Trump’s Proposed Tax Cuts Help Families, Benefit Nation

Daniel J. Mitchell

May 1, 2017

I like the main components of the Trump tax plan, particularly the sweeping reduction in the corporate tax rate.

But, as I say at the beginning of this *Fox Business* interview, there’s a big difference between proposing a good idea and actually getting legislation approved.

But just because I’m pessimistic, that doesn’t change the fact that a lower tax burden would be good for the country.

Toward the end of the interview, I explained that the most important reason for better tax policy is not necessarily to lower taxes for families, but rather to get more prosperity.

If we can restore the kind of growth we achieved when we had more market-friendly policy in the 1980s and 1990s, that would be hugely beneficial for ordinary people.

That’s the main economic argument for Trump’s plan.

But now I’ve come across what I’ll call the emotionally gratifying argument for Trump’s tax cuts. The *Bureau of National Affairs* is reporting that European socialists are whining that a lower corporate tax rate in the United States will cause “a race to the bottom.”

“U.S. President Donald Trump’s plans to slash corporate taxes by more than half will accelerate a ‘race to the bottom’ and undermine global efforts to combat corporate tax evasion by multinationals, according to a second political group in the European Parliament. The Socialists and Democrats, made up of 190 European Parliament lawmakers, insisted the Trump tax reform, announced April 26, threatens the current work in the Organization for Economic Cooperation and Development and the Group of Twenty to establish a fair and efficient tax system.”

As you might expect, the socialists make some nonsensical arguments.

“Paul Tang—who heads the Group of the Progressive Alliance of Socialists and Democrats and leads the European Parliament negotiations on the pending EU Common Corporate Tax Base (CCTB) proposal—accused the Trump administration of pursuing a ‘beggar-they-neighbor policy similar to those in the 1930s.’”

Huh?!? Does Mr. Tang think there were tax cuts in the 1930s?

That was a decade of tax increases, at least in the United States!

Or is he somehow trying to equate tax cuts with protectionism? But that makes zero sense. Yes, protectionism was rampant that decade, but higher tariffs mean higher taxes on trade. That's the opposite of tax cuts.

Mr. Tang is either economically illiterate or historically illiterate. Heck, he's a socialist, so probably both.

Meanwhile, another European parliamentarian complained that the U.S. would become more of a tax haven if Trump's tax cut was enacted.

"Sven Giegold, a European Green Party member and leading tax expert in the European Parliament, told Bloomberg BNA in a [sic] April 27 telephone interview that the Trump tax plan further cemented the U.S. as a tax haven. He added the German government must put the issue on the agenda during its current term as holder of the G-20 presidency. … The European Green Party insists the U.S. has become an international tax haven because, among other things, it has not committed to implement the OECD Common Reporting Standard and various U.S. states, including Delaware, Nevada and South Dakota, have laws that allow companies to hide beneficial owners."

He's right and wrong.

Yes, the United States is a tax haven, but only for foreigners who passively invest in the American economy (we generally don't tax interest and capital gains received by foreigners, and we also generally don't share information about the indirect investments of foreigners with their home governments).

Corporate income, however, is the result of direct investment, and that income is subject to tax by the IRS.

But I suppose it's asking too much to expect politicians to understand such nuances.

For what it's worth, I assume Mr. Giegold is simply unhappy that a lower corporate tax rate would make America more attractive for jobs and investment.

Moreover, he presumably understands adoption of Trump's plan would put pressure on European nations to lower their corporate tax rates. Which is exactly what happened after the U.S. dropped its corporate tax rate back in the 1980s.

Which is yet another example of why tax competition is something that should be celebrated rather than persecuted. It forces politicians to adopt better policy even when they don't want to.

That is what gets them angry. And I find their angst very gratifying.

P.S. You may have noticed at the very end of the interview that I couldn't resist interjecting a plea to reduce the burden of government spending. That's not merely a throwaway line. When the Congressional Budget Office released its fiscal forecast earlier this year, I crunched the numbers and showed that we could balance the budget within 10 years and lower the tax burden by $3 trillion (on a static basis!) if politicians simply restrained spending so that it grew 1.96 percent per year.

P.P.S. It’s worth remembering that the “race to the bottom” is actually a race to better policy and more growth. And politicians should be comforted by the fact that this doesn’t necessarily mean less revenue.

Daniel J. Mitchell is a top expert on tax reform and supply-side tax policy at the Cato Institute. Mitchell is a strong advocate of a flat tax and international tax competition