



Trump's tax reform speech was important, but talking only gets you so far

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Before President Trump got on the stage in Springfield, Mo., to talk about tax reform, we were promised no details. And we got almost no details. But this is an important step in him selling tax reform to the public.

Before I start digging into the specifics of what he said, I want to start with what, in my opinion, are good principles of tax policy: broad base, low rate, no double-taxation, transparency, fairness, and stability. For more, [see this paper](#).

The president laid out his four principles of tax reform during the speech:

1. "A tax code that is **simple, fair, and easy to understand**. This means getting rid of the loopholes and complexity that primarily benefit the wealthiest Americans and special interests."
2. "We need a **competitive tax code that creates more jobs and higher wages for Americans**. It's time to give American workers the pay raise that they've been looking for many, many years."
3. "We need **tax relief for middle-class families**. We will lower taxes for middle-income Americans so they can keep more of their hard-earned paychecks."
4. "We want to **bring back trillions of dollars in wealth that's parked overseas**. By making it less punitive for companies to bring back this money, and by making the process far less bureaucratic and difficult, we can return trillions and trillions of dollars to our economy and spur billions of dollars in new investments in our struggling communities and throughout our nation."

Now here are the highlights from what the president said about his plan to reform our tax code:

1. Trump wants to reduce "the crushing tax burden on our companies and on our workers." He rightfully spent a lot of time talking about reforming our corporate income tax.

The first step seems to be to cut the rate. He would rather have a 15 percent corporate tax rate but he is asking members of Congress to really engage in a serious cut of the corporate rate. He noted that the United States has the highest corporate income tax rate of all developed countries ([correct](#)) and that when it comes to competitiveness the U.S. is "dead last" due to our high rate.

He also rightfully noted that wages should get a boost from a reduction to the corporate tax rate. He didn't explain why that would be, so I should explain.

Corporations do not pay taxes. People do.

And when it comes to the corporate tax rate, economists now understand that a significant share of the tax is shouldered by workers in the form of lower wages. Incidentally, the corporate income tax is also shouldered by investors in the form of lower dividends.

Trump is entirely correct on these points. The country needs first and foremost a serious and fundamental reform of our corporate tax system. If his administration and Congress get it right, they will trigger some serious economic growth.

2. Trump's plan will get rid of many special interest loopholes that make the tax code complicated, unfair, and biased toward the rich. He noted that some of those will hurt him personally, but we have no more details about what they may be.

I assume from what he said in the past he would like to go after the carried interest deduction. My former colleague Adam Michel and I have written about corporate cronyism in the tax code [here](#) and [here](#). But to be honest, there are many more special interest loopholes on the individual side. Getting rid of them all is important, but it will be tough. Special interests won't let their special handouts go without a fight. Hopefully, the president is prepared for a fight.

3. Trump is planning a tax holiday that would give an incentive to income stored overseas to come back to the U.S. and be invested here. I don't know from his speech if he is thinking about taxing that income at a lower rate than whatever the new corporate tax rate will be or if all of the income would be tax-free when brought back. I would favor bringing it back tax-free, because it has already been taxed by other governments overseas in the country where the income was earned. A tax rate higher than zero means double taxation which goes against the good principle of taxation I referenced above.

Now, I should add that if the rate is very low, it would beat the current system. If it is a one-time thing, I may even be able to live with it. However, I would hope that all revenues collected from that repatriation tax would be used to reduce the corporate rate lower not to spend money on more government programs.

4. On the individual side, Trump wants to make filing taxes easy. He talked about a single-page filing. He talked about reducing the number of brackets without much details.

5. Trump wants to work with Congress, Republicans and Democrats alike. He said, "...The foundation of our job creation agenda is to fundamentally reform our tax code for the first time in more than 30 years. I want to work with Congress, Republicans and Democrats alike, on a plan that is pro-growth, pro-jobs, pro-worker -- and pro-American."

That's the right attitude, but it will be hard. This is why he needs to continue selling his message to the public. Lawmakers on both sides of the aisle are rarely political entrepreneurs. If their constituents demand tax reform, they will follow.

Now let's talk about where the president was sometimes off-message or straight-out wrong.

1. Policy talks just aren't Trump's thing, we know that. As such, we shouldn't be surprised that he seemed pretty bored while delivering this talk. It's pretty obvious that talking about tax reform doesn't get him as jazzed up as dumping on illegal immigrants and trade deals do. In fact, he

couldn't stop himself from going off-script at some point to talk about how NATFA was awful and Mexico has taken advantages of us for all those years.

2. Trump praised his beautiful daughter Ivanka and told us how hard she is working. But in truth, considering her lack of policy chops and her preference for government intervention in our lives, her hard work is not very reassuring. But good for him for being such a proud dad.

3. Trump dumped on Congress and noted, "I don't want to be disappointed by Congress." This is clearly a reference that they haven't managed to pass an Obamacare repeal and replace bill, or anything else for that matter.

4. Trump mentioned the child tax credit and his only supporting evidence for why he likes this bad policy (It would add complexity to the tax code and is a handouts to parents while failing to grow the economy) is that his daughter likes it—see comment above.

5. Trump urged Missouri voters to dump Democratic Sen. Claire McCaskill at the ballot box if she doesn't support his tax plan. Classy.

6. Trump believes in Keynesianism. Toward the end of his talk, he made the case that cutting taxes would put money back in people's pockets and Americans would in turn spend that money on U.S. goods and get a new lease on life and will grow the economy. That's not how it works! Consumption follows economic growth, not the reverse.

Please, Mr. President, read [this post](#) by the Cato Institute's Dan Mitchell. A tidbit:

That is nonsense. Just as giving people a check and calling it "stimulus" didn't help the economy under Obama, giving people a check and calling it a tax cut won't help the economy under Trump.

Tax cuts boost growth when they reduce the marginal tax rate on productive behavior such as work, saving, investment, or entrepreneurship. When that happens, people have an incentive to generate more income. And that leads to more national income, a.k.a., economic growth."

All in all, if this is truly "the opportunity of a generation" he should keep supporting and discussing real tax reform throughout the country. So this talk was important.

At the same time, talking only gets you so far -- actions determine a president's legacy.