Cut Spending in the Tax Code

Wasteful Spending in the Tax Expenditure Budget is Fertile Ground for Deficit Reduction

Seth Hanlon and Michael Ettlinger  March 2011
Our nation needs jobs, a strong and competitive economy, and deficit reduction. The way to win that trifecta is not the House of Representatives’s continuing resolution for the remaining seven months of fiscal year 2011—a bill panned by a wide range of economists from across the political spectrum as a threat to economic recovery and a job destroyer. And the way to get deficit reduction is not as the House-passed bill does, to initiate immediate cuts concentrated in one narrow area of the budget that funds the most critical investments for long-term economic growth.

Instead, the focus should be on the waste found in the largest area of spending, an area of the budget larger than Social Security, Medicare, Medicaid, or national defense: the more than $1 trillion of tax-code spending hidden in the federal tax code. Dollars spent through the tax code in the form of tax breaks, called tax expenditures, are widely recognized to be the functional equivalent of direct government spending. After all, give a company a $1,000 check to subsidize an activity, or give it $1,000 off its tax bill—the company doesn’t care.

Yet the federal government treats tax-code spending very differently than it does direct spending. This keeps tax-code spending hidden, out of sight of budget cutters, and in a generally privileged position in the budget process. Yet the potential savings from cutting spending through the tax code are substantial. With the debate raging in Washington over spending cuts, tax-code spending should be on the table. In this report we identify individual tax-code spending cuts that could total $64 billion in FY 2012 and $502 billion over five fiscal years. If enacted, these cuts would be far less harmful than the $60 billion of short-term direct spending cuts that have passed the House of Representatives.

Over the next several years getting the federal budget deficit under control is critical. Spending cuts should be part of the solution. But we need action to show the world of our commitment to fiscal responsibility now, but actual deficit reduction later. Cutting overall spending too much immediately would be dangerous, with
our economy in such fragile shape, and with unemployment so high. Nevertheless, it is clear that for the government to have a budget it can operate under— to keep its doors open and to keep public servants at work—the House of Representatives will insist that there be a cut in overall spending levels. So let’s put some of the least effective government spending there is on the table—let’s look at the savings available to taxpayers through reducing the spending in the tax code.
The Center for American Progress is a nonpartisan research and educational institute dedicated to promoting a strong, just and free America that ensures opportunity for all. We believe that Americans are bound together by a common commitment to these values and we aspire to ensure that our national policies reflect these values. We work to find progressive and pragmatic solutions to significant domestic and international problems and develop policy proposals that foster a government that is “of the people, by the people, and for the people.”