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—And We Should

by Representative John Boehner



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by Representative John Boehner

In March 1995, three months into the 104th Congress, the House was set to finish the first 100 days of the new Congress with a vote on the “crown jewel” of the Contract with America—a tax relief package of the sort not seen since Ronald Reagan’s first year in office. But there was some question as to whether the tax bill would pass the House.

At the time, in an effort to help rally the troops, William Kristol, the former chief of staff to then-Vice President Dan Quayle and the current editor of the *Weekly Standard*, sent a memo to our members that stands out in my mind to this day, not because it was particularly complex or clever, but because it was so simple and on-target. In that memo, Kristol reminded us of this fundamental fact, which they teach us back in Republicanism 101: “Taxpayers—also known as citizens—come first, not the government, remember? It’s a crucial, maybe *the* crucial, distinction between the two parties.”

Kristol was absolutely right. At our core, conservatives believe the needs of the people come before the needs of the government. And we believe government today has become too big and too intrusive at the expense of our citizens’ freedom. It is our common goal to make it smaller, more efficient, and less costly. As a result, we constantly seek ways to reduce spending, shrink bureaucracy, and cut taxes to their lowest possible level. Our opponents, on the other hand, still maintain that government can do more, and thus must spend more and tax more.

President Clinton has made a career of blurring this distinction. With his words, he echoes Republican ideas; with his actions, he champions higher spending levels and higher taxes. It’s the President’s trademark.

Years from now, the ultimate impact of the Clinton presidency could be an American public unsure of the difference between the two parties, even on fiscal issues. The “crucial distinction” Bill Kristol spoke of is being shaded over, and a defining issue for the Republican Party is in danger of being lost.

It is time once again to draw a clear line, for conservative Republicans to make a case for further tax cuts and more freedom for our citizens. The booming economy and recently enacted Balanced Budget Act present us with an opportunity to do that—and, in the process, to take a logical next step in our drive for increased fiscal responsibility in Washington.

When the Balanced Budget Act was enacted this summer, Congress and the President wrote into law a plan that relies on a specific amount of revenue and specific spending levels. The result will be a balanced budget by 2002. In order to balance the budget by 2002, the five-year plan calls for Washington to collect \$8.689 trillion in tax revenue between

now and then, and commits our leaders to spending less than that amount over the same period.

Once a month, the Congressional Budget Office releases updated forecasts based on emerging economic trends, both long-term and short-term. The most recent update suggests that as a result of the strong economy and implementation of our balanced budget policies, government revenues will exceed \$8.689 trillion during the next five years by as much as \$135 billion. In other words, the U.S. Treasury is likely to take in \$135 billion more than what we need to balance the budget. We will overcharge taxpayers to the tune of \$135 billion between today and 2002.

It should also be noted that the \$135 billion figure comes from CBO's forecast, which could be considered pessimistic. Some experts believe the windfall may be even larger. Lawrence Kudlow, a former Reagan Administration economist, believes the government may receive an enormous infusion of these windfall revenues in the current fiscal year due to a sell-off of capital gains holdings by investors who have been waiting for the tax changes to take effect. It would be similar to the unexpected sell-off of capital gains holdings that took place shortly before the capital gains tax increase of 1986. Kudlow actually predicts a budget surplus *next year*, and a \$137 billion surplus in 2002.

If Kudlow is correct, there will be hundreds of billions of dollars in windfall revenues collected by Washington in the next five years. My friends, as fiscal conservatives, we understand all too well that we're talking about an economic growth dividend that was created by taxpayers—and that, for that reason, is owed to taxpayers.

With each passing day, it becomes increasingly more likely that during the next five years, Washington will take in significantly more of our citizens' money than it needs to balance the budget. We have an obligation to recognize this, and to put our citizens' interests before those of the federal bureaucracy.

For that reason, I have joined Senator Spencer Abraham of Michigan in introducing the Taxpayer Dividend Act. TDA would establish a fund for all tax revenues collected by the Treasury in the next five years that exceed revenue targets established in the five-year Balanced Budget Act. Every dollar of these windfall revenues would be set aside in this special fund.

The assets of this fund would be available for a wide number of uses. First and foremost, these windfall funds could be returned directly to taxpayers via tax cuts. As noted earlier, current projections are that this fund will accumulate at least \$135 billion in the next five years. Compare that to the size of this year's tax relief package—\$93 billion. The numbers are right there: We can more than double the size of this year's tax cuts. American families would keep an average of more than \$800 of their money each year.

In the unfortunate event Congress is unable to reach agreement on a suitable package of additional tax relief, the assets of the TDA fund could also be used to reduce the annual budget deficit or, once we have reached balance and begun to generate an annual surplus, the accumulated debt of the United States.

A third option: Use the windfall revenue fund to pave the way for tax reform. One of the principal arguments we hear from opponents of tax reform today is that in the short term, a crippling shortfall in tax revenue would accompany the switch from one tax code to another. If that is the case—and the jury is still out on that one, to say the least—then the assets of the TDA fund could be used to offset that temporary revenue loss. We will have eliminated one of the main barriers to reforming the tax code.

There is really only one thing Washington can't do with windfall revenues under the Taxpayer Dividend Act: spend it. In the past, Congress would have snatched this money and embarked on a shopping spree of pork and new programs. That is exactly what this bill is intended to prevent from happening.

Most Americans would agree that \$8.689 trillion is more than enough money for Washington to spend in the next five years. For Republicans, the principle is clear: These revenues are not manna from heaven. It is not free cash for the free spenders. This money was earned by the American people, and it belongs to the American people.

As fiscal conservatives, we should seize every opportunity to lessen the tax burden on America's families. For years, the biggest myth in Washington has been that we can't balance the budget and cut taxes at the same time; but this year, we did just that. Now get ready for the new myth: that we can't keep the budget balanced and cut taxes further. The next great Washington debate should not be about how we're going to spend your money. It should be about how we're going to cut taxes.

Outside the Beltway, Republican governors routinely balance their state budgets and cut taxes at the same time. To paraphrase a letter once sent by several of them to President Clinton, Washington has finally learned to walk and chew gum at the same time. Now our big challenge is getting Washington to keep it up.

As I explained earlier, it is already clear the federal government is on a path to collect more than \$135 billion in windfall revenue over the next five years, making it possible for us to more than double the present tax cut package while remaining locked on course to reach balance in 2002. But just because we can cut taxes further, does it necessarily mean we should? The answer to that question is an emphatic yes. Long-term, sustainable national economic growth is America's ultimate debt-retirement tool. And the best way to ensure continued economic growth is to cut taxes.

There is also a moral case to be made for cutting taxes. Put bluntly, the current convoluted, complex, multi-tiered tax system is not only anti-growth; it is anti-family and immoral. Indeed, during the past 17 years, the typical family's annual tax burden has increased from \$11,620 to \$22,707. In fact, the average family with two earners will pay more in taxes in 1996 than their total nominal earnings in 1977. At present, the typical family pays more than 38 percent of its household income in taxes—federal, state, and local. That is nearly 50 percent more than that same family spends on food, clothing, and housing combined, which compares at about 28 percent.

Because most taxes are "hidden" (built into the cost of the goods and services), it is often difficult to fully appreciate the true magnitude of the tax burden families face today. The startling results of a new study by Americans for Tax Reform illustrate this point.

For instance, taxes account for 31 percent of the cost of a loaf of bread, 25 percent of a family's monthly electric bill, 27 percent of the average bill for a restaurant meal, 43 percent of the average hotel bill, 45 percent of the cost of a new car, 50 percent of the typical phone bill, and 54 percent of the price of a gallon of gas. Yet talk of further tax relief for Americans is met with outrage and scorn by the old-thinking Washington establishment. To cut taxes further, liberals argue, would be irresponsible on the part of government and, to paraphrase one Treasury official, "greedy" on the part of taxpayers.

Others will make the case that this money should be used for new federal spending. Some would like to see it used for new roads and transportation programs. I have no doubt of the free-spenders' ability to wage a public-relations assault to claim this windfall

revenue, making effective and emotional arguments for providing more federal funding for any number of inefficient programs.

There are lots of reasons why we should cut spending and shrink the size of our government, but right off the bat are two easy ones. The first is a simple number: \$8.689 trillion. If the federal government cannot fund everything it needs to do with that much money, common sense suggests some changes need to be made.

The second is that the problems of waste, fraud, and abuse are still all too common facts of life in the federal bureaucracy. Last year, the House Committee on Government Reform and Oversight released a report that put a price tag of \$350 billion on fraud and waste in the federal government. Let me share with you just a few examples of what they found:

- The waste, fraud, and error rate of the Earned Income Tax Credit exceeds 21 percent.
- A July 1997 report from the Department of Health and Human Services Inspector General estimates that the Medicare system wastes as much as 14 percent of total payments—a staggering \$23 billion a year.
- The IRS has spent \$4 billion on a failed computer system, and its error rate on hand-filed returns is 11 percent, or nearly one in nine.
- Supplemental Security Income overpayments have grown to more than \$1 billion per year: 5 percent of all benefit payments.
- During 1996, the Social Security Administration spent \$2.3 billion in overpayments to false beneficiaries, many of whom are often coached on how to appear mentally disabled and falsify medical information. Only 15 percent of that money has been recovered.

Furthermore, bureaucratic overlapping and duplication plagues a number of federal programs. Consider these facts:

- Taxpayers fund more than 788 education programs in 40 different agencies to the tune of \$100 billion a year, 30 percent of which is lost on bureaucratic overhead.
- Taxpayers spend \$20 billion for 163 job training programs administered by 15 different agencies, most of which can't even tell us if they're helping people find jobs.

Washington should not ask for another dime from the American taxpayer until it has squeezed every penny from these programs.

Whether it is \$1 billion, \$136 billion, or \$500 billion, the windfall revenues the American people will likely generate during the next five years create an important opportunity to as much as double the tax relief provided to the American people. Failing that, it is at least an opportunity for us to make a down payment on the national debt.

The bottom line, however, is this: Not a dime of that dividend should be used for new federal spending. To do so would be the height of irresponsibility. That money is a dividend earned by taxpayers and owed to taxpayers.

It's *their* money.