More on Bobby Jindal's tax cut plan

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The WaPo's Catherine Rampell writes that Bobby Jindal's tax plan "has made Donald Trump look like a grown-up." Why's that? Well, both tax plans would lose about a trillion dollars a year, even accounting for faster economic growth. In other words, they would cut federal tax revenue by roughly a third as a share of GDP.

And here's the thing: If you are going to (a) propose such a thing and (b) also favor a balanced budget, then you need to (c) have a plan to reduce federal spending by a third. Trump doesn't. He hand-waves at the issue with word-salad talk about "disciplined budget management and elimination of waste, fraud and abuse." Entitlement reform, not so much.

Jindal takes a different approach, though it's not much better. He subscribes to the "starve the beast" theory of government shrinkage. From the Jindal plan:

Governor Jindal's plan reduces the amount of money the federal government will be able to spend. President Obama has nearly doubled our national debt. It is now over $18 trillion and is the largest debt in the history of the world. The only way to shrink the size and influence of Washington is to starve it.

This seems to be a myth. Rampell points to the Cato Institute work of the late William Niskanen who wrote there are "three major problems with the starve-the-beast argument: (1) it is not a plausible economic theory; (2) it is inconsistent with the facts; and (3) it has diverted attention away from the political reforms needed to limit government growth." Other than that, it's good to go.

Then you have a 2009 paper by economists Christina and David Romer, which found "no support for the hypothesis that tax cuts restrain government spending; indeed, the point estimates suggest that tax cuts may increase spending. The results also indicate that the main effect of tax cuts on the government budget is to induce subsequent legislated tax increases."

And how about recent history where we've seen slower spending growth accompanied by tax increases, not tax cuts? Since 2009, federal revenue as a share of GDP has risen to nearly 18% of GDP from 14.6% thanks to faster economic growth and many, many tax hikes. During this period, spending has fallen to 20.3% of GDP from 24.4%. Indeed, as economist Michael Darda has noted, "it's been the most intense fiscal consolidation since the Korean War demobilization."

Anyway, government spending isn't going down by a third. Washington will have to work hard to keep it from rising by a third given demographics.

Rampell also doesn't like that, on a static basis, the Jindal plan would reduce after-tax income for the bottom 40% by an average of 2.5% while increasing it by 25% for the top 1%. Tax hikes on the poor and working class. So, this chart:

Table 4. Distributional Analysis for Governor Jindal's Tax Reform Plan

Effect of Tax Reform on After-Tax Income Compared to Current Law

All Returns by Decile	Static Distributional Analysis	Dynamic Distributional Analysis
0% to 10%	-1.0%	8.8%
10% to 20%	-3.9%	6.6%
20% to 30%	-3.4%	8.2%
30% to 40%	-1.6%	11.1%
40% to 50%	0.4%	14.3%
50% to 60%	2.0%	16.0%
60% to 70%	3.0%	16.8%
70% to 80%	4.1%	17.5%
80% to 90%	6.1%	19.3%
90% to 100%	16.5%	23.7%
99% to 100%	25.0%	26.0%
TOTAL FOR ALL	8.5%	19.3%

Source: Tax Foundation Taxes and Growth Model, Oct. 2015.

Tax Foundation

If you are going that route, you better be pretty darn sure of your dynamic analysis, I guess. And even if you are certain, it's doubtful lower-income voters getting hit by the tax hikes will accept your "two in the bush for one in the hand" approach.