



The Daily Dish

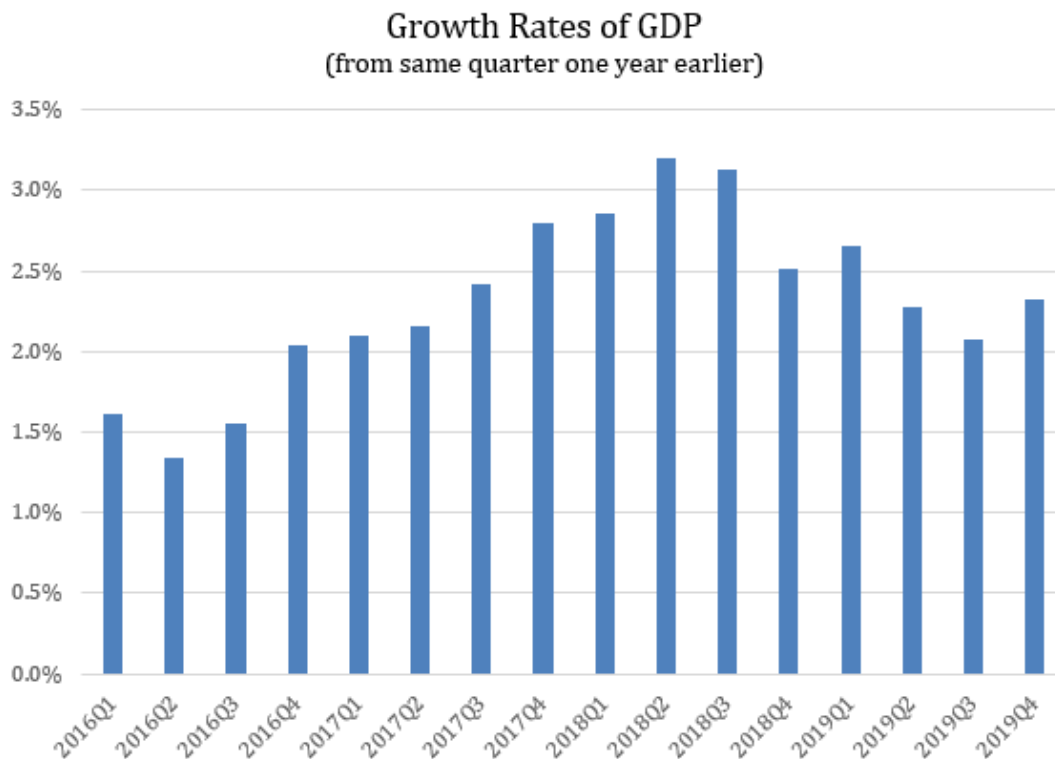
The TCJA Debate Simplified

DOUGLAS HOLTZ-EAKIN | FEBRUARY 14, 2020

Eakinomics: The TCJA Debate Simplified

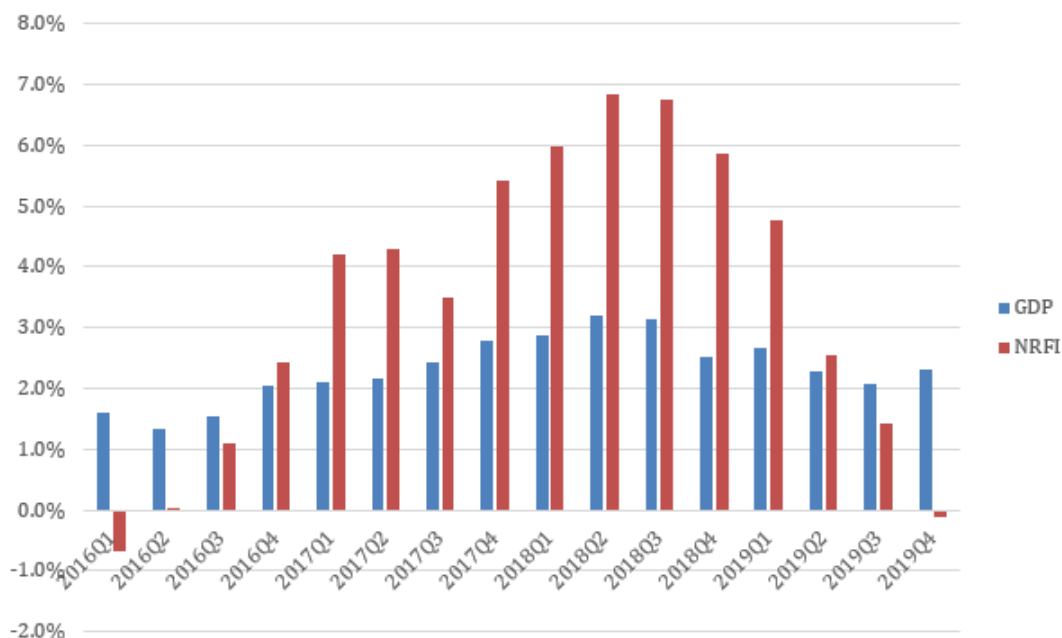
Earlier this week, I [testified](#) before the House Committee on Ways and Means regarding the “Disappearing Corporate Income Tax.” A key part of the debate over the Tax Cuts and Jobs Act (TCJA) is whether it “worked”: Did it improve incentives for business investment and raise the pace of economic growth? Here’s the debate in a nutshell.

The graph below shows the year-over-year growth in gross domestic product (GDP) each quarter since Q1 of 2016. Recall that TCJA passed in Q4 of 2017. Detractors, notably fellow witness Jason Furman (chairman of the Council of Economic Advisers during the Obama Administration), point to the fact that Q4 of 2016 and 2019 are roughly the same and claim that TCJA was just a “sugar high” tax cut that had some short-term effects but no long-run benefit.

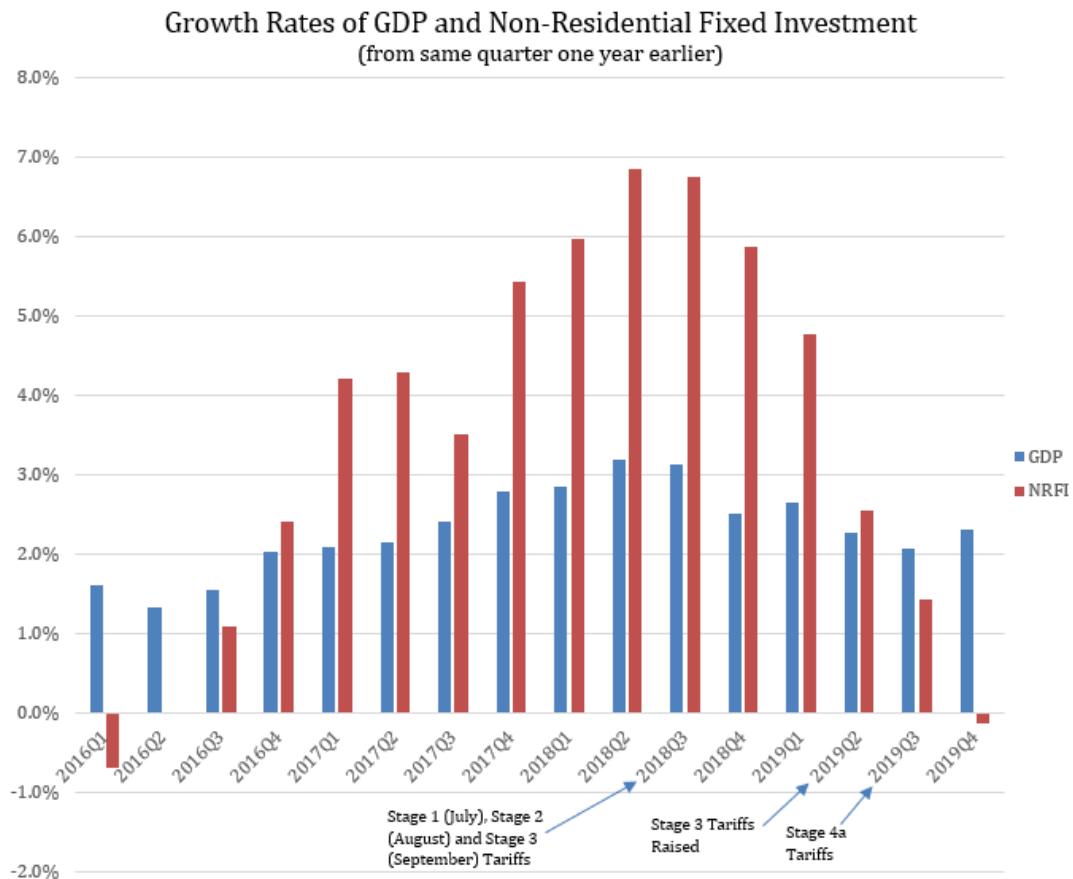


In contrast (see below), I argue that TCJA did make important changes. The ramp up and down in overall growth seen above is directly the result of a sharp increase in investment that raised growth exactly as advertised. Jason counters by arguing that investment in Q4 2016 and Q4 2019 are roughly the same (and by ignoring the intervening boom).

Growth Rates of GDP and Non-Residential Fixed Investment (from same quarter one year earlier)



It is just wrong to claim that the TCJA did not affect the growth rate of investment, but there remains the question of why it did not continue at a high level. Well, as shown below, President Trump chose exactly the peak, mid-2018, to start a whopping, humongous trade war with China. The resulting global downturn in manufacturing, uncertainty in the outlook for location decisions, and loss of executives' confidence sent investment plummeting.



The TCJA worked fine, but trade policy unworked it even more. Hopefully damaging trade policy is in the rearview mirror and the benefits of a pro-growth tax reform will once again become apparent.