



Don't worry about short-term deficit

Chris Edwards

September 17, 2017

With tweets, speeches and meetings, President Trump is urging Congress to cut taxes by the end of the year. The president argues that our high business taxes are driving investment abroad and hurting U.S. workers. Most members of Congress agree that we need to reduce our 35% federal corporate tax rate, which is one of the highest in the world.

The disagreement comes when Trump says he wants “the biggest tax cut ... in the history of our country,” as he tweeted the other day. He seems to be promising to vastly slash Uncle Sam’s grab from our wallets. That would be great if Trump and Congress matched the tax cuts with spending cuts. But without the latter, deficits would rise and simply impose higher taxes on people down the road.

An alternative would be to cut individual and corporate tax rates and offset the deficit impact by ending unneeded breaks, such as the state and local tax deduction. That would be a good reform, creating a simpler tax code and improving incentives for working and investing.

Alas, Republicans cannot seem to cut spending, and they have not yet agreed on which tax breaks to repeal. Without such deficit offsets, they should scale back their tax package to just the most pro-growth elements, particularly a corporate tax rate cut. A corporate cut would initially reduce federal revenues, but over time companies would build more U.S. factories, bring foreign profits back home, and evade taxes less. The tax base would expand and reduce any resulting deficits over time.

Such dynamic growth effects are evident in reforms abroad. Canada cut its federal corporate tax rate from 29% to 15%, and Britain cut its rate from 30% to 19%. In both countries, corporate tax revenues as a share of the economy are more or less unchanged despite the sharp rate cuts.

If the GOP focuses on pro-growth tax changes, we shouldn’t worry about the short-term hit to the deficit. America’s businesses and their workers need a more competitive tax code, and Republicans should seize the opportunity to get it done.

Chris Edwards is director of tax policy studies at the Cato Institute.