

The Intergenerational Effects of the Trump Tax Plan

by Pamela Villarreal

Donald Trump's tax plan will create three million new jobs and 5 percent economic growth in the first year alone, according to an analysis using the NCPA-DCGE dynamic model. But the Trump plan also increases the federal deficit over time. How will these accumulated fiscal imbalances translate into debt burdens for taxpayers into the future?

NCPA scholars analyzed the impact of Trump's tax and spending plan on the future fiscal health of the United States using the Congressional Budget Office's (CBO) *2016 Long Term-Term Budget Outlook* as the baseline for the period 2016 to 2046. The CBO baseline estimates assume average real gross domestic product growth of 2.1 percent annually over the 30-year period.¹ The projected annual deficits were discounted at 3 percent to obtain a net present value (present value of revenues minus the present value of expenditures) for future debt incurred under the CBO baseline and the Trump tax plan as shown in Table I.

The anticipated revenue from Trump's tax plan according to Beacon Hill Institute's NCPA-DCGE model (see line 5):

- Under the proposed Trump tax plan the deficit in 2017 would be \$1.4 trillion, or 166 percent higher than under the current law baseline.
- By 2026, the deficit will be \$2.6 trillion, and by 2046, nearly \$5.1 trillion.
- The present value of future deficits under the Trump tax plan, \$53 trillion, is nearly twice the present value of deficits under current law.

The spending increases and cuts in Trump's tax proposal are ultimately neutral (except for the marginal increase in net interest payments captured in line 7).

How do these accumulated fiscal imbalances translate into increased debt burdens for taxpayers over the forecast horizon? An estimate of federal debt held by the public was derived for each year under both the CBO baseline and the Trump tax plan. CBO's 2016 figure for federal debt held by the public, \$14.1 trillion, was used as a starting point, and the subsequent annual budget deficits under each scenario were added for the current law baseline and the Trump tax plan (see lines 10 and 12):

- In 2046, the last year of the forecast horizon, the total federal debt held by the public will be 62 percent higher under the Trump tax plan.

¹ The growth rate of real GDP is assumed to be at 2.1 percent annual rate except when a tax change causes a once-and-for all increase in the real GDP.

- On a per capita basis that translates to \$163,503 per person in 2046 under the current law baseline (line 15) compared to \$264,976 per person in 2046 (line 16) under the Trump tax plan.

The magnitude of the debt burden under the Trump tax plan is unsustainable, meaning tax revenue will have to be raised or government spending will have to be cut, if the United States is to meet all of its obligations.

Table II, below, has the forecast of current Social Security and Medicare benefits taken from the CBO's *2016 Long Term-Term Budget Outlook* along with a defense spending projection from the CBO's *Long-Term Implications of the 2016 Future Years Defense Program* (lines 1, 2 and 3).² The Trump tax revenue generated by the NCPA-DCGE model minus these three government outlays is shown in line 4. Covering the outlays for just these three programs would consume virtually all the revenue generated by Trump's tax plan.

Line 5 in Table II contains Census Bureau's projection of persons 65 and older, most of whom are citizens eligible for Social Security benefits. Line 6 shows these benefits on a per retiree basis (line 1 divided by line 5).

Line 7 of Table II displays the aggregate amount of spending that would need to be cut to reduce deficits under Trump's tax plan to deficit levels under the current baseline. If this reduction in spending was made from Social Security benefits under current law, persons 65 and older would receive benefits that are roughly 50 percent of the level currently promised (line 8).

In reality, spending reductions would not come from Social Security benefits alone, but how much would come from each category? Do we sacrifice the readiness of our armed forces? Force retired citizens to accept reduced Social Security benefits and medical care? Clearly there are no easy answers.

Pamela Villarreal is a senior fellow with the National Center for Policy Analysis.

² CBO's Defense spending forecast goes through 2030. The compound annual growth rate from 2017 to 2030 was used to extrapolate to 2046. The average annual growth rate over this period was 0.54%.

Dallas Headquarters: 14180 Dallas Parkway, Suite 350 Dallas, TX 75254 | 972.386.6272 | www.ncpa.org
Washington Office: 202.830.0177 | governmentrelations@ncpa.org

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Table I				
Current Law (CBO Baseline)	2017	2026	2036	2046
1 Revenues (Billions)	\$3,494	\$4,168	\$5,283	\$6,751
2 Total Spending (Billions)	\$4,032	\$5,290	\$7,278	\$9,814
3 Total Deficit (Billions)	\$(538)	\$(1,122)	\$(1,995)	\$(3,062)
4 NPV of 30 Years of Deficit (Billions)	\$(28,900)			
Trump Plan				
5 Revenue from NCPA-DCGE Model (Billions)	\$2,609	\$3,131	\$3,822	\$4,675
6 CBO Spending (Billions)	\$4,032	\$5,290	\$7,278	\$9,814
7 Extra Trump Spending (Billions)	\$8	\$9	\$12	\$18
8 Total Deficit (Billions)	\$(1,431)	\$(2,159)	\$(3,456)	\$(5,139)
9 NPV of 30 Years of Deficit (Billions)	\$(53,093)			
10 Current Law Federal Debt Held By the Public (Billions)	\$14,637	\$22,391	\$38,333	\$63,960
11 Current Law Federal Debt Held By the Public (% of GDP)	76%	98%	136%	184%
12 Trump Plan Federal Debt Held By the Public (Billions)	\$15,530	\$31,779	\$60,308	\$103,655
13 Trump Plan Federal Debt Held By the Public (% of GDP)	81%	139%	215%	298%
14 Total Population (Thousands)	326,626	349,826	372,390	391,187
15 Current Law Public Debt Per Capita (Dollars)	\$44,814	\$64,007	\$102,938	\$163,503
16 Trump Plan Federal Debt Per Capita (Dollars)	\$47,548	\$90,844	\$161,947	\$264,976
Table II				
	2017	2026	2036	2046
1 Current SS Benefits (Billions)	\$941	\$1,351	\$1,798	\$2,192
2 Current Medicare Benefits (Billions)	\$595	\$893	\$1,405	\$1,984
3 Projected Defense Spending (Billions)	\$538	\$566	\$596	\$629
4 Trump Revenue minus Current SS, Medicare and Defense Obligations (Billions)	\$535	\$321	\$23	\$(130)
5 Persons 65 and older Forecast (Thousands)	51,104	67,482	79,846	85,194
6 Annual SS and Medicare Benefits per Retiree (Dollars)	\$30,056	\$33,256	\$40,120	\$49,018
7 Amount of Reduced Spending to Get to Current Law Deficit (Billions)	\$893	\$1,037	\$1,461	\$2,076
8 Reduced Annual SS and Medicare Benefits to Reduce Deficit (Dollars)	\$12,580	\$17,892	\$21,826	\$24,646
9 Reduced Annual SS and Medicare Benefits as a percent of Current Benefits	41.9%	53.8%	54.4%	50.3%