The Daily Dish

Eye on the Tax Reform Prize — Growth

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National Security Advisor Michael Flynn is expected to recommend that President Trump expand the North American Free Trade Organization (NATO) to include Montenegro. For a nation to enter into the NATO alliance it must gain unanimous consent from all member nations. Of the 28 member governments, 23 nations have already backed Montenegro's inclusion. Only 5 nations, including the U.S., have yet to weigh in.

This week the Army Corps of Engineers approved the final Dakota Access Pipeline route. The pipeline was granted easement to run underneath the Missouri River just north of the Standing Rock reservation. Deputy Assistant Secretary of the Army Paul Cramer said that the accelerated approval of the pipeline route is "consistent with the direction" of President Trump's recent memorandum instructing the Army Corps of Engineers to expedite their review and approval process. Since taking office President Trump has issued four memorandums and one executive order that directly affect the energy sector. A recent AAF analysis of President Trump's energy related actions finds that the president's directives should help grow domestic energy production and create jobs within the energy sector.

Eakinomics: Eye on the Tax Reform Prize — Growth

The House Republican "A Better Way" tax reform blueprint has taken Washington DC by storm. Suddenly hundreds of people are packing auditoriums to discuss border adjustment, toss around acronyms like DBCFT ("destination based cash flow taxation"), and argue about the pace and magnitude of historical and prospective exchange rate adjustments. It's a floating graduate seminar in tax policy and international economics. Fun, at least for some, but increasingly threatening to miss the point. The goal of tax reform is not to manipulate the exchange rate, current account, or production location decisions.

The goal of tax reform is better economic growth.

Lord knows, there's a need for improvement. Since the depth of the Great Recession, real Gross Domestic Product has averaged annual growth of 2.1 percent, and it dipped below 2.0 percent this past year. The upshot has been a slow improvement in unemployment, a suppressed rate of labor force participation, and essentially flat inflation-adjusted wages. Not a pretty picture.

There are lots of reasons to believe that reforms to the individual income tax and corporation income tax could improve aggregate labor supply (especially labor force participation) and improve incentives for household saving. On the business side, the impacts are even more dramatic, with the opportunity to bring trillions of overseas profits back to the United States to finance investment and payrolls, movement to a territorial system to stop the loss of U.S. headquarters, incentives to innovate and invest, and reductions in tax-based distortion of investment finance. The list could go on, but the bottom line is that economic growth could be as much as 0.5

percentage points higher over the next decade. The difference between 2.1 percent annually and 2.6 percent annually will feel just as good as when I ditched my Plymouth Duster for a Pontiac Firebird. (Ok, I just dated myself — they are both extinct.)

It is time to do tax reform. It is time to do it for the right reasons.