The Daily Dish

Tax Cuts versus Tax Reform

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Yesterday the House Ways and Means Committee voted to extend the tax credit for the nuclear power industry. Previously there was a requirement that in order to be eligible for the tax credit nuclear facilities needed to be operable by 2020. The legislation was passed in a bipartisan voice vote.

Wednesday the Senate voted to advance a bill which allows for Congress to give input before the president is able to lift sanctions. The bipartisan bill passed in a vote of 97 to 2 and will be attached to the Iran sanctions bill. The bill was originally expected to go through the Senate Foreign Relations committee, however attaching the legislation to the Iran bill would be a much quicker way to pass Russian sanctions through the Senate.

Eakinomics: Tax Cuts versus Tax Reform

Washington loves to keep track of how much people pay in taxes, whether its the top 1 percent, or the "middle class," or corporations (who, for the record are not people). But it would be well-served to pay closer attention to how people pay taxes. Paying taxes because you worked a second job seems very different than ponying up the sales tax on a second gross of Twizzlers' packages. The tax code should punish less the rewards of dedication than the acts of decadence. Policymakers recognize this implicitly when they levy so-called "sin taxes" and "pollution taxes." Increasingly federal policymakers are recognizing that they see a difference between paying tax on profits from production in the United States versus the same profits from Czech Republic operations. How matters.

Because how matters, there is a lot more to tax policy than just whether taxes are lower (which is how conservative tax policies are caricatured) or whether they stick it to the rich (which is how progressive tax policies are). It is also why revenue-neutral tax reforms are not merely re-arranging the deck chairs on the fiscal Titanic, a concern raised by Senator Rand Paul. "'Revenue neutral' tax cuts aren't really tax cuts. It's more like tax shifting. Some will pay more. Some will pay less. And the net effect will be that government will collect the same amount of taxes" and "What will 'revenue neutral' tax cut mean to your business? Well, that may depend on how expensive your lobbyist is. Which side of the "revenue-neutral" ledger you wind up on may depend on how well the skids are greased, hardly, a pleasant scenario to anticipate."

That's possible, of course. But a good, pro-growth tax reform could raise the same amount of revenue, change how that revenue is raised, and thereby provide broader economic benefits. The House Blueprint, for example, is intended as a revenue-neutral reform that provides dramatically different incentives to ramp up the pace of long-term growth. This is a lot more than re-arranging the deck chairs. Another example is the proposal of former Ways and Means Chairman Dave Camp, which was revenue neutral on a "static" basis, but raised the pace of growth as well. Indeed, dynamic scoring is essential to avoiding the pitfall of re-arranging the deck chairs. If a proposal stimulates growth, it passes muster as reform. If it does not, it falls victim to the Rand Paul critique.

(Two asides. First, as I have argued elsewhere, I think there are good reasons to insist that tax reform be revenue-neutral. Second, I have no problem with tax cuts, as long as the policymakers are doing the entitlement

reforms needed for budget balance at the same time.)

If history is any guide, there will soon be a lot of chatter about how great it is to cut taxes and who will pay less. I think it is much more important to discuss how people will be taxed; tax reform is the key.