Committee for a Responsible Federal Budget

Five Reasons Tax Reform Should Not Increase the Debt
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Tax reform is desperately needed, but it must not add to the debt. Here's why:

1) The National Debt is at a Record High – We Can't Afford to Add to It

Publicly held debt is currently 77 percent of Gross Domestic Product (GDP), which is higher than it's been since the end of World War II. On its current path, debt will exceed the size of the economy by 2033. High and rising debt threatens economic and wage growth, the government's ability to respond to new challenges, and the nation's fiscal sustainability. Policymakers need to reduce the debt, not add to it.

2) Fiscally Responsible Tax Reform is Better for Economic Growth

While comprehensive tax reform can promote economic growth, debt-financed tax cuts are less likely to be effective and may even slow growth. Higher government debt squeezes out private investment, which over time can do more to hurt the economy than lower tax rates do to boost it. Looking at two virtually identical tax plans, the Joint Committee on Taxation estimated in 2011 that a revenue-raising tax reform would do more for long-term growth than a revenue-neutral plan.

3) Offsetting Rate Cuts Will Make the Tax Code More Efficient and Fair

Many of the problems with the current tax code stem from the $1.6 trillion of annual tax breaks that create unnecessary distortions and complexity. Paying for tax reform by reforming these tax breaks will lead to a simpler, fairer, and more economically efficient tax code.

4) It Is Harder to Control Deficits if Tax Reform Adds to the Debt

Every dollar that tax reform adds to the debt will make achieving a sustainable fiscal target that much harder. For example, balancing the budget within a decade would require about $8 trillion of budgetary savings – the equivalent of a 15% spending cut. A $5 trillion tax cut would necessitate a spending cut of 24% to balance the budget.

5) Tax Cuts Don't Pay for Themselves

While well-designed tax cuts can promote economic growth, there is no realistic scenario where this "dynamic revenue" will be as large as the initial tax cut. CBO has said that economic growth could offset at best one-quarter of a broad-based individual rate cut, and at worst make the cut cost more as the dynamic effect of higher debt leads to slower economic growth.

Read more here: http://www.crfb.org/papers/five-reasons-pay-tax-reform