

# What to expect on Obamacare, taxes and spending under Trump

## Story highlights

David M. Smick: There have been decades of political gridlock in Washington

Trump, with a GOP-controlled Congress, likely will get significant policy changes on taxes and spending, he says

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**(CNN)**—After several decades of policy stalemate in Washington, cynics might conclude that the Trump era will be more of the same. Think again. Significant change is coming if only because the GOP controls both Houses of Congress, along with the White House.

True, some analysts argue that serious divisions within the GOP will make it tough to achieve policy consensus. But Republican congressional leaders give three reasons why civil war is unlikely and big change is coming fast.

First, the fact that the GOP lost so few House seats in last month's election gives House Speaker Paul Ryan a lot more ideological room to negotiate. Had some of the polls been correct and the GOP lost 20-22 seats,

leaving the thinnest of majorities, the Republican House today would indeed be ungovernable.

Second, Republicans are terrified that if they don't deliver, the same working-class voters who turned on Hillary Clinton will turn on them.

And third, Republicans have a definite fear of Donald Trump himself, whose coattails in last month's election were surprisingly strong. Obstructionists will almost certainly be the subject of ridicule in a Trump tweet.

Here's how the next six months could unfold:

## Tax plans

Trump and the GOP House leadership have surprisingly similar tax reform plans. Both include reform of the corporate and individual tax codes. Both plans have identical reductions in individual tax rates (with brackets down to 12, 25, and 33%) and are fairly similar in what they propose for other provisions of the tax code.

The tax plan agreed to by both Trump and the Congressional GOP will almost certainly be achieved through the legislative vehicle called reconciliation, which means only 51 votes are needed for passage (the GOP has a 52-48 Senate majority). Translation:



David Smick



Immune to being filibustered, their plan will likely become law very quickly.

The greatest difference to be resolved centers on individual taxation at the highest tax bracket. Team Trump, while lowering the top tax rate for upper-income earners, would reduce deductions such that the net effect would be no change in total taxes paid by those at this bracket. Congressional GOP tax plans would bring the top tax rate down but leave enough deductions such that the upper-income taxpayers would receive a tax cut, as measured by total taxes paid.

## High income vs. middle-class tax cuts

How this difference will be resolved, and other details of the tax code (number and size of exemptions and deductions), will be determined depending in part on how Senate Republicans and the Trump administration respond to the House Republicans' decision more than a year ago to use "dynamic scoring" to determine the revenue implications from various tax policy changes. The move to dynamic scoring originated from the House Ways and Means Committee and suggests that tax policy can stimulate the economy, increasing tax revenues somewhat. No, tax rate cuts cannot pay for themselves, but they do generate some economic activity and thereby increase revenues, proponents argue.

How GOP differences are resolved on dynamic scoring will determine the number and size of deductions left in the tax code. Depending on how Congress scores the revenue loss, for example, the top corporate tax rate, which is now 39%, could be reduced to as low as 15% or as high as 20%.

On the issue of whether the final tax plan, while reducing the top tax rate, has no net tax cut (Trump Plan) or a net tax cut (House GOP Plan), watch for Trump to have the upper hand. The likely outcome is that high-income earners will receive a net tax cut, but not nearly as generous as congressional GOP tax writers propose,

meaning a significantly larger net tax cut is in store for the middle class. Both approaches would entail significant revenue losses and the deficit would grow.

## Future of Obamacare?

Candidate Trump vowed to "kill" Obamacare. The GOP could accomplish that goal immediately using the vehicle of reconciliation, which again only requires 51 votes to eliminate the part of the legislation that finances the program.

Republicans sense they need to send their core constituency the message that they took action to kill a plan that has allowed health care premiums and deductions to skyrocket. But the politics are tricky. The implementation of any legislative action will likely be delayed, probably until after the 2018 midterm elections. Here's why: Replacing Obamacare with some new health care system cannot be done through reconciliation, which is a special legislative approach limited to financial and budgetary matters. Instead, enacting an entirely new health care plan requires the legislative track called "regular order" which requires 60 votes for passage (by overcoming a certain filibuster) and therefore will need the support of a number of Democratic senators.

That sounds like a recipe for legislative stalemate. But there may be a reason a number of Senate Democrats (25 out of 48 are up for re-election in 2018, with 10 coming from so-called "red" states) may be willing to compromise with Trump and the Republicans on a health care reform plan.

GOP congressional leaders have been led to believe that by March of next year, every major insurance company now part of the Affordable Care Act will have opted out of the program, having suffered enormous financial losses. Whether Obamacare collapses under its own weight with this exodus remains to be seen. But the largest participant in the program, United Health, has already opted out.

The GOP will delay implementation of any effort to kill Obamacare precisely because of the anticipation the



program will die its own death. So why take the blame for killing it? Both parties would then have no choice but to devise a bipartisan replacement. As one GOP congressional leader told me, "There are some things the Democrats want that we can live with. Compromise is not out of the question. We'll come up with a new plan. We have to."

## Infrastructure: A trillion-dollar question?

Finally, there is the issue of infrastructure spending. It is assumed that on the first day of the Trump administration, \$1 trillion in infrastructure spending will be dropped from a helicopter onto the US economy. But such an approach is not practical. Instead, a lot of the upcoming infrastructure spending is likely to be stretched out over several years with decisions made in close coordination with state and local governments.

The Republican leadership says it is determined to avoid the Obama administration's experience in 2009 when officials were desperate to find "shovel ready" projects to initiate as stimulus in response to the financial crisis. A lot of less-than-essential projects were funded. "Shovel ready" in too many cases proved to be a euphemism for "needless but ready."

But how will Congress finance this new spending? Think big corporations. In 2015, Sen. Chuck Schumer, D-New York, and then-Ways and Means Committee Chairman Paul Ryan, R-Wisconsin, were engaged in negotiations over the connection of an infrastructure spending plan to a plan for overseas corporate profit repatriation; currently \$2.5 trillion in US corporate profits are parked overseas, where tax rates are lower, and could be put to work building the US economy.

Senate leader Harry Reid (retiring this year) stepped in and killed any chance of compromise. Watch for the Schumer-Ryan negotiations to begin again. In their ne-

gotiations, any infrastructure spending plan should involve US corporations being asked to purchase a specified amount of low interest rate infrastructure bonds as part of any generous overseas profit repatriation exercise designed to bring the \$2.5 trillion back home.

So, here's my crystal ball on what is about to quickly unfold. With upcoming changes to the tax code and replacement of Obamacare, Congress will take the lead. Change will happen relatively quickly, but Team Trump will have influence in keeping the bulk of the stimulus directed at the middle class. But here's the point: The rough outlines of the proposed reforms have already been debated and are on the shelf, waiting to be quickly enacted.

On infrastructure spending, President Trump will likely take the lead. Throughout his first term, the new president will position himself as the hands-on, shirtsleeves-rolled-up "builder." In other words, on domestic policy he will appear to be more like a big city Northeast mayor than a traditional conservative Republican president. Trump will regularly visit infrastructure construction sites, with press in tow.

As always, the question is whether the end result avoids a new round of Solyndras, "bridges to nowhere" and other nonsense associated with stimulus and infrastructure spending in the past.

The smarter approach would be for the President-elect now to do something that Congress would hate: Establish a distinguished panel of independent experts to decide which projects are funded. This would be similar to the successful military base realignment and closing commission that worked so successfully between 1988 and 2005. But then again, when has Washington ever adopted the smarter approach?

Meanwhile, get ready for takeoff. ■

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