Testing the Big Claims About Taxes and Inflation

What Actually Holds Up When You Check the Numbers

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How This Works

Part 1 of this project laid out the facts: where the law comes from, what the current tax code says, and where the government's money comes from and goes. This document takes the claims people make constantly and tests them against those facts.

> Method: state the strongest, most reasonable version of each claim first. Check it against real evidence — government data, independent researchers, and in several cases, things that have already happened in real life. Then say plainly whether it held up. We are not picking a side and working backward.

Claim 1: "Cutting taxes pays for itself because it grows the economy"

The reasonable version: if people keep more of what they earn, they work, save, and invest more — growing the economy and clawing back some of the "lost" revenue. This is not fringe; every serious forecaster, including CBO, builds some of this effect into its models.

Source	Share of Cost Recovered
Tax Foundation	16%
Congressional Budget Office	~4%
American Enterprise Institute	7%
Penn Wharton Budget Model (Yale)	Negative

Every estimate — even from groups generally sympathetic to tax cuts — landed well under 20%. Once the extra interest on the added debt is factored in, the true cost to the deficit can end up higher than a "zero growth effect" estimate.

Real-world example, Kansas 2012–2017: Kansas cut taxes sharply, betting on this same growth effect. Job growth came in at less than half the national rate; budget shortfalls got severe enough that the state Supreme Court ruled resulting school-funding cuts unconstitutional. In 2017 the legislature reversed most of the cuts, overriding the governor's veto by a two-thirds majority.

Verdict: Partly true, much weaker than claimed

Some growth offset is real. “Tax cuts pay for themselves” as usually said out loud is not supported by anyone’s numbers, including tax-cut supporters’ own.

Claim 2: “We can cut wasteful spending to pay for tax cuts without adding to the deficit”

The reasonable version: the government spends $7.4 trillion a year — surely enough could be trimmed to offset tax relief dollar-for-dollar.

About three-quarters of the federal budget is essentially on autopilot: Social Security, Medicare, Medicaid, and interest on debt already owed. That leaves about a quarter, split roughly evenly between the military and everything else government does.

The 2025 tax law cut revenue by an estimated $4.4–5.2 trillion over ten years. Covering that entirely through spending cuts — without touching Social Security, Medicare, Medicaid, defense, or interest — would mean cutting the entire remaining non-defense government to zero, every year, for a decade. It would still barely be enough.

This already happened, in smaller form: the same 2025 law cut $1.1–1.5 trillion from Medicaid and food assistance over ten years — the largest spending cuts either party has passed in years, with roughly 11.8 million people estimated to lose health coverage. Even with those cuts included, the law still increased the deficit by $3.0–4.7 trillion over the decade.

Verdict: Does not hold up

There is not enough spending outside Social Security, Medicare, Medicaid, defense, and interest to pay for tax cuts at this scale. Any plan that does not name which of those five it is cutting has not done the math yet.

Claim 3: “We could raise more money just by making sure people pay taxes they already owe”

The reasonable version: collect the $606 billion a year already legally owed but unpaid, rather than raising anyone’s rate.

This is the one claim with a real, live example running in both directions. In 2022, Congress gave the IRS $80 billion over ten years for enforcement; CBO projected $204 billion in extra revenue as a result.

Since then, over $53 billion of that funding has been clawed back and IRS staffing has dropped by about 28,000 people. CBO scored the cuts too: a recent $11.7 billion cut is projected to cost $38.6 billion in lost revenue over the following decade — the same multiplier, in reverse. One independent estimate puts the total cost of the recent cuts at $598–861 billion in lost revenue through 2035.

There is a ceiling, though: even the well-funded 2022 effort worked out to about $22–23 billion a year in real recovered revenue — a little over 1% of the $1.9 trillion annual deficit.

Verdict: Holds up cleanly, but small

Better enforcement funding really does pay for itself several times over, and cutting it really does cost more than it saves. It is worth doing. It is not, by itself, a way to pay for large tax cuts.

Claim 4: “We can beat inflation by producing more instead of raising interest rates”

The reasonable version: if prices are high because supply is short, make more of the thing — a less painful path than raising rates. This lines up with where inflation actually is right now: almost all of the excess above the Fed’s target is energy, not a broad problem.

Energy, happening in real time: U.S. oil production hit an all-time record of 13.6 million barrels a day in 2026; natural gas also hit record highs. At the same time, gas prices rose about 35% over the year, driven by a shipping disruption near the Strait of Hormuz. Record domestic production and a major price spike happened simultaneously, because oil is priced on one global market.

Housing works differently, but slowly: zoning reform really can lower prices — estimates range from a few percent up to 15–27% under substantial reform — but studies of real cities found effects were small in the first few years and only became significant six to twelve years later.

Verdict: Does not work as a quick fix, for two different reasons

Energy does not help because prices are set globally, not locally. Housing probably helps eventually, but “eventually” means most of a decade. A weaker claim survives: building more homes is good long-term policy — it is just not a substitute for what the Fed does with interest rates right now.

Claim 5: “Combining tax cuts with spending cuts can sometimes make both inflation and the deficit worse”

This claim asks something none of the first four do alone: not whether one policy works, but whether pairing two policies together can produce a worse result than either would alone. We tested it against the same real law from three separate angles.

- **Angle one:** the 2025 tax law paired real tax cuts with real spending cuts, and the combination still made the deficit worse by $3.0–4.7 trillion — a result invisible from either piece alone.
- **Angle two:** the same period that cut taxes also cut the one part of the budget that reliably pays for itself — tax enforcement. The two moves ran in opposite directions at once.
- **Angle three:** the Fed itself said the economy is growing at a solid pace with strong investment. Adding trillions in deficit-financed tax cuts to an economy already running near full speed pushes toward inflation — part of why the Fed raised rates the same day this research began.

Verdict: Confirmed, across all three angles

Tax cuts and spending cuts are not automatically bad on their own — claims 1 and 2 already showed each has a real, if limited, case. It is that this specific combination — cuts without enough offsetting savings, defunding the one tool that reliably pays for itself, timed to hit an economy already running hot — stacks several disadvantages in the same direction at once. Each piece was a separate, identifiable decision, meaning each could plausibly have gone differently.

Putting It All Together

Claim	Verdict
Tax cuts pay for themselves	Partly — 4–16% of cost recovered, far less than claimed
Spending cuts alone can finance tax cuts	No — not enough money exists outside the big five categories
Better enforcement can help pay for it	Yes, but small — capped around 1% of the deficit
Producing more fixes inflation without high rates	Not quickly — housing takes years, energy does not work at all
Some combinations make everything worse	Yes — confirmed, happening in real time

None of this tells you what your tax rate should be, or what the government should spend money on — those are value judgments this project is not in the business of making. What it does tell you is which arguments hold up when you actually check them against the numbers, and which ones sound reasonable right up until you do.
