



## The Daily Dish

# Post-Trump Tax Reform

DOUGLAS HOLTZ-EAKIN, PATRICK HEFFLINGER | APRIL 28, 2017

On Thursday Chinese Foreign Ministry spokesman Geng Shuang stated that China welcomes the United States' openness to talks regarding rising North Korean aggression. Shuang went on to say that China shares the U.S.' goal of resolving issues with North Korea through peaceful talks. As of Tuesday the U.S. had begun moving pieces of the THAAD missile defense system to a deployment site in South Korea amid fears of North Korea launching a sixth nuclear test in the very near future.

Yesterday a federal court agreed to delay the Obama Administration's mercury rule to allow the Trump Administration time to review the rule. The mercury rule was re-written last year by the Obama Administration after the Supreme Court ruled against the regulation. The Court of Appeals for the District of Columbia requested the Trump Administration give updates on their rule every 90 days.

### ***Eakinomics: Post-Trump Tax Reform***

Now that the dust has settled, what did we learn about the prospects for tax reform from the president's [1-page](#) rough outline?

First, it is not a tax reform plan. A real tax reform plan would be permanent, contain structural changes, and would transform the U.S. economy into a faster-growth environment with no bias toward foreign production. The outline was a collection of desirable features — a 15 percent rate of tax on business income, lower individual tax rates, elimination of all but the mortgage interest and charitable deductions, doubling the standard deduction, and so forth. But it is not a real tax reform that specifies the elements of a broader base, as the House Blueprint does. It is the exercise of base-broadening that generates controversy, divisions in the business community, and makes tax reform such an infrequent event.

Second, the absence of base-broadeners means that, taken at face value, it would create large and permanent deficits. Treasury Secretary Mnuchin's assertion to the contrary is

simply a convenient [fantasy](#). The corollary is that this means any such tax change would be temporary for two reasons. First, the U.S. fiscal situation is already dire over the long term; adding to large deficits is an invitation to open up the tax code in search of more revenue — and lose the benefits of tax reform in the process. Second, it is not possible to pass a bill that creates long-term deficits using the 50-vote reconciliation procedures in the Senate. That means the provisions will have to sunset (as did, for example, the Bush tax cuts). Indeed, a corporate rate cut might have to sunset as early as year three. Two years of tax cuts is no tax reform.

Third, and more promisingly, the rollout was a clear signal that the president is committed to tax reform. That is crucial because the *status quo* is untenable. The current tax code has contributed to an anemic recovery, flat real wages, poor capital investment performance by the U.S. business sector, trillions of dollars locked offshore where they cannot be plowed into more jobs, higher wages, bigger factories or other improvements in the standard of living. Doing nothing should not be an option.

Finally, the White House draft did not preclude any of the ideas currently under consideration on Capitol Hill. In particular, that means that the dramatic changes in the taxation of corporations and pass-thru businesses are still a possibility. These are the key to tax reform. Superficial analyses (and everything on the left) look at lower corporate and pass-thru rates and dismiss them as “giveaways to the rich.” This misses the point entirely. Faster growth is at the heart of [better economic performance](#).

During the course of the “recovery” working Americans have essentially not seen a raise. More rapid economic growth would generate productivity and real increases in wages. There is no government transfer program — and no distribution table for such a program — that can compare with sustained broad increases in wages. Lower rates and broader bases shift firms from playing games to reduce taxes to competing. When they compete for workers, wages rise. When they compete for customers, prices are cut. When they compete on innovation, everyone benefits from new products and services. And if they can’t compete, they are replaced by nimbler, rapidly growing firms that are the hallmark of rising employment and wages.

The White House outline is not a tax reform, but it is an important step in the process that could yield the single most important contribution to increased prosperity for the average American.