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THE TAX CUTS AND JOBS ACT: GROWTH POLICY OR GIVEAWAY?

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Dr. Holtz-Eakin spoke on October 4, 2018 at the titular event "The Tax Cuts and Jobs Act: Growth Policy or Giveaway?" sponsored by the Tower Center and the Bush Center.

The Tax Cuts and Jobs Act (TCJA) has emerged as a potent political issue in 2018. Opponents argue that TCJA is the source of budget deficits and rising debt, and that it is unfairly tilted to the fat cat rich and corporations and will be responsible for dangerous inequality.

Defenders point out that prior to its passage, the Congressional Budget Office (CBO) was already projecting $10.1 trillion in deficits over the next decade. TCJA reduced revenues by $1.5 trillion, or 3.5 percent of the $43 trillion projected total – hardly the dominant source of budget deficits (although there is still a good case that tax reform should have been revenue neutral). Moreover, the fairness argument does not jibe with the facts. Fully 77 percent of the tax cuts go to individuals or pass-through businesses. Getting only 23 percent is hardly skewed toward corporations. Over one-half of the 2019 individual tax cuts, $133 billion, go to those earning under $200,000 and the share of taxes paid by millionaires increase from 19.3 percent under prior law to 19.8 percent under the TCJA.

But the core defense is that TCJA is designed to improve growth. Has it? Will it?

There are lots of ways to collect preliminary evidence on the effectiveness of the Tax Cuts and Jobs Act (TCJA). One could check for increases in CEO and small business confidence. After all, sentiment can change quickly and is a good leading indicator of investment and growth.

Or one could check whether the large amount of overseas corporate earnings is being repatriated for use in the United States — it would be a bad sign if, post-reform, these dollars were viewed as more profitable when used overseas.

Another possibility is simply to look directly at non-residential (i.e., business) fixed (i.e., not merely inventories) investment or even top-line growth in gross domestic product (GDP).

I review the core changes in tax policy toward individuals, pass-thru businesses, and corporations with an eye toward better incentives for long-run growth. I then turn to the (difficult) task of assessing the data to evaluate the effectiveness of the TCJA. The latter task is complicated by the fact that passage was less than a year ago and the course of the economy will also be deeply affected by Trump administration regulatory, trade, and other policies.

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