The Washington Post

November 28th, 2010

MARK ZANDI

Chief economist at Moody's Economy.com

The latest proposals to address the nation's long-term fiscal challenges have put tax expenditures in the cross hairs. Let's hope policymakers pull the trigger.

The exclusions, exemptions, deductions and credits that riddle the tax code cost the federal government more than $1 trillion each year. The mortgage interest deduction alone costs well over $100 billion annually. But there are hundreds more, indirectly funding student expenses, health insurance, child-care costs, local property taxes and on and on.

Tax expenditures are more properly thought of as government spending rather than tax cuts. A deduction for local property taxes, for example, is no different from the federal government sending checks to homeowners. Cutting tax expenditures is thus cutting government spending. Indeed, removing tax expenditures - which are really tax breaks targeted for specific purposes - is analogous to eliminating congressional earmarks.

Most tax expenditures are also inefficient and regressive. The mortgage interest deduction does nothing to improve housing affordability, its ostensible goal. Any tax benefit is simply "capitalized" into house prices, which rise as the deduction fuels demand. And the benefits flow to owners of bigger homes with larger mortgages and higher incomes, who can itemize and thus claim the deduction.

No one is arguing that these tax breaks should be eliminated today or even next year. But if policymakers do not scale them back over the next 10 years, our fiscal morass will only deepen.