



The Daily Dish

The Case for Tax Reform

DOUGLAS HOLTZ-EAKIN, PATRICK HEFFLINGER | MAY 11, 2017

On Monday President Trump authorized the Department of Defense's (DOD) plan to arm Syrian Kurds in the U.S.'s fight against ISIS. While the Syrian Kurds are seen as an important ally by the U.S., the U.S. is aware of the tensions between the Kurds and the Turkish government. Defense Secretary James Mattis stated on Tuesday that the U.S. and Turkey are currently "working out their differences over the Kurds."

Yesterday the U.S. Treasury announced that they plan on selling over 1 million bank stocks and returning \$57.7 million to the federal government. The stocks being sold were purchased in 2008 as part of the Troubled Asset Relief Program (TARP). The Treasury stated that they have recovered \$275.8 billion in TARP funds to date and \$66.2 million is still outstanding.

Eakinomics: The Case for Tax Reform

With CNBC reporting that Paul Ryan has hit the road to make the case for tax reform, my immediate reaction was: why? I mean, doesn't everyone understand? Then it occurred to me that it might be useful to summarize the issues concisely. Here goes.

1. Doing nothing is harmful to America. The tax code contributes to poor capital investment, poor innovation, poor productivity growth, and poor growth in real wages and the standard of living. It is guilty of harming international competitiveness, locking trillions of dollars offshore, and chasing headquarters across the oceans. Something has to change.

2. Tax reform is permanent, structural, and transforms the incentives to invest in America, innovate in America, grow in America and raise the American standard of living. Merely cutting tax rates, for example, in the current system is not tax reform.

- Corollary: Tax reform should be revenue neutral. Permanent investment incentives are powerful; temporary ones are not. In order for tax reform to pass the Senate with only 51 votes (i.e., in reconciliation), it cannot create long term deficits. The way to avoid this is to either be revenue neutral or to sunset the tax changes after a few years. The former can be transformative; the latter is economic weak tea.
- Corollary: Of the ideas floated thus far, the House Blueprint meets the definition of tax reform.

3. Tax reform should target the main problems: investment incentives, real wage growth, location decisions, and complexity and cheating.

- Corollary: The House Blueprint has powerful incentives for more investment (20 percent rate, full expensing of investment) and takes away any tax-based bias regarding tangible versus intangible capital, the length of life of capital assets, the location of capital investment, and the financing of capital investments.
- Corollary: The House Blueprint and the Trump Blueprint move the U.S. to a competitive international tax rate and a territorial system — no longer will every headquarters decision break against the United States.

The House Blueprint will put U.S. goods on a level global playing field at a 20 percent rate, eliminating the competitive disadvantage.

- Corollary: The House Blueprint border adjustment ends immediately the payoff to cheating by large multinationals; the U.S. will be paid the money it is owed.

2017 offers the historic opportunity for genuine, transformative tax reform. To date, only the House Blueprint moves to a pro-growth tax code that ends the preference for foreign production over domestic production, ends multinational tax avoidance, and cements the U.S. as the global place to invest facing a single tax at a low rate. One should hope that tax reform is an easy sale, and that the final product has exactly the characteristics of the proposal that kicked off the debate.