The Daily Dish

The Road to Tax Reform

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Eakinomics: The Road to Tax Reform

Yesterday witnessed the release of the joint White House-House-Senate framework for tax reform which is intended to be completed by the end of 2017. That is a commendable goal, but what will it take to get it done?

To begin, the bill itself will be developed following "regular order." The House Ways and Means Committee will — per the constitutional requirement that revenue measures originate in the House — move first, with Chairman Brady marking up legislation that is consistent with the framework, but fills in the large number of necessary details. Eventually, such a measure must be voted out of the Committee, passed on the floor of the House and sent to the Senate. A comparable process in the Senate Finance Committee and on the Senate floor will yield a Senate version of the bill, which will presumably not match the House in every detail. That means that the two bodies must produce a joint conference agreement — a compromise bill — that both houses pass and send to the President for signature.

An important detail is that the leadership in the House and Senate are planning to use the reconciliation procedures to pass the tax bill by a simple majority in the Senate. (Normally passage in the Senate requires a super-majority margin of 60 votes to end debate — so-called "cloture" — and move to a final vote.) The capacity to use reconciliation is granted by including reconciliation instructions in a joint budget resolution; i.e., a budget resolution passed by both the House and the Senate. Thus, in parallel to the tax process — but crossing the finish line a few steps ahead — will be a budget resolution process.

To date, the House Budget Committee has passed a budget resolution that awaits floor action. It contains reconciliation instructions, but they assume a budget-neutral reform in the context of an overall budget that comes to balance over the next 10 years. The Senate has not yet acted, but its Budget Committee is expected to launch a budget resolution that permits tax reform to lose up to $1.5 trillion (over 10 years). On the face of it, the House and Senate would appear to be far apart, but it may be easier than it appears to reach a joint resolution that passes both houses and enables reconciliation.

The House resolution incorporates the effects of tax (and other) policies on growth, moving the average growth rate to 2.6 percent. The Senate is not putting such dynamic scoring in its budget resolution, so growth is a more modest 2.1 percent. Also, the House makes the assumption that all policies that are currently in place will remain in place — a "current policy" baseline — while the Senate is expected to follow current law and let some such policies expire. But the reality is that if one looks at the budget resolution and tax reform as a package, the exact same result comes out of both the House and Senate: tax reform, faster growth, and additional revenue that yields the same revenue as current policy.

Clearly the route to tax reform involves substantial legislative effort. But regardless of which route is taken, the policies enabled by a budget resolution can deliver the faster growth and neutral budgetary outcomes that are at the heart of the objectives.