



The Trump Administration May Already Be Losing Its Mind Over Taxes

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Somebody crafting tax policy for the White House appears to have either suffered an aneurysm, gone mad from desperation, or is having some fun trolling Republican leaders on Capitol Hill. I can't tell which.

According to the *Washington Post*, members of the Trump administration have been battling around the notion of paying for their tax reform plan by either creating a carbon tax or value-added tax, two ideas that have *long* been considered anathema among many mainstream conservatives. The *Post* cites an anonymous "administration official" as well as "one other person briefed on the process." The sources acknowledged that the concepts are a bit *outré* for the GOP but say that team Trump is looking for new revenue sources and flirting with a real bipartisan push. From the *Post*:

"The decision to explore these ideas reflects how the White House is willing to adjust its approach because they want to attract more political support from lawmakers in both parties who have said they are willing to negotiate. White House officials took a more hard-line approach when they pushed for a repeal of the Affordable Care Act, and the effort quickly stalled in Congress."

The White House, for what it's worth, is officially denying the report. But assuming these trial balloons were for real, they mostly seem like an acknowledgment that the controversial tax plan cooked up by House GOP leaders is in peril. That proposal, championed by Speaker Paul Ryan and Ways and Means Chairman Kevin Brady, relies heavily on a border-adjusted corporate tax—affectionately referred to by some as the BAT tax—which would essentially slap a levy on imports while exempting exports. The proposal would have raised more than \$1 trillion over a decade to finance a large reduction in the overall corporate tax rate while also discouraging companies from moving their headquarters outside the U.S. for tax purposes. But many Republicans—nudged by retail lobbyists—have worried that the BAT could lead to higher prices for consumers, and some have pronounced it DOA in the Senate, where it's been vocally opposed by the likes of Arkansas Sen. Tom Cotton and Georgia's David Perdue.

So the administration needs a Plan B. But it's hard to overstate just how bizarre these two ideas actually are.

Swapping the tax on corporate income for one on carbon has long been a dream of Third Way think-tank types who lust after grand bipartisan compromises. The reasoning is pretty straightforward: According to conventional economic wisdom, the corporate income tax saps capital from the markets and ultimately discourages businesses from investing in things like new factories and product lines by taking a bite out of profits, thus indirectly hurting workers. (I think there's a pretty strong argument that this thinking is outdated, but let's not dwell!) Taxing carbon, on the other hand, would discourage Americans from turning the planet into a giant microwave. So, the MOR policy wonks say, let's trade the tax on good things (investment) for a tax on bad things (greenhouse emissions).

The obvious stumbling block for a plan like this is that Donald Trump does not give two figs about the planet, may be convinced that climate change is a hoax, and has already set in motion the process of unraveling President Obama's plan to reduce emissions in the name of reviving the coal industry's unrevivable fortunes. Congressional Republicans, meanwhile, would chug a smoothie made of anthracite dust and North Dakota crude before they passed a carbon tax. It *certainly* isn't happening as long as Senate Majority Leader Mitch McConnell, who demagogued Obama's "war on coal" as well as anybody, has a pulse. It is beyond me why any person in the White House would think this idea might go over well with their boss or the people he'll have to rely on to pass his agenda in Congress.

The politics of the value-added tax, or VAT, are more nuanced—but not better. A VAT traditionally looks a lot like a national sales tax, except instead of just being collected at the retail cash register, it's levied on businesses at each stage of the supply chain until it's eventually passed on to consumers. The vast majority of other countries use VATs. But Republicans have a love-hate relationship with the concept, because they think it has facilitated European social welfare states by hiding the true cost of single-payer health care and other programs in the price of produce and T-shirts. Ronald Reagan once said that a "value-added tax actually gives a government a chance to blindfold the people and grow in stature and size." Today, you hear echoes of that from guys like anti-tax jihadi Grover Norquist.

Ultimately, traditional, anti-VAT conservatives are afraid that once the tax is in place, a future liberal president would be able to crank it up in order to fund their diabolical universal pre-K scheme without the public taking notice. Because "the VAT is a hidden tax that is collected by businesses, the workers and consumers who would pay the additional tax typically would not realize that government was to blame as their living standards declined," the Cato Institute's Daniel Mitchell has written. This concern is fundamentally absurd. Europeans are acutely aware of the VAT. But for whatever reason, this specific strain of anti-tax anxiety persists among a certain, very vocal contingent of the right.

But not all of it. The truth is that some Republicans are not-so-secretly longing for a VAT to call their own. Constitution thumper Ted Cruz? He proposed replacing the corporate income tax with a VAT during his presidential run, though he tried to creatively rebrand it a "business flat tax." Paul Ryan? He proposed doing the same thing even before Cruz. And it's no mystery why: For a political party whose guiding purpose is to reduce taxes on the wealthy, swapping a tax on capital with a tax on consumers makes perfect sense. It just also happens to make absolutely terrible retail politics, since it falls hardest on poorer and middle-class citizens buying essential things, so advocates of the idea need to be cagey about it.

The question is why anybody might think the VAT would succeed politically where border adjustment failed. The argument over the BAT is fairly complicated, but it mostly boiled down to this: Economists argue that taxing imports and subsidizing exports would lead the value of the dollar to rise enough to cancel out the extra cost to companies like Walmart that source lots of goods from abroad. As a result, there would be no need to pass the expense on to consumers. Skeptics aren't so sure the currency markets would co-operate so smoothly, and shoppers might get slammed. Consider Tom Cotton:

“But this is a theory wrapped in a speculation inside a guess. Nobody knows for sure what will happen because currency markets fluctuate daily based on millions of decisions and events. Just because an economist slaps an equation on a blackboard doesn't make it real. I'm concerned that these predictions simply won't pan out.

If we increase the costs of goods, people obviously won't be able to buy as much, which will hurt retail sales — and retail jobs too. The retail industry is the largest employer in the U.S., and its impact is broad. In Arkansas, for instance, retail supports one in every five jobs. Are we really going to impose a huge tax on the livelihoods of so many and say, “Oh, don't worry; it'll all work out in the end”? That's not a gamble many Arkansans I know would take. That's why we have to take a hard look at this proposal now.”

So politicians are afraid that border adjustment *might* make shopping for jeans more expensive. Why anybody thinks the senator from Walmart or his fellow retail defenders would be more open to a VAT, which would *absolutely* make shopping for jeans more expensive is a mystery. And as long as the VAT is paying for cuts to corporate taxes, it doesn't make much sense as a bipartisan olive branch to Democrats, who aren't going to be interested in raising the cost of groceries for their constituents in order to slash taxes on GE. None of this makes any political sense.

Maybe the *Post* somehow got its wires crossed. Perhaps someone in the administration suffered a temporary bout of insanity. Or maybe, just over three months in, the White House policy apparatus is spinning in place, without reason or direction. Your guess is good as mine.