



The Daily Dish

The Budget Resolution and Tax Reform

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Eakinomics: The Budget Resolution and Tax Reform

Talk of tax reform is heating up again. As a political matter, many believe it is necessary to put health care reform in the legislative rear-view mirror and turn to other parts of the pro-growth policy agenda. As a matter of timing, it will be important to deliver better growth by the 1st or 2nd quarter of 2018 — in time to improve the electoral chances of the ruling party in the midterm elections — and that means moving quickly to pass tax reform. The hopes were fueled by the “Big Six” (Treasury Secretary Mnuchin, National Economic Council Director Cohn, Speaker Ryan, Ways & Means Chair Brady, Majority Leader McConnell and Finance Chairman Hatch) releasing a [joint statement of shared principles](#) for tax reform.

Passing tax reform through the Senate would typically require a 60-vote supermajority to end debate (“invoke cloture”) and move to a vote for final passage. One can hardly expect Democrats to help the Republicans get over their health care reform missteps and improve the economic climate for the opposition, so agreement among Republicans is not enough. They will also require the ability to pass tax reform using Republican votes only in the Senate.

That means using the special [reconciliation](#) procedures on more time. Recall that using reconciliation means that there is a finite amount of debate (20 hours) and then a vote for passage. That means that only 51 votes are needed in the Senate as there is no need for a supermajority to invoke cloture. But reconciliation does not come cheaply and cannot be used easily. Reconciliation instructions are contained in a budget resolution; the House and Senate would have to pass the same budget resolution for Fiscal 2018 to obtain the instructions. This is by no means an easy task; recent Congresses seem to fail to pass budgets as often as they succeed.

And reconciliation instructions constrain the nature of the tax reform bill. To see this, consider the resolution that passed the House Budget Committee recently. It gave the Ways and Means Committee (W&M) a reconciliation instruction to modify programs in its jurisdiction so as to reduce the federal deficit by \$52 billion over the next 10 years. Taken at face value, this would seem to indicate that tax reform has to raise \$52 billion in revenue (over 10 years). Not quite, as there are lots of mandatory spending programs that run through W&M; it could have revenue neutral tax reform and \$52 billion on spending reductions. Or, in principle, it could have a larger revenue loss, bigger spending cuts, and still hit the \$52 billion target. Obviously, the politics of larger and larger spending cuts become more and more problematic.

Authorizing Committee (Report by October 6, 2017)	Deficit Reduction (\$ Billions, 2018-2027)
COMMITTEE ON AGRICULTURE	10
COMMITTEE ON ARMED SERVICES	1
COMMITTEE ON EDUCATION AND THE WORKFORCE	20
COMMITTEE ON ENERGY AND COMMERCE	20

COMMITTEE ON FINANCIAL SERVICES	14
COMMITTEE ON HOMELAND SECURITY	3
COMMITTEE ON THE JUDICIARY	45
COMMITTEE ON NATURAL RESOURCES	5
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM	32
COMMITTEE ON VETERANS' AFFAIRS	1
COMMITTEE ON WAYS AND MEANS	52
Total	203

Those are restrictions on what the W&M legislation can do over the 10 years covered by the budget resolution. Perhaps more important, no reconciliation bill is permitted to create budget deficits in any year beyond the last year of the budget resolution. This is an element of the so-called Byrd Rule. If the tax bill was simply a tax cut, those deficits would appear and the bill would not be eligible for reconciliation protection; Republicans would be back to needing 60 votes in the Senates.

For that reason, many conjecture that the provisions on the tax reform may have to “sunset” after a few years to eliminate the long-run deficit problem. That might solve the legislative problem, but it undercuts the power of tax reform to improve growth. Revenue neutral tax reform would be permanent, and thus more powerful, but overall tax cuts are politically easier.

Will political ease “trump” policy potency?

While the need for tax reform is great and the excitement high, the difficulties of passing budget resolutions and creating permanently better incentives are very real. The first step toward doing so is passing a budget resolution.