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A House divided: Donald Trump's entire reform agenda is in serious trouble

The Republican speaker of the House of Representatives Paul Ryan described last week's decision to pull a bill replacing Barack Obama's signature healthcare legislation as a short-term problem. The bill had had strong support from new President Donald Trump.

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“Doing big things is hard,” Ryan said. “Moving from an opposition party to a governing party comes with growing pains.” Having had seven years to unite around alternative legislation, this seems a huge understatement.

Far from being a transitory failure, the fall of Trump-Ryancare may be the first indication of a paradox. Although Trump helped his party to win voters a traditional Republican agenda could not, the nature of his agenda could make Republican party management in Congress more difficult.

True, this particular legislation failed because it could not bridge the divide between members of the “Freedom Caucus” and so-called “moderates”. The former thought it left too much of Obamacare's framework in place. The latter were worried about the electoral consequences of people losing insurance. Trump united with the Republican establishment to push through this supposed middle-way because he wanted to get this off the agenda and move onto the real economic issues he has championed: tax cuts, infrastructure spending, discretionary spending cuts and trade policy reform.

Yet similar divisions surely loom on each. Tax reform should in theory be easiest. Trump's campaign promised a traditional rate cutting and base-broadening programme, reducing the corporate income tax rate from 35 per cent to 15 per cent, with income tax rates lowered for all but with the number of rates reduced from seven to three. He previously said these would be paid for by eliminating a host of deductions and exemptions.

But many Republicans in Congress want to go further, introducing a border adjustment tax, which would shift the whole US corporate income tax code to one taxing activity where it takes place. This is not economically without merit, but many Republicans doubt that there will not be

significant real impacts on certain industries. Worse, they worry this is the first step towards a European-style VAT, enabling a significant new source of revenue for future administrations. The resistance has started already, with certain industries, not least retail, lobbying hard.

If we can expect a round of bloody negotiations on tax reform, then simmering under the surface are bigger divides on infrastructure. Trump has pledged to raise \$1 trillion in public and private revenue to rebuild infrastructure in the next decade. He originally planned to harness this through generous tax credits for private investors and a spate of public-private partnerships, but his transport secretary Elaine Chao has more recently sounded open to federal funding.

This would be anathema to Republican fiscal hawks, who believe the federal role in transportation policy should be minimal, with decisions left to state and local government. There's already a realisation that Trump's tax credit programme would be hugely wasteful, giving significant tax relief for projects that would be undertaken anyway. As we experienced in the UK, there is a fear that (like PFI) public-private partnerships will be used as a means of paying for new infrastructure off-balance sheet with big long-term costs to taxpayers.

Maybe a programme of discretionary spending cuts will be a more harmonious endeavour? Again, this seems wishful thinking. Last week Trump launched his budget plans, beefing up military spending by \$54bn but financed by a range of cuts to relatively minor government departments. The interim period has already seen a host of special pleading from congressional Republicans to protect individual programmes, and it's a not very well kept secret that most rightly recognise that America's long-term debt problem is driven by entitlement spending for old people, which Trump has pledged not to touch.

And then there's trade, where public divisions between the import-hating, economic nationalists and the free-traders even within Trump's inner circle are already spilling out into the press. Trump's apparent determination to renegotiate Nafta, abandon semi-agreed trade deals and even threaten across-the-board tariffs is unlikely to win support from the more free-market elements of his own party.

Far from being the end of divisions, last week's healthcare debacle might be just the start. Indeed, some are asking: if Republicans cannot agree a deal to repeal and replace Obamacare when they control the White House, Senate and the House, can they get anything meaningful done? Governments tend to be at their most ambitious early in their terms. The Trump government has fallen at the first hurdle.

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