But on the other hand, it has some real big problems, too, as almost any suggestion will.”

The editorial board at the *Wall Street Journal* was perhaps the harshest in its assessment of the child tax credit provision. Shortly after Rubio announced his candidacy for president, the paper wrote that the Florida Republican had become “the party’s most visible ally of the ‘new’ Republican idea that the Reagan tax-cutting agenda is a political dead end, and that the party now must redistribute revenue directly to middle-class families.” Hatch has reservations about the idea as well. “If you expand the child tax credit, to a lot of the economists, that doesn’t have a lot of the pro-growth elements,” he said.

What’s striking about the Rubio-Lee proposal is its subtly radical departure from the belief that lowering rates to generate growth is necessarily the best policy for middle-class families. In defending the bigger child tax credit, Rubio makes a case that’s less economic and more philosophical. “This is not a redistribution because this money doesn’t belong to the government in the first place,” he told an audience at the Heritage Foundation last month. Rubio and Lee describe the expanded child tax credit as a way to help offset the “parent tax penalty,” the fact that parents pay an extra “tax” in the form of the cost of raising children, the next generation of taxpayers. Looked at this way, the credit isn’t more “spending through the tax code”; it’s a correction to an inequity in the code.

They may be on to something politically. A January Gallup poll found that 46 percent believe Americans should pay less in taxes, the highest percentage since 2008. But in a Pew Research poll released in March, researchers found the top complaints about the tax code were that corporations and wealthy people “don’t pay their fair share.” A *Huffington Post* and YouGov poll from January had similar findings, with 62 percent saying the system favors the wealthy

over the middle class and poor. That's not a great political environment for lowering top marginal rates without some kind of benefit for middle-class taxpayers. Growth is important, Senators Rubio and Lee seem to be saying, but perhaps fairness ought to be a priority.

That's not how all, or even many, top Republicans see it. Paul Ryan sums up the prevailing view: "In my mind, growth is the ultimate goal for tax reform because growth gets you upward mobility, growth gets you more wages, growth makes it easier for families to raise families."

Some of Rubio's rivals for the GOP nomination have echoed that sentiment.

"Yes, they have provided a lot of child tax credits," said former Hewlett-Packard executive Carly Fiorina, who recently announced her candidacy, in an interview. "But if you're a single person or a young married couple, and you're trying to work your way up, you're going to be hit with a big tax bill, and that doesn't strike me as particularly motivating or fair."

"The focus ought to be not on targeted elements of the code but on a broader conversation about how we can eliminate as many of these tax expenditures as possible and lower the rates as low as possible," said Jeb Bush, the former Florida governor and potential presidential contender, at an event this month in Washington.

The truth is, Rubio and Lee have started that "broader conversation" over tax reform already, with other Republican candidates and leaders playing catch-up. That may explain the sense of urgency in Ryan's voice when pushed for his thoughts on Rubio-Lee. "I want people to put plans out there, and I think we should have a good robust debate about big tax reform, and I think that debate ought to occur sooner rather than later," he said.