

A Classic Bait and Switch:
Trump's and the Congressional Republican's Economic Subterfuge
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In the last few months, it has become clear that President Trump and the Congressional Republicans are pushing a program that at its core is a subterfuge, a ruse, that would subject the American people to becoming the victim of a cruel "bait and switch" operation. At the core of this economic program is the recently enacted Tax "Reform" law (officially the Tax Cuts and Jobs law) that they claim will benefit the middle class and grow the economy, when in reality it will primarily benefit corporations and the rich, result in very little if any economic growth and produce a massive increase in the National Debt. Perhaps even more objectionable is their effort to use the fiscal deficits their tax program will produce as the motivating force to cut programs that primarily benefit the lower- and middle-classes.

The first two steps in their broader program have already occurred in (1) the budget the Congressional Republicans have approved for the current fiscal year and (2) the Tax Cuts and Jobs law, that was recently passed in the U.S. Senate and House of Representatives and signed into law by President Trump. It should be noted that not a single Democrat supported either the budget or tax bills. Perhaps even more revealing of their ultimate goals are the frank comments recently made by the Republican leader of the House, Paul Ryan, and by President Trump about the spending and programmatic plans they intend to push through Congress early in 2018, now that their tax proposal has become law.

The tax law was written to comply with the terms of the previously approved Federal budget, which allows for the option of increasing the National Debt of the U.S. Federal government by up to \$1.5 trillion over the next 10 years. To put this in perspective, the current National Debt (which is the debt the U.S. Federal government has accumulated over the last 240 years) stands at about \$21 trillion, which is about 106% of the U.S. GDP. However, a good deal (about 37% points) of that is really money owed internally between various government agencies, leaving an amount equal to about 69% of GDP owed to creditors outside the government (a bit less than half is owed to U.S. citizens and firms and a bit more than half is owed to foreign interests, private and governmental, primarily China, Japan and Germany). This additional \$1.5 trillion in planned debt represents an increase of about 15% of the externally owed debt -- a quite substantial amount. That is, the approved budget and tax law allow the government to cut taxes such that the net revenue to the government falls by \$1.5 trillion while expenditures continue, for the moment, as planned.

The first question that must be asked is why this increase in debt is not just allowed, but is intentionally planned for. After all, for the eight years of the Obama Administration, the Republicans insisted that they were committed to not increasing the debt at all. Every time Obama proposed to spend money, even if it was for hurricane relief or to produce a vaccine to fight the Zika epidemic, the Republicans insisted that these efforts had to be budget neutral; that is, other expenditures had to be reduced so as not to increase the National Debt.

Now, when they control both Houses of Congress and the Presidency, they have approved tax cuts that will increase the debt by \$1.5 trillion. Why the change of heart?

The answer is that this is a subterfuge, a very intentional ruse, aimed at achieving two goals: (1) A massive pay-off to their rich donors to whom they owe their successful campaigns for office, and (2) a desire to finally roll back, if not totally destroy, the New Deal programs of Roosevelt (FDR) from the 1930s and the Great Society programs of Johnson (LBJ) in the mid-1960s - specifically Social Security, Medicare and Medicaid. In addition, they have made clear their intention to severely cut programs that have been part of the “War on Poverty” designed to provide for food and housing assistance to the poor. Finally they mean to cut, if not eliminate, even the Children’s Health Insurance Program (CHIP), which provides essential health care to almost 9 million children whose families earn a bit too much to qualify for Medicaid. It may surprise many to learn that CHIP and Medicaid together currently cover about 39% of all children in the U.S. As the price for avoiding the shutdown of the federal government in December (2017), Republicans agreed to extend the funding for CHIP into 2018 - but current estimates are that funding will likely only provide coverage to January 19 or so, when the government will again face a potential shutdown.

To elaborate on the first point: 80 to 90% of the proposed reductions in taxes are to go to the wealthiest 5% of families (whose marginal tax rate will decrease from 39.7% to 37%), to corporations (whose basic tax rate drops from 35% of profits to only 21%), and to other business owners (whose tax rate will drop to a maximum of 20%, a symbolic 1% point lower than for corporations). Very little in tax saving goes to middle- and lower-classes wage earners. In fact, many in the middle class (some estimate as much as one-third of them) will actually see their taxes go up, not down. Indeed, the non-partisan Tax Policy Center estimates that “most middle- and low-income households would eventually end up worse off.” In part, the effect on the middle- and lower-classes is the result of the fact that under the new tax law, the same amount of income will be taxed at two different rates depending upon its source: earned wage income will typically be taxed at higher rates than income derived from operating a business. In addition, corporations will now be allowed to bring back the \$3 trillion in profits they currently hold abroad and pay a one-time tax of only 15.5%, instead of either the old 35% or the new 21%. Also the corporate tax cuts are permanent, while most of those for individuals expire at the end of 10 years, unless renewed. Indeed, Republicans now talk more or less openly about their having needed to appease (one could say “pay back”) their “donor class” or face the prospect of these corporations and wealthy individuals funding candidates to oppose those now in office. So while there is still a rather vacuous attempt to claim that helping the middle class is the primary goal of the new tax law, polls show that few people believe this. The polls also show that most people understand that even if they do see a small decrease in their taxes, on the order of \$50 to \$150 per month, this is a trivial compared to the hundreds of thousands and even millions of dollars that will be gained by the wealthy, the corporations and business owners generally.

The second facet of the subterfuge is the vacuous claim that there is no need to worry about the “potential” \$1.5 trillion increase in the National Debt, because reducing the taxes of corporations and the wealthy will spur a massive growth of the U.S. economy such that, even at the lower tax rates, so much revenue will be generated to the government that the \$1.5 trillion in additional debt will be completely overcome by the end of the ten year budget period. However, there is no historical evidence of this sort of thing ever happening. Indeed, even the most optimistic current projections of the effect of their new tax program show at a minimum a \$0.5 to \$1.0 trillion increase in the National Debt.

For example, the experience of Reagan in the 1980s, so often cited by conservatives, in fact showed that his massive tax cuts resulted in such deficits that later in that Administration they had to raise taxes twice. Even then, “Reaganomics” failed to increase the economy enough to offset the tax cuts, resulting in the National Debt increasing by 186% during his administration; that is, it almost tripled -- so much for the success of Republican fiscal conservatism.

Another lesson from the past is that when Bush II, created a program to bring back billions of dollars held by corporations abroad, claiming that it would lead to a spurt in economic growth and the creation of new

jobs, it did neither. In fact, we know that that money, in fact, was almost exclusively used for three purposes: (1) increases in executive salaries, (2) increases in dividends paid to stock holders, and (3) the buy-back of the corporations own stock in order to increase its value.

Today, the situation is even clearer than it was in either the Reagan or Bush years. After enjoying rapid increases in profitability for at least the last six years, corporations have accumulated more than \$2.5 trillion in retained earnings in the U.S. that they could already be investing (not counting approximately \$3 trillion held abroad). There is no reason to expect that the additional savings from reduced taxes will result in any significant investment or growth in jobs. Indeed there is evidence that the investment that is occurring, and is likely to occur in future years, is primarily going into technologies that will result in the need for fewer, not more, workers, especially fewer less educated and trained workers. Therefore, it is fair to assert that all but the truly naive and ill-informed know that it is not true that the growth encouraged by the Republican tax cuts will wipe out the increases in the National Debt they will have created or create many well-paid, middle-class jobs.

Moreover, there is another aspect of the new tax law. It will significantly reduce the taxes on foreign corporate earnings in that it calls for U.S. taxes to be applied only to “super profits”, that is, to profits in excess of “reasonable rates of return” on the value of foreign held assets. So if a firm holds \$10 million in productive assets in some foreign country and makes, say, a 10% profit of \$1 million a year, that profit would likely be considered reasonable and hence be tax free. Only the profits in excess of 10% would be subject to any U.S. corporate tax at all. This provides a significant incentive for corporations to invest abroad, not in the U.S. Just the opposite of what Republicans claim is the goal of their new tax law.

So when Trump and others claim that the tax cuts will stimulate such economic growth as to wipe out the \$1.5 trillion increase in National Debt and create investment that will produce massive increases in well-paid, middle class jobs, it is irrelevant whether Trump and the others know they are lying, or whether they really believes these myths. Either way, sadly, they seem to be convincing Trump’s own base of about 30% of the electorate to disregard all the contrary evidence and trust that a better future awaits them under the Republican/Trump program.

However, Paul Ryan and many of his conservative Republican cohorts clearly know the truth. They have publicly admitted that, in order to avoid a massive increase in the National Debt, it will be necessary to pursue a policy of both growth and spending cuts. Republicans are beginning to identify publicly a broad menu of social programs they now intend to try to cut back, including, as stated above, Social Security, Medicare, and Medicaid, the triad of “entitlement” programs Republicans have been working against since their inception in the 1930s and 1960s. Moreover, while Trump campaigned on a pledge not to cut these programs, he is already applauding this planned effort. In addition, he and Ryan are beginning to elaborate their plans to limit eligibility requirements and force drug testing for Medicaid and for all federal food and housing assistance programs. Moreover, they have been silent on whether they will allow the funding of the Children’s’ Health Insurance Program (CHIP) to be extended.

The approach the Republicans and Trump clearly intend to follow is identical to that pursued by Reagan, to wit, if one cannot cancel or eliminate these social programs, then one “starves the beast.” In Reagan’s case, he massively increased military spending while substantially cutting taxes, and then claimed that there simply was not sufficient government money to fully fund the targeted social programs. Clearly, the current crop of conservative Republicans intends to follow the same script, with the enthusiastic support of President Trump.

It is naïve in the extreme not to understand that this was their goal all along - (1) first the bait, to try to sell their tax reform plan as designed to help the middle class and spur growth, (2) then instead the switch, to in

fact pursue a program of greatly reducing the taxes paid by corporations and the rich (thus paying off their donors), (3) to claim that the resulting deficits will be offset by the increased growth (more bait), and then (4) the big switch, to use the deficits that they know will actually occur as the excuse to slash a broad swath among the social programs that so many Americans depend upon for their very existence.

The crucial question now is whether Progressives in America, awakened to action by the election of Trump, and by his many executive orders regarding worker, consumer and environmental safety, immigration, LGBT rights, health care, and foreign policy, will be able to muster the strength to educate, convince and organize sufficient numbers of the middle- and lower-classes to block or turn back this Bait and Switch effort. One big test will be the Congressional elections in November of this year, just 10 short months from now. In developing the massive Bait and Switch plan described above, the leaders behind those efforts have proven that they may be self-serving, even nefarious, but they are neither stupid nor incompetent in pursuing their goals. Whether the broad American public, the 60-70% of citizens who oppose those goals, can rise to the challenge is yet to be seen. It's going to be a very interesting and pivotal year.