



Tax Reform With All Options ‘On The Table’ Sounds Reasonable But Is Unrealistic

Daniel J. Mitchell

[Author's Website](#)

The no-tax pledge of Americans for Tax Reform generates a lot of controversy. With record levels of red ink, the political elite incessantly proclaims that all options must be “on the table.”

This sounds reasonable. And when some Republicans say no tax hikes under any circumstances, there’s a lot of criticism about dogmatism.

Theoretically, I agree with the elitists. Indeed, earlier this year, [I outlined several possible deals that I would accept.](#)

- If someone told me that I magically had the power to flick a switch and give the country a flat tax, but that [simple and fair tax system](#) would only be possible if the rate was set high enough to give the government an extra \$100 billion of revenue each year, I would take the deal in a heartbeat.
- If I was given the opportunity to abolish the Departments of Energy, Education, Transportation, Agriculture, and Housing and Urban Development, but I had to give the politicians an extra \$100 billion of revenue per year in exchange, I’d say yes right away.
- And if I had the chance to adopt [Medicare reform](#), [Medicaid reform](#), and [Social Security reform](#), and all I had to give up was \$100 billion of added annual tax revenue, I wouldn’t hesitate to give my approval.

To be blunt, I am not ideologically opposed to higher taxes. I’m willing to acquiesce to a tax hike if the net long-run effect is more freedom, liberty, and prosperity.

Heck, [I’ve even said on national TV](#) that I would go back to Bill Clinton’s tax policy if I could undo all the [reckless spending and regulation of the Bush-Obama years.](#)

But even though I’m theoretically open to a tax hike, I am a de facto opponent of tax increases for the simple reason that we will never get a good deal. We won’t get sustainable spending cuts. Not even in our dreams.

We won’t get real entitlement reforms. Even if we hold our breath ‘til we turn blue.

And we won't get the "Simpson-Bowles" tax reform swap, where taxpayers give up \$2 of deductions in exchange for \$1 of lower tax rates. Let's not kid ourselves.

In other words, reality trumps theory. Yes, there are tax-hike deals that would be good, but they're about as realistic as me speculating on whether I'd be willing to play for the New York Yankees, but only if they guarantee me \$5 million per year.

Simply stated, [I'm opposed to tax increases](#) because the odds of getting a deal that moves policy in a constructive direction are somewhere between...well, I was going to write "slim and none," but it's more accurate to say that the odds range from are-you-smoking-crack to you-must-be-friggin'-kidding.

Here are three reasons why.

1. The supposed spending cuts in a "grand bargain" would be based on [dishonest Washington math](#). If I'm supposed to take some sort of deal, whether it's \$10-\$1, \$3-\$1, or \$1-\$1, I want the spending cuts to be genuine, not the usual game of having a program grow by 6 percent instead of 8 percent and pretending there's been a 2 percent cut. Sadly, what I want doesn't matter. Budget policy in Washington is governed by a [fundamentally dishonest process](#) that says that reductions in increases are actually cuts.
2. Proponents of the grand bargain always say that any new tax revenues will be generated by closing loopholes, deductions, exclusions, and other preferences. Since I've railed against [corrupt tax-code distortions](#), that should be music to my ears. Unfortunately, as [I explained last year](#), the people at the Joint Committee on Taxation use a very biased benchmark when measuring so-called tax expenditures. As a result, a "grand bargain" would be more likely to result in an increase in the [\(already onerous\)](#) double taxation of income that is saved and invested rather than the elimination of genuine loopholes such as the exclusion for employer-provided health insurance. And if Obama prevails in November, we'd get have higher income tax rates as well.
3. Not all entitlement reform is created equal. [The right kind of reform](#) changes the structure of programs to promote market forces, federalism, and fiscal sustainability. [The wrong kind of reform](#), by contrast, keeps the existing structure in place and tries to address the fiscal train wreck with some combination of means-testing and price controls. Now, take a wild guess at which approach was adopted by the [Gang of Six](#) and the [Simpson-Bowles fiscal commission](#), plans that often are cited as providing a framework for a grand bargain? You won't be surprised to learn that neither plan included the real entitlement reforms from the [Ryan budget](#).

Here's the bottom line: There is no practical way to get a good deal from either the Democrats in the Senate or the Obama Administration. Notwithstanding the good intentions of some people, any grand bargain would be a failure that leads to higher spending and more red ink, just as we saw after the 1982 and 1990 budget deals. The tax increases would not be relatively benign loophole closers. Instead, the economy would be

hit by higher marginal tax rates on work, savings, investment, and entrepreneurship. And the entitlement reform would be unsustainable gimmicks rather than structural changes to fix the underlying programs.

Ironically, when a columnist for the New York Times complained that Republicans were being unreasonable for opposing tax hikes, she inadvertently revealed that the [only successful budget deal was the one in 1997](#) – the one that had no tax hikes!

In conclusion, even though higher taxes theoretically could be part of a grand bargain to address the nation's spending crisis, I'm reminded of Samuel Johnson's famous quote about second marriages being a triumph of hope over experience.

But some second marriages are successful, so proponents of the grand bargain are more akin to people going on safaris in search of Bigfoot, the abominable snowman, unicorns, and the Loch Ness monster. But I'll bestow upon them a [Charlie Brown Award](#) for gullibility, so at least they'll have something to hang on the wall.