



These are exciting times for investors as markets react positively to the potential of personal and corporate tax cuts that previously had been discounted. It would seem the President and the majority of Republicans support lower corporate tax rates, but there is likely to be a huge fight over personal tax rate cuts at the top and bottom of the income spectrum. Rallying against tax reductions for the wealthy while supporting reductions for the middle class may make great headlines, but they only serve to create more dysfunction and division. I fear these efforts damage the chance of meaningful tax reform. The most powerful portion of the tax reform package is corporate tax reduction and repatriation, not the proposed adjustments to personal tax rates.

Let's not forget the tax cut program is designed to stimulate our anemic and faltering economy. This is something that every American needs fixed so the benefits of a robust and growing economy can be enjoyed by Americans at all income levels. Every politician knows that an economy growing at 2.00% or less is not going to get the job done. They also know the extreme Fed monetary policy tools used to promote asset inflation and to create "wealth effect" consumer spending has run out of power to ignite further economic growth.

Fed Chair Yellen's recent admission that the Fed has been wrong on full employment and tight labor markets boosting inflation due to wage growth is downright frightening. They expected economic growth and inflation would rise, justifying

TAX REFORM DRIVES MARKETS HIGHER CONTINUED

their rate hike program as it had in past cycles. Surprisingly, they admitted they don't understand why the historical relationships are broken. Even more disturbing is that they think it prudent to stay the course on rate hikes and balance sheet reduction. Unfortunately, without faster economic growth further tightening only increases the likelihood they cause another recession. A recession could trigger a shift away from today's excess optimism and risk-taking by investors to pessimism and risk aversion. This move could blow a hole in the asset bubbles created by Fed monetary policy. Fortunately, this scary scenario has a good chance of being avoided if Congress acts in a bipartisan fashion to pass the proposed tax plan quickly.

The tug of war over whether tax cuts should be funded by cuts in spending, or be allowed to increase the deficit is a stumbling block to passage; laughable given that politicians from both parties have been complicit in a doubling of the deficit over the past eight years while they stood aside and watched. Congressional infighting and dysfunction have prevented Congress from performing their most important job function - passing a budget and controlling the growth of deficits. Now, as they position for mid-term elections in 2018, politicians from both parties will attempt to convince voters they are going to protect us from the dangers of larger deficits. Don't you believe it!

The Reagan tax cuts of the 80s proved the tremendous stimulative effect tax cuts can have on economic growth. This is the argument for "dynamic scoring"¹ to help recognize that spending cuts alone almost never allow for stimulus. Reagan's plan confirmed that economic growth tends to increase government tax revenues and can reduce deficits if growth in spending is controlled. As we all know, the real problem that causes mushrooming deficits is spending - not lack of revenue. Hopefully, taxpayers, who will have to foot the bill, will pay acute attention to what politicians do over the next year or so. Actions speak louder than words, let's see how they vote and if they are helping or hurting Americans.

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¹ **Dynamic scoring:** a tool to give members of Congress the information they need to evaluate the tradeoffs in tax policy changes and provides an estimate of the effect of tax changes on jobs, wages, investment, federal revenue, and the overall size of the economy.

