The Daily Dish

Bernanke and Border Adjustment

DOUGLAS HOLTZ-EAKIN, PATRICK HEFFLINGER | MAY 2, 2017

On Monday White House Press Secretary Sean Spicer stated that the administration and Congress are "not there yet" on proceeding with a vote on a health care bill. Spicer said that while Congress is getting closer to a deal, they simply do not have the votes yet. Spicer went on to say that the White House would not be setting a timeline for the passage of a repeal and replace bill for Obamacare and that it was up to the Speaker of the House.

Yesterday President Trump signed an executive order establishing the American Technology Council which will serve as a government IT advisory council. The council will be part of the Office of Innovation which was created in March. The council's mission will be to help the government streamline its IT operations.

Eakinomics: Bernanke and Border Adjustment

Former Federal Reserve Chairman Ben Bernanke weighed in on the controversial border adjustment feature in the House tax reform Blueprint. CNBC led with his remarks that "mostly praised the border adjustment tax proposal and suggested that Republicans just have not presented the plan in the best way." He then went on to point out in particular "'It's not really about trade. It's not really about imports and exports. It's about where revenues are taxed. The idea is revenues should be taxed where it's earned,' he said, noting it has 'a lot of appeal in many ways,' such as eliminating incentives for companies to move their headquarters overseas for tax reasons and reducing accounting confusion over where profits were earned."

All this is exactly on the mark, proof that he is a card-carrying member of the economists' cult, and a very measured evaluation of the proposal. At that point, however, CNBC reports that: "Bernanke said that in order for the proposal to work, the U.S. dollar would need to strengthen — some estimate by 25 percent — and that would eliminate the tax plan's negative effects." The precise statement, however, is slightly different and goes like this: in the presence of border adjustment, the dollar will adjust once (and once only upon adoption) to be 25 percent higher than it would otherwise be. "Otherwise be" is really important, because a myriad of factors affect the dollar — equity market fluctuations, interest rates, confidence effects, and so forth. That means that there is no guarantee whatsoever that the dollar will be 25 percent higher, which is how this argument has been interpreted.

Bernanke then notes that "If we were starting to design the system from scratch this would make a lot of sense and it would not have those implications you talk about." Put differently, if the U.S. had started with the House cash-flow tax with border adjustment, it would never change away from it. That is an important insight and should affect the benefit cost calculation of tax reform. If all of the costs are simply in the transition, and the benefits are permanent, then genuinely forward-looking leaders will be much more confident about making a reform.

The tax reform debate is now starting to heat up in earnest.