

## The Senate passes a tax bill

### Republicans' claim to be the party of balanced budgets is now laughable

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What are Republican lawmakers in politics to achieve? Not many years ago, at the peak of their outrage over Barack Obama's economic stimulus package, "balanced budgets" might have featured in the answer. But the frenzied passage of the Tax Cuts and Jobs Act through Congress has revealed the insincerity of the party's fiscal moralising. Republicans in Congress do not oppose government borrowing when it suits them. Rather, the overarching policy objective that unifies them is cutting taxes—and damn the fiscal consequences. Following the passage of the tax bill through the Senate in the early hours of December 2nd, Republicans are on the brink of achieving their goal.

On November 30th budget scorekeepers unveiled a forecast for how much extra economic growth the tax bill might spark: enough to pay for about one third of its \$1.5trn cost. Previously, Republicans might have viewed this projection as a triumph. They have long pressed for budget forecasts to include such "dynamic" effects. But the score briefly seemed to imperil the bill. It undermined the absurd claim, made by the Republican leadership and the Trump administration, that tax cuts would pay for themselves in full. No serious economist ever thought this credible. Yet the official score seemed to blow Republicans' cover. Senators Bob Corker of Tennessee, Jeff Flake of Arizona and Ron Johnson of Wisconsin, briefly looked at if they might vote with Democrats to send the bill back to committee.

Following a huddle on the Senate floor, however, three holdouts relented. And by the next day it was clear that there was no real appetite to rethink the bill. In the end, only Senator Corker joined Democrats in voting against it. He had wanted the bill to contain

"triggers", automatic tax rises that would kick in if deficits ballooned. But the Senate parliamentarian, the adjudicator of the chamber's rules, ruled them impermissible under the budget process Republicans were using to pass the bill without any support from Democrats. With triggers off the table, the Republican leadership chose to pass the bill without Mr Corker, rather than find other ways to win his support. "I am not able to cast aside my fiscal concerns", he said. (Earlier in the week, Mr Corker had held a pivotal vote on the Senate Budget Committee, but voted to move the bill to the Senate floor.)

The bill the Senate has passed differs from that passed in the House. Following pressure from Senator Susan Collins of Maine, it would not abolish the estate (inheritance) tax, instead doubling the exemption from \$5.6m to \$11.2m. (Ms Collins also claims to have won agreement to later pass measures to stabilise Obamacare's troubled health insurance markets.) It has more generous treatment for so-called "pass-through" firms (see article). Its proposed tax rates and tax brackets are slightly different. Many small amendments were made late on December 1st, hours before the chamber voted; pictures of hand-written amendments, scrawled in the margins of the bill, circulated on social media.

The deadline Republicans are racing towards is self-imposed: they want to get a tax bill on President Donald Trump's desk by Christmas. To that end, one of two things could now happen. The House of Representatives could pass the Senate's bill as it is, sending it straight to the president's desk. Alternatively, the two chambers might negotiate to reconcile their proposals, before each votes again on the final bill. The hurried parliamentary process is another way in which Republicans have

changed their tune once in power: they frequently criticized Democrats for supposedly rushing Obamacare through Congress without adequate scrutiny. Republicans are unmoved. “You complain about process when you’re losing”, said Mitch McConnell, the Senate leader.

President Trump will soon celebrate the first major legislative victory of his presidency. And Republicans will exult in achieving their long-held aim of slashing America’s business taxes (while also providing temporary personal income-tax cuts). Yet as a piece of economic policy, tax cuts are ill-timed: they will stimulate the economy at a time when unemployment is low and the Federal Reserve is already raising interest rates to try to avoid inflation. Tax cuts will probably cause the Fed to speed up that process slightly.

The incremental effect of the tax bill on public debt is small. On current forecasts, by 2027 a trillion dollars will add about 3-4 percentage points to America’s debt-to-GDP ratio, currently predicted to be 91% in that year. But this is a move in the wrong direction. America

faces a huge long-term fiscal challenge, driven by rapidly growing spending on Social Security (public pensions) and Medicare, health insurance for the old. Eventually, higher public debt is likely to crimp economic growth, by absorbing savings that could otherwise flow to productive private-sector investments.

One reason economists suppose that politicians find deficits enticing is that public debt hamstrings their successors (that is, their opponents). Over the next decade, politicians will face pressure to renew the temporary provisions of the tax bill at exactly the time they must confront a gaping fiscal shortfall. The effect will almost certainly be to tilt any negotiations away from tax increases and towards spending cuts. Republicans—though perhaps not Mr Trump—sincerely hope to shrink entitlement spending. But it is better to force Democrats to help. Growing the deficit shifts political, as well as economic, costs into the future. Republicans have shown that, when push comes to shove, this is as enticing a prospect for them as it is for anyone else.