Rapid passage of tax reduction

Corporations, individuals, and markets anticipate rapid passage of President-Elect Trump’s tax reduction plan, which reduces almost all taxpayers’ burdens and brings down the top rate from 40% to 33%. The plan also reduces corporate taxes from 35% to 15%. It eliminates the estate and gift taxes, and it causes millions of Americans on the lowest end of the tax scale to pay no income tax at all.

The only way to achieve economic revival with the reasonable likelihood of between a 3 and 5% GDP growth annually is by implementing President-elect Trump’s major rehaul of the tax code at the earliest possible moment. The mid-term 2018 elections, particularly the ten senate seats now held by Democrats in states that voted for Trump, will in no small measure hinge on whether President Trump has succeeded in bringing about the tax reforms he promised during the campaign. If the reforms are delayed beyond the first 100 days, it will be more difficult to pass them later and results stemming from the reforms if not passed at the outset will arrive potentially too late to be felt by the 2018 elections.

Consequently, delivery of the President’s tax reduction package to Congress with rapid passage by the House and Senate must be job one. Some have advocated a bifurcated approach, where corporate tax deductions would be pushed through first and individual income tax reductions follow sometime thereafter. That is unwise because popular support for corporate tax reductions can be expected to be far less than for a combined individual and corporate tax reduction plan. Moreover, if only a corporate plan is offered, the opposition will rally on the proposition that the President did not really intend to deliver promised benefits for individuals and is but a tool of Wall Street. While that would be a false charge, it nevertheless will gain currency if the corporate plan is introduced without a simultaneous introduction of the individual plan.

With the planned corporate and individual tax reductions implemented, the American people and industry will enjoy profound increases in income that will fuel a dramatic revitalization of the economy. For the first time in years, most Americans will retain more income and experience a higher standard of living with more resources to spend and save. Businesses, particularly small and medium sized businesses, will undergo a cathartic release of pent up demand for introduction of new goods and services and will increase market activity together with hiring. More people will be employed, more choices will be supplied to consumers, and more innovation will arise, fueling a major expansion. There will be a palpable increase in the GDP with greater revenues entering the treasury. As Art Laffer has long explained, tax cuts of this magnitude are likely to increase tax revenues beyond current levels in years following the implementation of the cuts.

The tax reduction package, while enabling a major economic revival akin to the boom experienced following passage of Reagan's Economic Recovery Tax Act, must be accompanied by substantial and sustained deregulation. In particular, the Trump Administration needs to back passage of legislation that will prevent implementation of any proposed regulation by the regulatory agencies unless first adopted as law by Congress and signed into law by the President. Moreover, the agencies have in recent years used unilateral promulgation of guidance policies to circumvent the rulemaking process. The Administration needs to impose a moratorium on promulgation of guidance documents. In that way, a halt to expansion of regulation will occur in large measure, affording the President's team the chance to deregulate in earnest, removing all regulations that impose costs that exceed benefits and that encumber market entry and development.

Close attention needs to be paid to rulings made by the regulatory agencies in the rulemaking and adjudicatory contexts. Obama administrative agencies have spent the last eight years championing an anti-market agenda that has ruined many small and mid-sized companies without proof of actual harm stemming from alleged rule violations. President Trump should order his new agency heads to revisit Obama Administration regulatory decisions and reverse them wherever they have imposed sanctions on individuals and corporations that have not been proven to have caused actual injury to others or where the benefit said to be achieved is outweighed by the burden imposed.

In the end, neither the Constitution nor the market will experience restoration without replacing the administrative state with a return to direct congressional action, thereby causing the unelected heads of the agencies who are largely unaccountable to the courts, the Congress, and the American people to give up the law making powers (rulemaking powers) Congress has delegated them since the 1930’s in favor of a return of law making to Congress, as the Constitution prescribes.

Historically most new Presidents who have failed to push through the great bulk of planned legislation within the first year of their presidencies have been hard pressed to do so in subsequent years. President Trump will advocate passage of many pro-market and pro-defense reforms in the first hundred days. It will be critical for him to move first on rapid passage of tax reform together with repeal and replacement of Obamacare. Republicans in the House and Senate must avoid petty bickering and grand standing to support these reforms in unison. The margin for victory is thin in the Senate, and every Republican vote will be needed to ensure passage of the reforms.