



STRATEGY MEMO

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TO: HOUSE & SENATE REPUBLICANS

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SUBJECT: THE PATH FORWARD ON RECONCILIATION

On November 5th, 2024, the American People spoke and delivered an electoral mandate for President Donald Trump to work with a unified Republican House and Senate majority to enact his policy agenda.

From November 5th to the President's Inauguration, the markets reacted favorably to President Trump's re-election, increasing by 6.3% in the Dow Jones Industrial Average (DJIA) and increasing by 5.5% in the S&P 500. Additionally, Bitcoin soared to a record-high from \$68,317 to \$108,786 on January 20, 2025!

Unfortunately, this excitement has leveled out over the past two months following President Trump signing his first tariff Executive Action and the ongoing anticipation of a volatile economic impact caused by tariffs – including the looming “Liberation Day” – April 2nd, 2025, where Trump's tariffs will potentially hit every country. Since Trump's Executive Action on February 1 the DJIA is down 5.7% and the S&P 500 is down 6.8%. Bitcoin is even down from its mark on February 1 at \$102,345 to \$82,397. President Trump has acknowledged there will be short-term pain on the US economy.

What do these Executive Actions on tariffs mean for Congress? Republicans are likely to lose their majorities in the midterm elections unless immediate pro-growth action is taken.

That's why it is so important now for Republicans on Capitol Hill to extend and expand Trump's 2017 tax cuts and cut federal spending to tame core inflation, which has ticked up by 0.4% in February 2025.

First of all, failure of passing the reconciliation bill is not option. Congress must take the difficult votes to enact Trump's policy agenda on taxes, federal spending, energy reforms, deregulation, border security, and national defense. This means Congress must agree upon a concurrent budget resolution that allows for a reconciliation bill to get one big beautiful bill to his desk to enact his pro-

growth agenda. This will prevent the Democrat's vision of the largest tax increase in American History -- \$4.5 trillion on all Americans.

In addition, by cutting wasteful spending Republicans will protect Americans from inflation. The past four years of Bidenomics and Bidenflation have caused more economic pain than any pandemic or virus. Following a closure of countless businesses and the elimination of over 22 million jobs, Congress joined Biden in spending \$7,095,000,000,000 above the CBO baseline. This colossal level of federal spending artificially kept the US economy out of a recession, but the private sector and the American People still felt enormous economic hardship through the hidden tax of inflation. Inflation hit historic highs – peaking at 9.1% in June 2022, the highest level in four decades. The cumulative inflation since January 2021 totaled 21.98%. Americans' buying power was reduced significantly where median households endured over \$30,000 in higher costs caused by Bidenflation. For large families, these costs doubled or were even higher.

Moreover, none of this takes into account the so-called regulatory dark matter – which is the regulatory and administrative state that added \$1.8 trillion in regulatory costs by the Biden Administration.

This week, Senators are expected to determine whether a current policy baseline will be utilized in the budget resolution and reconciliation bill. Club for Growth believes the current policy baseline must be utilized because this recognizes the basic reality that individuals, families, and businesses will see taxes increase by the highest level ever if Congress does nothing – but keeps the status quo if Congress simply extends the 2017 tax cuts. Therefore, Republicans must go even farther and expand the tax cuts to allow for pro-growth reforms and fulfill other promises made on the campaign trail that won at the ballot box.

Most importantly, Republicans must reduce the cost of capital to allow for an economic boom by returning to 100 percent bonus depreciation for short-term capital investments, returning to immediate expensing for R&D investments, enacting a more generous interest limitation, and expand expensing for structures through neutral cost recovery. Additionally, Congress must enact Trump's "No Tax on Tips" promise, end the taxation of overtime wages, and end punitive taxes on seniors, among other pro-growth reforms.

By doing all of this, Republicans will save American from the Democrats' \$4.5 trillion tax hike. Median households will avoid a \$1,600 annual tax increase which is a great start. But Congress also needs to reduce federal spending to tame higher costs so the hidden tax of inflation doesn't impact households the same way Bidenflation destroyed a generation of wealth.

Together, all of these reforms and policies will provide for the economic certainty to increase growth, prosperity, economic opportunity and freedom in America.

But if Congress fails, Club for Growth predicts economic calamity that will cost us the 2026 Midterm Election. By moving quickly and being successful, the economic gains through one big

beautiful bill will be felt ahead of the 2026 Midterms and Members of Congress will be rewarded for their courageous vote.