EMBARGOED UNTIL 3:00PM, WEDNESDAY, NOVEMBER 1

Statement by Bruce Bartlett
before the
Democratic Policy and Communications Committee
On Tax Reform
November 1, 2017

Thank you for the opportunity to discuss tax reform with you today. Since I have already expressed my views on the efficacy of the Republican plan to cut taxes for the ultra-wealthy by $1.5 trillion elsewhere, I am attaching two articles I recently wrote for the *Washington Post* and *USA Today*.

Let me just make two brief points.

First, I know something about tax cuts. I drafted the Kemp-Roth tax bill in 1977, which Ronald Reagan endorsed in 1980 and sent to Congress for enactment in February 1981. I still think this was good legislation for the times. Taxes were rising rapidly due to bracket-creep and everyone deserved a tax cut, including the wealthy. The top rate of 70 percent in those days was too high.

That said, I do not think the 1981 tax cut was the dominant reason for growth in the 1980s, which was in fact less than in either the decade of the 1970s or the 1990s. In any case, our economic problems today are not going to be fixed by a big tax cut, especially one tilted heavily toward the wealthy.

I believe the nation's principal economic problem is a lack of aggregate demand. Tax cuts don't help this problem. What would help is a big infrastructure program. If we are going to add $1.5 trillion to the national debt, as Republicans propose, improving and repairing our infrastructure would do far more good.

Second, the Republican claim that a cut in the corporate tax rate will raise wages is just complete nonsense. We cut the corporate tax rate by 12 percentage points in 1986, to 34 percent from 46 percent, and wages fell. They fell for 10 years after enactment of the Tax Reform Act of 1986. I am not saying the same thing would happen if the Republican plan is adopted today, but I am quite certain that the vast, vast bulk of the benefits of a corporate tax rate reduction would accrue to corporate executives and the owners of common stock, little if anything would trickle down to workers.

Bruce Bartlett was executive director of the Joint Economic Committee, senior policy analyst in the White House and deputy assistant secretary of the Treasury for economic policy between 1980 and 1992. He was also a senior fellow at the Heritage Foundation. He is the author of *The Benefit and the Burden: Tax Reform—Why We Need It and What It Will Take* (Simon & Schuster 2013). His latest book is *The Truth Matters: A Citizen's Guide to Separating Facts from Lies and Stopping Fake News in Its Tracks* (Ten Speed Press 2017).

EMBARGOED UNTIL 3:00PM, WEDNESDAY, NOVEMBER 1

Washington Post
September 28, 2017

I helped create the GOP tax myth. Trump is wrong: Tax cuts don't equal growth.

The best growth in recent memory came after President Bill Clinton raised taxes in the '90s.

By Bruce Bartlett

Four decades ago, while working for Rep. Jack Kemp (R-N.Y.), I had a hand in creating the Republican tax myth. Of course, it didn't seem like a myth at that time — taxes were rising rapidly because of inflation and bracket creep, the top tax rate was 70 percent and the economy seemed trapped in stagflation with no way out. Tax cuts, at that time, were an appropriate remedy for the economy's ills. By the time Ronald Reagan was president, Republican tax gospel went something like this:

- The tax system has an enormously powerful effect on economic growth and employment.
- High taxes and tax rates were largely responsible for stagflation in the 1970s.
- Reagan's 1981 tax cut, which was based a bill, co-sponsored by Kemp and Sen. William Roth (R-Del.), that I helped design, unleashed the American economy and led to an abundance of growth.

Based on this logic, tax cuts became the GOP's go-to solution for nearly every economic problem. Extravagant claims are made for any proposed tax cut. Wednesday, President Trump argued that "our country and our economy cannot take off" without the kind of tax reform he proposes. Last week, Republican economist Arthur Laffer said, "If you cut that [corporate] tax rate to 15 percent, it will pay for itself many times over. … This will bring in probably $1.5 trillion net by itself."

That's wishful thinking. So is most Republican rhetoric around tax cutting. In reality, there's no evidence that a tax cut now would spur growth.

The Reagan tax cut did have a positive effect on the economy, but the prosperity of the '80s is overrated in the Republican mind. In fact, aggregate real gross domestic product growth was higher in the '70s — 37.2 percent vs. 35.9 percent.

Moreover, GOP tax mythology usually leaves out other factors that also contributed to growth in the 1980s: First was the sharp reduction in interest rates by the Federal Reserve. The fed funds rate fell by more than half, from about 19 percent in July 1981 to about 9 percent in November

1982. Second, Reagan's defense buildup and highway construction programs greatly increased the federal government's purchases of goods and services. This is textbook Keynesian economics.

Third, there was the simple bounce-back from the recession of 1981-82. Recoveries in the postwar era tended to be V-shaped — they were as sharp as the downturns they followed. The deeper the recession, the more robust the recovery.

Finally, I'm not sure how many Republicans even know anymore that Reagan raised taxes several times after 1981. His last budget showed that as of 1988, the aggregate, cumulative revenue loss from the 1981 tax cut was $264 billion and legislated tax increases brought about half of that back.

Today, Republicans extol the virtues of lowering marginal tax rates, citing as their model the Tax Reform Act of 1986, which lowered the top individual income tax rate to just 28 percent from 50 percent, and the corporate tax rate to 34 percent from 46 percent. What follows, they say, would be an economic boon. Indeed, textbook tax theory says that lowering marginal tax rates while holding revenue constant unambiguously raises growth.

But there is no evidence showing a boost in growth from the 1986 act. The economy remained on the same track, with huge stock market crashes — 1987's "Black Monday," 1989's Friday the 13th "mini-crash" and a recession beginning in 1990. Real wages fell.

Strenuous efforts by economists to find any growth effect from the 1986 act have failed to find much. The most thorough analysis, by economists Alan Auerbach and Joel Slemrod, found only a shifting of income due to tax reform, no growth effects: "The aggregate values of labor supply and saving apparently responded very little," they concluded.

The flip-side of tax cut mythology is the notion that tax increases are an economic disaster — the reason, in theory, every Republican in Congress voted against the tax increase proposed by Bill Clinton in 1993. Yet the 1990s was the most prosperous decade in recent memory. At 37.3 percent, aggregate real GDP growth in the 1990s exceeded that in the 1980s.

Despite huge tax cuts almost annually during the George W. Bush administration that cost the Treasury trillions in revenue, according to the Congressional Budget Office, growth collapsed in the first decade of the 2000s. Real GDP rose just 19.5 percent, well below its '90s rate.

We saw another test of the Republican tax myth in 2013, after President Barack Obama allowed some of the Bush tax cuts to expire, raising the top income tax rate to its current 39.6 percent from 35 percent. The economy grew nicely afterward and the stock market has boomed — up around 10,000 points over the past five years.

Now, Republicans propose cutting the top individual rate to 35 percent, despite lacking evidence that this lower rate led to growth during the Bush years, and a drop in the corporate tax rate to just 20 percent from 35 percent. Unlike 1986, however, this $1.5 trillion cut over the next decade will only be paid for partially by closing tax loopholes.

Republicans' various claims are irreconcilable. One is that the rich will not benefit even though it is practically impossible for them not to — those paying the most taxes already will necessarily benefit the most from a large tax cut. And there aren't enough tax deductions, exclusions and credits benefiting the rich that could be abolished to offset a cut in the top rate.

Even if they had released a complete plan — not just the woefully incomplete nine-page outline released Wednesday — Republicans have failed to make a sound case that it's time to cut taxes.

Nor have they signaled that they'll commit to a viable process. It's worth remembering that the first version of the '81 tax cut was introduced in 1977 and underwent thorough analysis by the CBO and other organizations, and was subject to comprehensive public hearings. The Tax Reform Act of 1986 grew out of a detailed Treasury study and took over two years to complete.

Rushing through a half-baked tax plan, in the same manner Republicans tried (and failed) to do with health-care reform, should be rejected out of hand. As Sen. John McCain (R-Ariz.) has repeatedly and correctly said, successful legislating requires a return to the "regular order." That means a detailed proposal with proper revenue estimates and distribution tables from the Joint Committee on Taxation, hearings and analysis by the nation's best tax experts, markups and amendments in the tax-writing committees, and an open process in the House of Representatives and Senate.

There are good arguments for a proper tax reform even if it won't raise GDP growth. It may improve economic efficiency, administration and fairness. But getting from here to there requires heavy lifting that this Republican Congress has yet to demonstrate. If they again look for a quick, easy victory, they risk a replay of the Obamacare repeal fight that wasted so much time and yielded so little.

EMBARGOED UNTIL 3:00PM, WEDNESDAY, NOVEMBER 1

USA Today
September 27, 2017

Tax cut fever: Republican trickle-down theory is lies

By Bruce Bartlett

I know something about this subject. Forty years ago, while working for New York Rep. Jack Kemp, I helped originate the Republican obsession with slashing taxes that came to be called "supply-side economics." While I believe this theory played a useful role in economic theory and policy in the late 1970s and early 1980s, it has long outlived its usefulness and is now nothing but dogma completely divorced from reality.

It will be hard for many to believe, but once upon a time, Republicans genuinely cared about the budget deficit. From Dwight Eisenhower to George H.W. Bush, many of them were actually willing to raise taxes and oppose tax cuts to reduce it. And that includes Ronald Reagan, who cut taxes in 1981 but then supported 11 tax increases to offset a ballooning deficit.

Jack Kemp believed that this attitude made the GOP "tax collectors for the welfare state." Democrats, he thought, would raise spending when they were in power, thus creating deficits, and Republicans would raise taxes when they were in power to reduce them. Moreover, opposing tax cuts was the same thing as supporting a tax increase in an era in which inflation caused taxes to rise automatically. This is because workers were pushed into higher tax brackets when they got cost-of-living pay raises, and taxes on businesses rose as depreciation allowances failed to keep pace with the replacement cost of new machinery and equipment.

The 1978 passage of California 's Proposition 13, which slashed the state's property taxes, was critical in convincing Republicans that tax-cutting was more popular than deficit reduction. But to maintain some semblance of consistency, Republican intellectuals such as Irving Kristol and Alan Greenspan developed a theory called "starve-the-beast," which says that spending will only be cut when tax cuts increase the deficit so much that there is no alternative.

Thus Republicans have long argued out of both sides of their mouths. On the one hand, they assert, without any evidence, that tax cuts pay for themselves by greatly expanding the economy, and that tax cuts will starve the beast and reduce spending. Thus in Kansas, the state hired Arthur Laffer, one of the original supply-siders, to say that tax cuts would pay for themselves. When taxes were slashed and revenues collapsed, the Republican governor and legislature sharply cut spending. It is Republican dogma that all deficits result from excessive spending, never from tax cuts.

Republicans believe that statutory rates of taxation are all-powerful, even though almost no one pays them; deductions, credits and exclusions reduce the effective tax rate (taxes divided by income) in many cases to zero. But the historical experience tells us this theory is nonsense.

The Tax Reform Act of 1986 reduced the top personal income tax rate to just 28% from 50%, and the corporate tax rate to 34% from 46%. Yet there was no increase in the rate of economic growth in subsequent years and by 1990 the economy was in a deep recession.

Strenuous efforts by economists to find a growth effect from the 1986 act have failed to find any. There were accounting effects as income was shuffled around to take advantage of tax changes, but no rise in investment or any significant effect on labor supply. "The aggregate values of labor supply and saving apparently responded very little," economists Alan Auerbach and Joel Slemrod concluded in an authoritative study.

Virtually everything Republicans say about taxes today is a lie. Tax cuts and tax rate reductions will not pay for themselves; they never have. Republicans don't even believe they will, they are just excuses to slash spending for the poor when revenues collapse and deficits rise. There is no evidence that tax reform raises growth, although it may improve fairness and tax administration. And the Republican idea that tax increases always crash the economy is belied by the experiences after Bill Clinton raised taxes in 1993 and Barack Obama did the same in 2013. The economy grew nicely and the stock market boomed in both cases.

Having helped open the Pandora's Box of Republican tax cutting, I have tried for many years to close it again. I am trying again now.

EMBARGOED UNTIL 3:00PM, WEDNESDAY, NOVEMBER 1