



The Daily Dish

The Tax Plan Cometh

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Eakinomics: The Tax Plan Cometh

Today the “Big Six” — White House National Economic Director Gary Cohn, Treasury Secretary Steve Mnuchin, House Speaker Paul Ryan, Ways and Means Chairman Kevin Brady, Senate Majority Leader Mitch McConnell, and Finance Committee Chairman Orrin Hatch — will release their joint plan for tax reform. Certainly, not all of the questions will be answered. The Big Six have emphasized that the Ways and Means Committee and the Finance Committee will follow regular order in producing detailed legislation that follows the contour of today’s announced plan. Nevertheless, there are a few things to keep in mind when evaluating the announcement.

The first is that the focus should be on the implications for growth. The impact of any specific tax provision pales in comparison to the improvement in middle-class livelihoods that would come from better economic growth, productivity growth, and real wage growth. Many Democrats view the tax code as a means for handing out payoffs to political constituencies. It should be re-molded to be as neutral as possible and not discriminate against growth.

A corollary is that one should evaluate the plan as a whole. Today will kick off a massive campaign by many specific constituencies against base-broadening provisions. There will be apocalyptic claims about economic death and destruction. But keep in mind that (a) if one’s business depends on a single tax provision, it is a tax shelter; not a legitimate business activity and (b) what matters is whether economic life is enhanced by the entire plan. Statements about only individual provisions are largely out of bounds.

Second, the plan should not favor foreign production over domestic production, as the current tax code does. There should be support for investing, innovating, hiring, and paying wages in the United States.

Third, don’t forget the small business community. There has been a clear and compelling case made for corporate reform and the president made a campaign pledge to relieve taxes on the middle class. But more than half of all business income is taxed on individual returns in so-called pass-thru entities like sole proprietorships and partnerships. Tax reform should improve incentives for all types of businesses.

Finally, remember that doing nothing is dangerous to America. The fact that the economy is stuck in low gear has visited distress on large swaths of the labor market and household sector. Headquarters of U.S. firms continue to migrate overseas to competitor companies. Trillions of dollars of global earnings are locked out of the United States by the tax code. Reform is an imperative.