The Daily Dish

How to Learn Nothing About Tax Reform…

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On Tuesday the Department of Transportation (DOT) announced that they will be creating top-level positions to ensure President Trump's legislative priorities are being pursued and accomplished. According to The Hill, the goal of the new positions is to ensure that the DOT's "strongest talent" will be heading up the charge on the president's transportation related priorities. President Trump has vowed to invest heavily into infrastructure and upgrade the nation's airports.

Yesterday Vice President Mike Pence stated that the U.S. will work with Japan, as well as other allies, to address issues arising from an increasingly hostile North Korea. The Vice President assured the Japanese Prime Minister that the U.S. stands with Japan "100 percent" amid increasing provocations by North Korea. The President stated that "all options are on the table" when it comes to dealing with North Korean aggression.

Eakinomics: How to Learn Nothing About Tax Reform…

Well, at least nothing about the House "A Better Way" Blueprint for tax reform. This report by an esteemed team of analysts from the Tax Policy Center purports to be an analysis of the Blueprint, but they include in the analysis the repeal of roughly $1 trillion of taxes created by the Affordable Care Act, which the House Republicans have no intention of including in tax reform; instead repealing them in the proposed American Health Care Act. In the latter, they are offset by entitlement reforms, with the net impact being a reduction in the deficit.

Instead, the authors assume that these taxes are rolled in to the Blueprint and add $1 trillion to the 10-year deficit. At that point, none of the analysis — not the revenue effects, not the incentive effects, and not the distributional analysis — are about the Blueprint at all.

Nevertheless, the authors find that the Blueprint would raise after-tax incomes — the standard of living — across the income distribution. That should be good news for the analysis. After all, the single best thing for the working classes would be more innovation, more investment, higher productivity growth, faster real wage growth, and more rapid growth in the economy as a whole — precisely the effects the Blueprint was designed to produce.

So what happens when the authors turn to the growth effects? Whiff. They undertake two kinds of analyses. The first is a so-called "Keynesian" analysis focused on fluctuations of total demand around the supply potential of the economy. Since the U.S. economy is essentially at full employment, demand and supply are roughly equal. That means either (a) no impact from the reform, or (b) a modest boom as demand temporarily exceeds supply followed by negative growth as the economy returns to its long run trend. The authors find a positive near-term impact with no return to trend. This simply cannot be right.

The second analysis purports to focus on the long-term trend growth due to the impact on the accumulation of capital and supply of labor. It finds near-term boosts for the first six years, but negative impacts thereafter because deficits (which, recall are overstated) produce higher interest rates that inhibit investment and lower real wage growth harms labor supply. The net impact is negative over 10 years. How large are the jumps in interest rates and slumps in wages that turn economic gold into dross? There is no information whatsoever in the report. It is less an analysis than an assertion.

The U.S. needs tax reform that promotes investment, growth and higher standards of living in the United States. But it would be hard to identify such a reform with this kind of analysis.