



Mitt Romney Won't Lower Americans' Taxes

By Betsey Stevenson & Justin Wolfers - Sep 23, 2012

Republican presidential candidate [Mitt Romney](#) has one potential response to working Americans angered by the 14.1 percent federal income tax rate he paid in 2011: If elected, he would lower taxes for everybody.

Or would he?

As Romney tries to project a kinder, gentler image to voters, we're going to hear a lot about how regular families will benefit from his policies. A central part of his charm offensive will be [his proposal](#) to cut tax rates by a fifth.

Problem is, Romney has also promised that his tax reforms will be revenue neutral. This means the government will take the same number of dollar bills out of our collective wallets. Although tax rates might fall by a fifth, the tax burden won't change. It will simply be rearranged.

Romney's proposal is a standard prescription among budget wonks: "Lower the rates, broaden the base." In other words, he plans to take a smaller share of each dollar of income, but make more of that income taxable. He could achieve that, for example, by limiting deductions such as those for mortgage interest, retirement savings or charitable contributions. (Romney used the charitable-contribution deduction to reduce his taxable income by \$2.25 million in 2011.)

Traditional Argument

The traditional Republican argument for tax cuts is that people will work more, and hence boost the economy, if marginal rates are lower -- that is, if people get to keep a larger share of each extra dollar they earn. In the extreme version of this story, made popular when marginal tax rates were as high as 70 percent, cuts might even lead people to work so much more that the government gets just as much revenue from them as it would with the higher rates. No serious economist [actually believes](#) cuts in current rates could increase revenue, but most agree that a reduction in the marginal tax burden increases the incentive to work.

The Republican enthusiasm for tax cuts, though, doesn't apply to Romney's reform. That's because his plan tinkers with statutory tax rates (the rates written in the law), while the loss of deductions will

probably leave unchanged marginal effective rates (the share of each extra dollar in income we actually pay). This point has been made forcefully by [Alex Brill](#) and Alan Viard, both economists at the right-leaning [American Enterprise Institute](#), who [wrote that](#) “lowering statutory tax rates while broadening the income tax base generally does not reduce work disincentives because it leaves the relevant effective tax rates unchanged.”

To be sure, outcomes would be different for individual families. Currently, if you buy a better health-care plan or a bigger house or if you put more of your money in tax deferred savings, the dollars you spend on these items are excluded from your taxable income. If Romney limits any of these deductions, families that depend on them heavily (most likely the [middle class](#)) could end up with a higher marginal tax burden, while families that never used them could be taxed less. As a result, some might get a stronger incentive to work, while others might face a weaker incentive.

We don't know the implications for your family, because Romney has refused to spell out just what base-broadening changes would offset the lower statutory rates. Those who want more specifics from Romney on his tax plan are right to keep pressing him. He's proposing a large-scale redistribution of income without saying who will gain and who will lose. In such an opaque situation, it's reasonable for a cautious voter to assume the worst.

Perverse Incentives

Reforming our tax system remains an important priority. Broadening the tax base is central to many proposals, including those of the Simpson-Bowles deficit reduction commission, the Domenici-Rivlin debt reduction task force and President [Barack Obama](#). The logic of these reforms is that, whether or not we want to raise more revenue, we should eliminate the perverse incentives our [tax code](#) creates - for example, by rewarding people for taking on debt to buy a house. Eliminating deductions would eliminate the distortions.

Romney's rationale for tax reform seems to be based on a more cynical political logic. He is campaigning on the parts of his plan that would lower voters' tax burden, while hoping they'll forget about the equal and opposite parts that will raise it. In reality, he's not planning to cut taxes at all.

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