The US Senate votes for tax cuts

The Republicans cleared a big hurdle this week with the Senate voting for a sweeping tax reform with substantial tax cuts for individuals and companies. It is true the Senate Bill and the House Bill still need to be reconciled, because there are differences between them. There could still be last minute problems which stalled the policy. However, the Senate vote and the House rhetoric implies that they do think they need to pull this off. The Republicans could ill afford a failure on tax reform after their public inability to agree reform of Obamacare. They need something to show for their year's debates. They are more likely to keep their majority in the mid term elections if they can show solid achievement.

The tax reform is also more likely to win them friends and voter support than the healthcare reform which divided the nation as Obamacare itself did. Whilst it is true some of the polling on the tax cuts themselves is not great, there will be huge support for measures which boost growth and take home pay. Voters often tell pollsters they do not in aggregate want tax cuts,especially if they think the cuts go to companies and people richer than themselves. They also tell politicians in the ballot box that if the politicians vote to put their taxes up or fail to support tax cuts they will vote for someone else instead. People may not welcome large company tax cuts, but they will welcome more investment, more jobs and better pay from companies that retain more of their profits, and they will like the boost to pension funds and other savings vehicles from a stronger corporate sector.

This large tax reform is a game changer. It is a substantial fiscal stimulus to the US economy as conventionally defined, with a costed $1.4 tn of giveaways over ten years. The US may end up collecting more tax than forecast as the rates are cut, as official forecasters often underestimate the dynamic positive effects on turnover and revenue from lower rates. The idea of persuading more companies to repatriate profits and cash to the US with a lower rate could also work, giving US companies much more money at home to invest to grow their US businesses.

There will be beneficial effects for the rest of the world economy as the growth rate of the world's largest economy accelerates. The rest of the world needs also to understand that with these tax changes the US will get more competitive, and will become a relatively more attractive place for investment.