



Trump's Massive Tax Cuts and New Spending Alarm Fiscal Conservatives

Eric Pianin

July 22, 2016

Republican presidential nominee Donald Trump fretted about the mounting national debt early in his acceptance speech Thursday night in Cleveland and blamed President Obama and other Washington politicians for failing to do anything about it.

“President Obama has almost doubled our national debt to more than \$19 trillion, and growing,” he told thousands of cheering delegates and party officials on the final night of the four-day GOP national convention, “Yet what do we have to show for it? Our roads and bridges are falling apart, our airports are in third world condition, and 43 million Americans are on food stamps.”

But for the next 74 minutes or so, Trump spun out a hodgepodge of spending and tax cut proposals that cheered many of the convention goers but alarmed fiscal conservatives who warned that Trump could drive the debt much higher if he is elected president in November.

“Trump's speech shows that the era of small government is over,” said Michael Tanner, a senior fellow at the libertarian Cato Institute. “He is as much in favor of big spending and big government as Hillary Clinton. And since he has no plans to pay for his spending, he will likely balloon the deficit even more.”

“It was pretty galling to brag about the biggest tax cut of any candidate at a time we have near-record debt levels, and on top of that, not even have a plan to cut spending,” said Maya MacGuineas, president of the Committee for a Responsible Federal Budget, a non-partisan budget watchdog. “Trump talks a lot about the \$19 trillion debt, but our fiscal challenges need actual solutions.”

Robert L. Bixby, executive director of the Concord Coalition, an anti-deficit group, said during an interview, “Trump is setting up impossible goals. And I thought the point was that people were sick of that. That's what's making everyone so cynical. I really do worry that it's an impossible governing agenda, and you have to wonder how much he understands the fiscal challenge.”

While making the perfunctory pledge to eliminate government “waste, fraud and abuse,” Trump spelled out an exhaustive and pricey laundry list of budget-busting initiatives and programs that would add trillions of dollars to the government’s long-term obligations.

He said he would “completely rebuild our depleted military,” which currently costs around \$597 billion a year and roughly exceeds the combined defense budgets of the next 14 countries. Trump would pour billions more into strengthening local police departments, help parents send their children to the schools of their choice, and take care of veterans and their health needs “like they have never been taken care of before.”

Trump doubled down on his plan to build a massive wall along the 1,989-mile U.S.-Mexico border to cut down on illegal immigration and the flow of illegal drugs into this country. Even though Trump claims that Mexico will pay for the wall, realists put the cost at as much as \$25 billion. He vowed to rejuvenate inner cities that he claims have been ignored by the Obama administration, without offering a price tag. He would pump more resources into the CIA, NSA and other spy organizations to create “the best intelligence gathering operation in the world.”

And he would rejuvenate the economy and help bring jobs back from overseas in part by launching the biggest infrastructure program since the national highway construction program of the mid-1950s. “We will build the roads, highways, bridges, airport and railways of tomorrow,” he declared.

As for his tax cut proposals, Trump boasted that while Clinton has proposed a massive tax increase to pay for many of her spending plans, “I have proposed the largest tax reduction of any candidate who has declared for the presidential race this year – Democrat or Republican.”

“America is one of the highest-taxed nations in the world,” he said. “Reducing taxes will cause new companies and new jobs to come roaring back into our country.”

Left unsaid was that if Trump were elected president and managed to push through the largest income and corporate tax cut in U.S. history, he would effectively boost the national debt by \$11.5 trillion over the coming decade, according to a recent tally by the Committee for a Responsible Federal Budget.

Similarly, an analysis by the non-partisan Tax Foundation found that Trump’s proposed tax cuts, while posing a major drain on future revenues, could produce an 11.5 percent rise in GDP over the coming decade, provided it were accompanied by appropriate offsetting savings or financing. Depending on how much the economy grows over the next 10 years, Trump’s plan would cost the Treasury between \$10.1 trillion and \$11.9 trillion in foregone revenues.

Trump did promise to rein in government spending by identifying redundant and wasteful spending in every federal agency, which could result in significant savings. Growing the economy would also result in additional tax revenue, thus mitigating the deficit over time. But Congress, business, and the country at large would all have to align perfectly to realize that result.

Taken together, Trump's package of spending and tax measures would substantially drive up the long-term debt, absent either major reforms of Social Security, Medicare and other entitlements or an improbable surge in economic growth well beyond current levels.

Clinton will accept her party's presidential nomination next week at the Democratic National Convention in Philadelphia and has proposed at least \$1.5 trillion in new spending on health care and other programs over the coming decade. Much of that would be offset by \$1.2 trillion of proposed tax increases, which would have to be approved by Congress.

However, that doesn't include new promises she has made in recent weeks that haven't been costed out, including expanding Medicare to people 55 and over and providing free public college tuition to students from middle and lower income families.

Both Clinton and Trump have ruled out major entitlement reform, much to the delight of seniors and liberal advocacy groups and to the chagrin of anti-deficit groups and government spending watchdogs.

Trump is counting on the rosy "supply-side" effects of his proposed tax cuts, an investment in infrastructure, and a lifting of federal environmental restrictions on energy production to generate trillions of dollars' worth of economic expansion and new jobs in the coming decade to help offset the loss of revenue through his tax cuts.

For now, however, a huge economic growth spurt seems highly unlikely, even with a major stimulus along the lines of what Trump is advocating. GDP is projected to grow at a modest clip of 2 percent this year -- slightly down from the previous year -- and then remain at 2 percent in 2017 and 2018, according to Federal Reserve Board estimates released in June.

The Congressional Budget Office earlier this month warned that the national debt is surging ahead of previous projections and could reach an historic 141 percent of the overall economy by 2046. That level would exceed the historical peak of 106 percent registered shortly after World War II. Major factors in that surge are higher interest costs and mounting spending to provide retirement and health care benefits to baby boomers.

"I'd say Trump's speech did not lay out a realistic governing agenda as far as fiscal policy is concerned," Bixby said. "He didn't even address the main issues. And to the extent he did get into it, he clearly was just throwing out some platitudes about the debt.