Center for American Progress Action Fund

# Republicans' $10 Trillion Giveaway

## Their "jobs plan" would in fact spend trillions of dollars on budget-busting tax breaks for the rich and corporations

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### Introduction

Shortly after President Obama came into office, Congress passed the American Recovery and Reinvestment Act of 2009, the $787 billion stimulus package of tax cuts and increased federal spending that bolstered the social safety net and led to critical job creation and economic growth amid rising unemployment in the face of the Great Recession. The economy at the time was on target to shed an astonishing 11 million jobs according to estimates by the nonpartisan Congressional Budget Office, but the CBO calculates that the Recovery Act saved or created about 3 million jobs since its enactment.[1] The president's stimulus package also provided tax cuts to more than 95 percent of American households, and kept millions of American families from falling into poverty.[2]

Indeed, the Recovery Act and the other extraordinary steps the federal government took during the financial crisis helped avert a second Great Depression, according to a new study by Princeton Professor Alan Blinder and Mark Zandi, chief economist of Moody's Economy.com and one of the top economic advisors to Sen. John McCain (R-AZ) during his 2008 presidential campaign.[3]

So what do Republicans today think of this exceedingly timely rescue of the U.S. economy? They continually blast it as a failure, after all but three Republicans in Congress voted against the bill in 2009 (one of whom, Sen. Arlen Specter, later became a Democrat). And what is their alternative plan to restart the economy so that broad-based jobs growth can begin in earnest? When House Minority Whip Eric Cantor (R-VA) was asked in December to describe the Republicans' "big idea" for creating jobs, all he could say was, "the big idea is to get, to get, to produce an environment where we can have job creation again."

All Americans can agree on that point, of course, but Republicans have also put their plans on paper. The Economic Freedom Act of 2010—introduced by Rep. Jim Jordan (R-OH) and Rep. Jason Chaffetz (R-UT) and backed by the 116 member-strong House Republican Study Committee—makes it clear that their job-creation plan is to double down on the failed economic policy agenda of President George W. Bush. The bill calls for more deficit-funded tax cuts for the wealthy and deregulatory policies that allow corporations to do what they did under President Bush—act with almost complete disregard for consumers' financial well-being, the environment, and worker safety.

After insulting the intelligence of the American people by presenting the same failed conservative economic policies that led to the Great Recession, they then advocate further ways to injure our economy with new budget-busting tax cuts for the wealthy and corporations. Such tax cuts led to the jobless economic recovery of 2001-2007, when jobs growth was an anemic 4.8 percent before the consequences of conservative economics over the next three years led to today's nearly 10 percent unemployment rate.[4]

We calculate that today's recycled conservative economic policy prescriptions would cost about $10 trillion in new deficit spending over 10 years relative to the current Congressional Budget Office baseline, which is the CBO's estimate of spending over 10 years figuring in no changes to current tax law and discretionary spending. This nearly $10 trillion surge in deficit spending would flow overwhelmingly to the rich and corporations, with the rest of us picking up the tab to pay the cost of borrowing these vast sums. The Economic Freedom Act alone would add about $6.9 trillion to the deficit relative to current law, while the rest comes from Republican refusal to allow any of the Bush tax cuts of 2001 and 2003 to expire.

What's more, this spending would have considerably less "bang for the buck" than the provisions in the Recovery Act. The reason: the money would flow to a minority of Americans and corporations that would be least likely to spend or invest all of it in job-creating ways. (For a complete analysis of the Republicans' economic policy program, see Appendices on pages 9-10.)

Republicans claim they will pay for their program by seizing any unspent Recovery Act funds alongside any remaining funds from the Troubled Asset Relief Program, the legislation passed in late 2008 to prevent the collapse of the U.S. and global financial system. But there is only $284 billion in unspent Recovery Act funding (much of which has already been allocated, including $50 billion dedicated to middle-class tax cuts this year), and another $180 billion of remaining TARP funds, $19 billion of which is being used to implement the recently passed Dodd-Frank Wall Street Reform Act to protect Americans from some of the predatory lending practices encouraged by Republican-led deregulation under President Bush.[5] [6]

So the money the Republicans would use to cover their new $10 trillion in deficit spending does not come close to covering the astronomical cost of their proposal. Even if Republicans could seize all the remaining stimulus money and TARP funds, it would amount to less than 5 percent of their $10 trillion in tax cuts.

What's worse, this budget-busting plan would overwhelmingly benefit the same wealthy Americans who reaped the rewards of the last Republican-led tax cuts in 2001 and 2003, which of course set the U.S. government into a deficit-spending tailspin and sowed some of the seeds of the Great Recession. If the new Republican plans were to be enacted, the typical middle-income taxpayer earning an average of $40,000 per year would get a tax cut of $467 per year over 10 years, while the typical taxpayer in the richest 1 percent of the country (earning $1.4 million on average) would receive a tax cut of $157,500 per year over the same period according to an analysis of the Economic Freedom Act by Citizens for Tax Justice.

In 2011 alone, 42 percent of the tax benefits would go to the richest 5 percent of taxpayers. In 2012 that rises to 76.8 percent, with an astronomical 61.5 percent of those tax benefits going to the richest 1 percent of taxpayers. In effect, the plan is a massive redistribution of wealth up the income scale. This is not the way to create jobs.

In the pages that follow, we will unpack the Republicans sleight-of-hand economic policy program to demonstrate in detail its fiscal irresponsibility and blatant favoritism toward the most well off in our nation at the expense of everyone else. It's a plan that deserves full public discussion in the coming months if the American people are to avoid a repeat of the Great Recession and quite possibly a second Great Depression.

## The Republicans' sleight-of-hand economic policy program

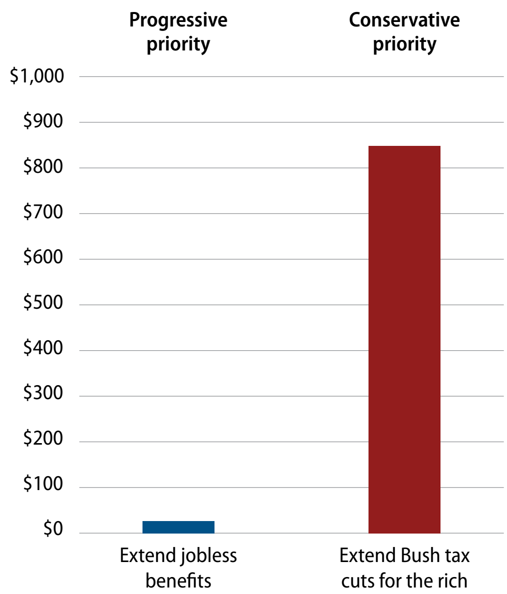
### Step 1: Permanent extension of the 2001 and 2003 Bush tax cuts

Senate Republicans earlier this summer repeatedly blocked $33 billion in extended unemployment benefits, citing the cost as their cause for concern, before Democrats were able to overcome their filibuster. Yet Republicans nearly unanimously support extending all of the Bush-era tax cuts, which are due to expire at the end of this year, as opposed to President Obama's proposal to extend only the cuts for those earning less than $250,000 a year.

The cost of continuing the tax cuts for just these wealthy Americans is $690 billion over 10 years, which climbs to $830 billion when debt-servicing costs are included, all of which would go to benefit the richest 2 percent of Americans.[7] The total cost of extending all of the cuts is about $3.1 trillion, which doesn't include the cost of permanently patching the Alternative Minimum Tax, or AMT.[8] (See chart below)

**Bust the budget or balance the budget?**

The ten-year cost of two recent proposals before the U.S. Congress, in billions of dollars




Source: Center for American Progress Action Fund.

### Step 2: Eliminating individual and corporate capital gains taxes

The Economic Freedom Act includes the complete abolition of the individual and corporate capital gains taxes—a long-time component of the conservative tax-cut wish list. Even back in the 1990's, then Speaker of the House Newt Gingrich was advocating for such a step.[9] The capital gains tax, which is levied at two brackets of 10 percent and 20 percent if the Bush tax cuts expire, is already significantly lower than the personal or corporate income tax rates, which at their highest stand at 35 percent and 39 percent, respectively if the Bush tax cuts expire, in order to incentivize investment. But eliminating it completely would have several adverse fiscal consequences.

First, it would add more than $1.3 trillion over 10 years to the federal budget deficit relative to the current law, or about $1 trillion relative to President Obama's fiscal year 2011 budget, which begins in October this year. Second, it would incentivize the reclassification of normal income as capital gains in order to make that income completely tax free. In short order this would bequeath a stunning tax break for the wealthiest 1 percent of Americans—eliminating the individual capital gains tax would give the average taxpayer in the richest 1 percent a $50,215 tax break in 2012 alone.

## Step 3: Reducing the corporate income tax rate to 12.5 percent and allowing immediate business expensing

Even though the United States raises far less corporate tax revenue than other industrialized democracies due to myriad tax credits and tax loopholes, Republicans consistently claim that the United States' statutory corporate tax rate blunts job creation.[10] To that end, the Economic Freedom Act includes a cut in the corporate tax rate to 12.5 percent from 35 percent.

This same whopping cut was proposed by former Speaker of the House Newt Gingrich last year as part of his "Jobs Here, Jobs Now, Jobs First" plan. But this cut would add $2.6 trillion to the deficit relative to the Obama administration's budget, and almost $2.7 trillion relative to current law. (See chart below for the estimated tax break for select companies)

### Cash for corporations

U.S. federal tax bills for select U.S. companies, in billions of dollars

| | 2009 taxes paid | 2009 savings with the Economic Freedom Act |
|---|---|---|
| Walmart | $5.30 | $3.41 |
| Goldman Sachs | $4.04 | $2.50 |
| UnitedHealthcare | $2.03 | $1.31 |
| Cigna | $0.66 | $0.43 |
| Wellpoint | $2.59 | $1.67 |
| AIG | $4.78 | $3.07 |

Source: Authors' calculations.
Walmart, Exxon, Chevron: http://money.cnn.com/galleries/2010/news/1004/gallery.top_5_tax_bills/index.html.
Goldman Sachs: http://www2.goldmansachs.com/our-firm/press/press-releases/current/pdfs/2009-q4- earnings.pdf.
United: http://sec.gov/cgi-bin/viewer?action=view&cik=731766&accession_number=0001193125- 10-027229.
Cigna: http://www.sec.gov/cgi-bin/viewer?action=view&cik=701221&accession_number=0000950123-10- 016612.
Wellpoint: http://www.sec.gov/cgi-bin/viewer?action=view&cik=1156039&accession_number=0001193125- 10-034180.
AIG: http://www.sec.gov/cgi-bin/viewer?action=view&cik=5272&accession_number=0001047469-10-001465.

This is not just bad budget policy. It is poor economic policy. Moody's Economy.com calculates that a corporate tax cut only generates 30 cents of economic activity for every dollar spent.[11] The Congressional Budget Office, meanwhile, estimates that so-called tax expensing, a proposal to allow businesses to immediately deduct their costs from their tax bill, adds between 20 cents and $1 for every dollar spent.[12] In contrast, the unemployment benefits extension that the Republicans filibustered this year will result in $1.61 of economic activity for every dollar spent.[13]

Of course, it is likely that these tax cuts would spur some additional business activity and give companies less incentive to hide profits offshore. But the revenue raised from this increased economic activity would not come close to covering the astronomical cost of this cut to the federal budget.

## Step 4: Permanently eliminating the estate tax

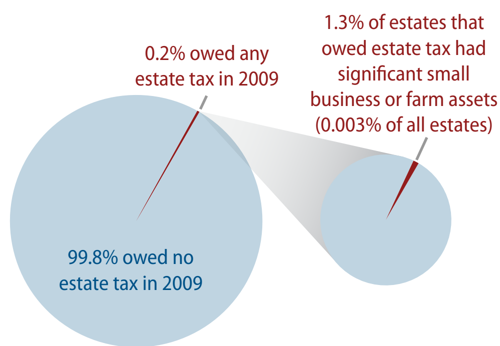
Republicans refer to the estate tax, which taxes only the exceedingly wealthy heirs to family household fortunes, as the "death tax." Moving beyond such macabre but misleading rhetoric, a complete phasing out of the estate tax was enacted as part of the Bush-era tax cuts and expires at the end of this year. President Obama proposes to permanently reinstate it at the 2009 level of 45 percent for those estates with total net worth of $7 million or more ($3.5 million per person).

Completely eliminating the estate tax would add $784 billion to the deficit over 10 years relative to the budget baseline, or $273 billion compared to the president's proposals. At the 2009 level, the estate tax affects just 0.25 percent of the households in the country.[14] (See chart)

Republicans incessantly claim that reinstating the 2009 estate tax would unfairly burden small businesses, yet Tax Policy Center estimates show that only 110 small businesses *in the entire country* would be subject to the 2009-level estate tax in 2011.[15] Fewer than 2 percent of small business would have any estate tax liability at the 2009 level, while less than 3 percent of people with any small business income at all would be subject to it. Eliminating this tax wouldn't incentivize much job creation since so few businesses currently pay the estate tax.[16]

### The narrow sweep of the estate tax

Only a tiny number of small businesses and farm estates nationwide owe *any* estate tax




Source: Urban Institute-Brookings Tax Policy Center, Center on Budget and Policy Priorities.
Note: A small farm or business estate is defined as an estate with farm and business assets that represent at least half of the gross estate and total no more than $5 million.

## Step 5: Reducing the payroll tax by half for 2010

This is easily the best idea included in the Republicans' Economic Freedom Act. A payroll tax holiday stimulates $1.29 in economic activity for every dollar spent—a far higher "bang for the buck" than any other form of tax cut—according to Mark Zandi, chief economist of Moody's Economy.com,

Still, if implemented in fiscal year 2011 (since fiscal year 2010 is more than halfway over) the measure would have cost $439 billion.

Remember, earlier this summer Republicans repeatedly filibustered a one-time $33 billion extension of unemployment benefits amid 10 percent unemployment—a program that cost more than 13 times less than the payroll tax cut they suggested. Even if a payroll tax is a good idea to boost consumer spending amid a shaky economic recovery, why is it that Republicans can support a payroll tax holiday without accompanying budget cuts but not a similar trade off for unemployment benefits?

## Step 6: No new regulations

In addition to their budget-busting tax cuts, Republicans also want to ensure that corporations are always allowed to play by their own rules—even in another financial crisis caused by Wall Street excess or another oil spill caused by Big Oil's negligence. Similarly damaging corporate scandals are still fresh in the public's memory, yet House Minority Leader John Boehner (R-OH) proposes a federal moratorium on all government regulations for one year, saying "I think having a moratorium on new federal regulations is a great idea [because] it sends a wonderful signal to the private sector that they're going to have some breathing room."[17]

Boehner's spokesman later walked back from this statement to exclude oil companies, but his original comment clearly reflects Republican thinking—all government regulations are bad, whether they prevent oil spills, stop the sale of contaminated foods, protect passengers from car, train, and plane accidents, or in fact prevent the U.S. government from doing most anything to protect Americans from the excesses of corporations focused on their bottom lines.

It is hard to put a dollar amount on a "no new regulations" decree, but U.S. households lost $14 trillion in wealth due to the financial crisis in 2009 alone. And

Moody's Economy.com estimates that the gulf oil spill will cost the Gulf Coast region 17,000 jobs and about $1.2 trillion in lost economic wealth.[18] Because of the difficulty of calculating these costs, we leave them out of our analysis here. But make no mistake, conservatives utter disdain for prudent supervision of corporate excesses could well cost the American people far more than the $10 trillion we estimate their deficit-driven tax cuts would cost.

## Conclusion

The Republicans' economic policy program couldn't be more fiscally irresponsible, proposing nearly $10 trillion in tax cuts over 10 years without any meaningful way to pay for more than 95 percent of them. Their plan also cuts sharply across the grain of the common good, benefiting a tiny minority of the wealthiest Americans at the expense of everyone else. Finally, their plan would not create the millions of new jobs our economy needs to put the Republican-induced Great Recession behind us and ensure broad-based job opportunities and economic growth in the coming decade.

In short, their plan would place an overwhelming majority of Americans at risk of a second Great Depression only a couple of years after their Great Recession. This isn't an economic policy plan. This isn't a jobs plan. It is a second, and more damaging, economic disaster in the making if Republicans ever get a change to enact it.

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## Distribution effects of H.R. 5029, "The Economic Freedom Act"

Introduced by Rep. Jim Jordan (R-OH) and Rep. Jason Chaffetz (R-UT) on April 15, 2010 in conjunction with the Republican Study Committee

### 2011 effects

| Income group | Average income | Average tax cuts | | | | | |
|---|---|---|---|---|---|---|---|
| | | Cut payroll tax in half | 0% rate on capital gains* | Corporate 12.5% rate and expensing | Estate tax repeal | Total | Percent of total tax cut |
| Lowest 20% | $13,100 | -$559 | -$4 | -$64 | $– | -$626 | 2.3% |
| Second 20% | $26,300 | -$1,227 | -$13 | -$201 | $– | -$1,441 | 5.4% |
| Middle 20% | $42,300 | -$2,228 | -$30 | -$400 | $– | -$2,659 | 9.9% |
| Fourth 20% | $69,200 | -$3,874 | -$94 | -$662 | $– | -$4,629 | 17.3% |
| Next 10% | $105,300 | -$5,857 | -$256 | -$973 | $– | -$7,086 | 13.2% |
| Next 5% | $148,000 | -$7,621 | -$630 | -$2,119 | $– | -$10,371 | 9.7% |
| Next 4% | $258,100 | -$9,050 | -$2,255 | -$5,713 | -$827 | -$17,845 | 13.3% |
| Top 1% | $1,405,600 | -$15,351 | -$35,884 | -$68,944 | -$33,439 | -$153,618 | 28.7% |
| **All** | **$71,300** | **-$3,019** | **-$527** | **-$1,370** | **-$362** | **-$5,278** | **100.0%** |

### 2012 effects

| Income group | Average income | Average tax cuts | | | | | |
|---|---|---|---|---|---|---|---|
| | | | 0% rate on capital gains* | Corporate 12.5% rate and expensing | Estate tax repeal | Total | Percent of total tax cut |
| Lowest 20% | $13,700 | — | -$5 | -$68 | $– | -$73 | 0.5% |
| Second 20% | $27,500 | — | -$18 | -$215 | $– | -$233 | 1.8% |
| Middle 20% | $44,200 | — | -$40 | -$427 | $– | -$467 | 3.5% |
| Fourth 20% | $72,500 | — | -$118 | -$705 | $– | -$823 | 6.2% |
| Next 10% | $110,500 | — | -$333 | -$1,024 | $– | -$1,357 | 5.2% |
| Next 5% | $155,700 | — | -$827 | -$2,181 | $– | -$3,007 | 5.9% |
| Next 4% | $273,600 | — | -$3,061 | -$5,860 | -$895 | -$9,771 | 15.3% |
| Top 1% | $1,551,500 | — | -$50,215 | -$70,983 | -$36,324 | -$157,522 | 61.5% |
| **All** | **$76,800** | **—** | **-$745** | **-$1,455** | **-$406** | **-$2,606** | **100.0%** |

*Includes corporate effects, calculated after the cut in the regular corporate tax rate to 12.5%

Source: ITEP Tax Model, July 2010.

## Estimated effects on the federal deficit of H.R. 5029, "The Economic Freedom Act"

Introduced by Rep. Jim Jordan (R-OH) and Rep. Jason Chaffetz (R-UT), in conjunction with the Republican Study Committee

| Annual cost, calendar tax years, billions of dollars | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2011–2020 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Cut payroll tax in half in 2011* | -$444 | $– | $– | $– | $– | $– | $– | $– | $– | $– | **-$444** |
| Zero percent capital gains tax rate** | -$78 | -$111 | -$119 | -$126 | -$132 | -$139 | -$145 | -$151 | -$157 | -$164 | **-$1,322** |
| Allow expensing of business equipment purchases and cut corporate tax rate to 12.5%*** | -$247 | -$265 | -$278 | -$286 | -$269 | -$277 | -$278 | -$281 | -$283 | -$292 | **-$2,755** |
| Repeal estate tax | -$52 | -$59 | -$66 | -$73 | -$77 | -$81 | -$87 | -$91 | -$96 | -$102 | **-$784** |
| **Subtotal** | **-$822** | **-$435** | **-$462** | **-$484** | **-$478** | **-$496** | **-$509** | **-$522** | **-$537** | **-$558** | **-$5,305** |
| Added interest on the national debt (–) | -$14 | -$35 | -$58 | -$89 | -$124 | -$162 | -$206 | -$250 | -$296 | -$346 | **-$1,580** |
| **Total cost** | **-$835** | **-$471** | **-$520** | **-$573** | **-$602** | **-$659** | **-$715** | **-$772** | **-$833** | **-$904** | **-$6,884** |

* H.R. 5029 calls for cutting the payroll tax in half in 2010. Since 2010 is more than half over, the analysis here moves that tax cut to 2011.

** The zero percent rate on "long-term" capital gains would apply to both individuals and corporations. The corporate effect of this proposal was calculated after the proposed cut in the regular corporate tax rate to 12.5%.

*** These are two separate proposals in H.R. 5029, but they interact so much that they are analyzed together.

Note: All revenue estimates are compared to current law (under which the Bush tax cuts will all have expired).

Source: CBO, OMB, ITEP Tax Model, CTJ calculations, July 2010.

## Endnotes


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