Treasury defends tax plan cost with one-page analysis

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The Treasury Department released a one-page analysis of the nearly 500-page Senate tax bill on Monday that suggested the $1.5 trillion plan would more than pay for itself, assuming the economy grows much faster than any independent analysis of the bill has projected.

The Treasury acknowledged that its analysis was based on optimistic economic forecasts that assumed a host of policy changes yet to be enacted, including increased infrastructure spending, further loosening of business regulations and changes to welfare programs.

The analysis left many tax experts scratching their heads and prompted criticism that the Treasury was offering misleading data.

"The report does not appear to be a projection of the economic effects of a tax bill," said Scott Greenberg, a tax analyst at the conservative Tax Foundation. "It appears, on the other hand, to be a thought experiment on how federal revenues would vary under different economic effects of overall government policies. Which is, needless to say, an odd way to analyze a tax bill."

Treasury has come under criticism for failing to produce a full assessment of the $1.5 trillion tax plan moving swiftly through Congress. Treasury Secretary Steven Mnuchin has repeatedly insisted that his department would provide details to back up the claims that he and other Republicans have made that the tax cuts will generate enough economic growth to avoid adding to the national debt.

Yet Treasury's analysis does not show the type of revenue-neutral tax cuts Mr. Mnuchin and Republican leaders have suggested. Instead, it looks far beyond the tax legislation and assumes more robust economic growth than many economists consider likely, largely from economic policies that have yet to be proposed or enacted.

"I don't believe in magic," said David H. Brockway, staff director of the Joint Committee on Taxation during the Reagan administration. "It's just a political statement."

The Treasury analysis assumes gross domestic product to grow at a rate of 2.9 percent over the next 10 years, rather than the 2.2 percent rate that many other groups have projected. That faster growth would raise $1.8 trillion over that period, paying for the $1.5 trillion tax cut and raising an additional $300 billion, the Treasury report said.

Most economic models have shown the tax bills will reduce government revenues over a 10-year period, even with economic growth. The Joint Committee on Taxation's analysis of the plan, which does account for a modest increase in economic growth, projected that the tax plan would mean about $1 trillion in lost revenues.

On a conference call to discuss the report, a senior Treasury official said that about half of the difference between Treasury's estimates for higher growth was based on the proposed corporate tax cut, which would reduce the tax rate for corporations to 20 percent from 35 percent. The rest of the difference is attributed to reducing taxes for "pass-through" businesses, whose profits flow through to their owners and are taxed at individual rates, and the administration's plans for infrastructure, deregulation and changes to the welfare system that were outlined in the White House budget proposal this year.

"It's not a dynamic score of the bill, because it includes regulatory reform, infrastructure and welfare reform," said Douglas Holtz-Eakin, a conservative economist who was chairman of former President George W. Bush's Council of Economic Advisers. "It looks to me like it's a restatement of their budget."

The impact of the Republican tax cuts on economic growth and the debt has been a subject of fierce debate among economists, with many arguing that the administration is relying on overly rosy assumptions.

"We acknowledge that some economists predict different growth rates," the Treasury Department wrote in the report outlining its analysis of the plan.

Kevin Hassett, chairman of President Trump's Council of Economic Advisers, said the Treasury analysis was "absolutely defensible." He said that they started with the assumption that Mr. Trump's economic policies would boost growth by about one percent per year over the decade and worked backward to demonstrate the effects of the tax cuts would not add to the deficit.

"If you just assume you would get that kind of growth, then you say how much revenue you get from that," Mr. Hassett said on CNBC. "It's all really just math."

The Trump administration's growth estimates have been at odds with those of government scorekeepers for much of this year. Last summer, the Congressional Budget Office analyzed the White House's 2018 budget and found its estimate for 3 percent growth to be far-fetched. It said that the average gross domestic product growth over 10 years was currently 1.8 percent, and that under Mr. Trump's plan it would be 1.9 percent — far lower than the rate assumed by the administration.

Several groups that have analyzed the Senate plan using sophisticated economic modeling have found it would not generate anywhere close to the revenues needed to pay for itself.

The Joint Committee on Taxation, the economic scorekeeper of Congress, projected in late November that the Senate bill would increase the size of the economy by 0.8 percent over 10 years, beyond what it would otherwise have achieved — which is well short of the growth path implied by the Treasury one-pager. The committee's so-called dynamic analysis projected that the Senate plan would add $1 trillion to federal deficits over that time, after accounting for increased growth. That analysis was for the Senate Finance Committee's version of the bill, not the amended version later approved by the chamber.

On Monday, the independent Tax Policy Center and the Penn Wharton Budget Model each released a dynamic analysis of the bill as passed by the Senate. Both found the bill would add slightly to economic growth over a decade, but not by nearly enough to offset lost tax revenues. The Tax Policy Center estimated that the bill would add $1.3 trillion to deficits, after accounting for growth. The Penn model pegged that loss at between $1.5 trillion and $1.8 trillion.

Kent Smetters, a professor at University of Pennsylvania's Wharton School, said that Treasury's view of what the tax cuts would do for economic growth was "aspirational in nature" and not driven by analysis of an actual plan.

The Treasury officials pointed to an assessment from the Council of Economic Advisers and a letter written by leading conservative economists that concluded that the tax cut plan would spur greater economic growth than some outside groups have projected.

Republican lawmakers have seized upon those analyses to assert that the tax cuts will not add to the $20 trillion national debt, yet some of the economists who signed the letter have said otherwise.

Robert Barro, a Harvard professor who signed the letter to the Treasury, said the corporate tax cuts would lead to less revenue in the short run before faster economic growth made up for some of the losses.

“Might be roughly a wash in Year 10, in which case cumulated fiscal deficit over 10 years would rise,” Mr. Barro said, nodding to the fact that the debt would increase over that 10-year period.

Mr. Holtz-Eakin said that he was frustrated that lawmakers were characterizing the letter as affirming that the tax cuts would be fully self-financing.

The Treasury analysis comes as Congress is putting the finishing touches on a tax bill that the House and Senate are hoping to vote on next week. The House and Senate are trying to reconcile their two bills, which can add no more than $1.5 trillion to the deficit over a decade.

A senior Senate aide said Republicans on Capitol Hill were blindsided by the Treasury report and had no warning that it was coming during such as sensitive time in the legislative process.

Treasury had promised to release its analysis before Congress voted on earlier versions of the legislation. The delay in producing any analysis prompted calls from Democrats to look into political interference in the department. Mr. Mnuchin is also under fire for shutting out the career tax staff as Republicans march forward with their overhaul. The Treasury inspector general said last week that an inquiry into the matter was a priority.

Democrats doubled-down on their criticism of the Treasury Department on Monday, calling its analysis “fake math.”

“It’s clear the White House and Republicans are grasping at straws to prove the unprovable and garner votes for a bill that nearly every single independent analysis has concluded will blow up the deficit and generate almost no additional economic activity to make up for it,” said Senator Chuck Schumer of New York, the Democratic leader.