# Two 'Santas' Can Be Worse Than One

By Eugene Steuerle *Thu, Feb 15, 2018*

*In 1976, Jude Wanniski recommended the 'Two Santas' strategy, whereby Republicans would be as generous with tax cuts as Democrats were with spending. The Trump tax cut is only the latest unaffordable Christmas gift, writes our guest columnist.*

Politicians love to claim that they have given us something. "We want to give you, the American people, a giant tax cut for Christmas. And when I say giant, I mean giant." So proclaimed President Trump, with words echoed by many Congressional leaders.

There were only two problems with the statement. The tax cut wasn't giant and the President and Congress didn't give us anything

Not that Republicans stand alone in their claims of generosity. Democrats claimed they gave millions of Americans health insurance when they passed the 2010 Affordable Care Act. But while Congress and the President credit themselves for giving us something, they really are transferring public resources to some of us from others. In aggregate and over time, we must pay for anything they claim to give.

I find it easiest to divide the two sides of the balance sheet required for new legislation into giveaways and takeaways. Giveaways generally come in the form of tax cuts and spending increases, takeaways in the form of spending cuts and tax increases. Just as sources of funds must equal uses of funds for the budget as a whole, so also for new legislation must the sum of new giveaways be balanced by new takeaways.

Of course, some of the takeaways can be deferred through borrowing. Politicians never count those costs when announcing the amount they claim to have given us.

In a 1976 column in the journal *National Observer*, entitled "Taxes and the Two Santa Claus Theory," conservative columnist and editor Jude Wanniski argued that Republicans needed be the party of tax cuts the way he asserted that Democrats played Santa Claus when they increased spending for social programs or passed redistributionist tax legislation.

At that time, Republicans had long been a minority party, particularly in the House of Representatives. Wanniski argued that they would never gain power as long as they simply opposed Santa-like spending increases or promoted raising taxes to pay for them.
In some ways, he got what he wanted. In the first years of the Republican presidencies of Ronald Reagan, George W. Bush, and Donald Trump, Congress passed tax cuts. Trump's description of the Tax Cuts and Jobs Act (TCJA) as a Christmas gift lends full credence to the belief that political parties try to retain power by acting as Santa.

What Wanniski hadn't fully anticipated was how far we have gone toward having two Santas acting at the

same time, with scheduled spending increases being matched by new tax cuts that make the whole federal fiscal system increasingly unsustainable.
I’m not arguing the relative merits of tax cuts versus new spending. Government can—and should—shift resources in ways it believes will provide a future return to society. But that is different from saying that the money is free, like a gift from Santa.

For instance, Republicans believe shifting resources to business in the form of tax cuts in the TCJA will generate an economic return just as families believe they would generate a return by shifting money to pay for their children’s education. But neither Congress nor families can claim that the transaction is free, just because the money came from additional borrowing on our public or family credit card.

While both government and personal debt tempt us to live for today, only with government debt can Santa leave an IOU for Americans not yet identified and in some cases not yet born. The two competing Santas explain better than anything why borrowing in the U.S. has increased extraordinarily in recent decades, continually rising to new all-time highs outside of a World War II peak that was scheduled to decline quickly once war spending ended.

While analysts at the Tax Policy Center and Joint Committee on Taxation can determine which income and other classes will be affected by specified changes in the law—for instance, who benefits from higher child tax credits—they can’t identify the future losers. Thus, the distributional tables, just like claims that our elected officials have given us something, are often incomplete and in some ways misleading.

While these analysts can and do at times examine implications such as how tax cuts or spending increases might eventually be financed, those analyses get much less press attention than the explicit listing of today’s known “winners” and “losers.” The damage to good budget policy is obvious. It will always have trouble getting traction as long as we fail to recognize that we, not the President or Congress, are the ones who pay for what they claim to give away.