



The Daily Dish

2020 Tax Cuts?

DOUGLAS HOLTZ-EAKIN | SEPTEMBER 10, 2019

Eakinomics: 2020 Tax Cuts?

Politico [reported](#) yesterday that Treasury Secretary Mnuchin announced, “[in] regards to a middle class tax cut, you know, we’ll be looking at tax cuts 2.0...next year.” He continued, “But right now, the economy is in very, very good shape.” Naturally, any time an administration starts talking about tax cuts, headlines will follow. But putting aside the pure retail political appeal of a cash drop on voters, the policy foundation for a tax cut seems weak at best.

First, Mnuchin is arguing that the economy is strong, so there is no case to be made for a pure, Keynesian stimulus tax cut. If the argument for a cut is not short-term stimulus, then the issue is incentives for longer-term growth. That is, what tax policies can promote saving, investment, innovation, and growth? One could imagine better tax-based growth incentives, but that is a matter for revenue-neutral tax reform, not a tax cut. With the [federal budget](#) already a threat to long-term productivity growth, any further increases in deficits and debt will likely swamp any improvement in incentives. The reality is that dealing with the fiscal trajectory will require all the growth the United States can muster, reform of entitlements to tame the government’s appetite for borrowed funds, and more — not less — revenue. The good news is that there remains a lot of [work yet to be done](#) after the last tax bill; there is revenue and improved efficiencies to be found from a broader tax base.

Second, suppose the economy is actually weaker than Secretary Mnuchin advertises. Then the logical thing to do is to remove the source of that weakness. Everyone outside of the 18 acres that is the White House compound knows that the problem is the president’s tariffs and related trade policy. Bad trade policy should not beget bad tax policy. Of course, getting rid of the tariffs is at odds with the protectionism and mercantilism goals that the administration is trying to disguise, so such a change remains unlikely. (As an aside, when will the White House figure out that it is completely contradictory to argue that the Chinese are paying for the tariffs, but that the tariffs are a good reason to move operations back to the United States? If U.S. firms and consumers bear no cost, why change anything?)

Finally, if changes in household tax policy are a good idea, why wait for 2020? Anything that is good should be proposed right now. Granted, it might not make it through Congress, but the president should be making the proposals and then taking the case to the voters.

I like low taxes as much as the next guy, gal, or (my) spoiled dog, but this proposal does not add up.