Insight

What to Make of the JCT Dynamic Score

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Just in time to inform your Twitter feed, the Joint Committee on Taxation (JCT) released a macroeconomic estimate, or "dynamic score," of the Tax Cuts and Jobs Act (TCJA). Many critics of the tax bill have latched on to the report's key finding that the bill would increase GDP by 0.8 percent over the next ten years — well short of the amount of economic growth needed for the net tax cut to "pay for itself." But for serious analysts, this argument was always a straw man and its destruction shouldn't meaningfully alter the national tax policy debate. Instead, the JCT offers another very useful and unsurprising estimate of how changes in tax and budget policies can interact with the overall economy.

An important caveat is that there is a great deal of art in the science of economic modeling. Indeed, the JCT uses three models, each with its own debatable specifications as well as advantages and disadvantages, to estimate the macroeconomic effects of tax legislation. These models can produce a significant range of estimates. Indeed, when analyzing former Ways and Means Committee Chairman Camp's 2014 tax bill the JCT provided a range of $50 to $700 billion in budgetary feedback.

For the purposes of informing Congress, the JCT is required to distill this type of range into a point estimate. In the case of the TCJA, that point estimate was that the tax bill would generate enough growth to offset its top-line price tag from $1.4 trillion to about $1 trillion – a net $400 billion or about 30-percent feedback effect. This is a remarkable finding, and stands at odds with some critics' claims that largely dismissed these potential effects.

For some advocates of the tax bill, the JCT estimate is a disappointment, portending a mild economic bump rather than a supercharged jolt. But overly optimistic promises of economic growth from the TCJA are as unhelpful to a serious debate about tax policy as the fatuous strawmen thrown up by critics. There is a worthwhile debate to be had about the growth effects of good tax policy. Indeed, great tax policy *can* deliver significant growth effects, but no serious analyst was operating under the impression that this tax bill would be a text-book "optimal" tax reform.

The upper limit on the amount of growth from an income tax reform that could pass this Congress was probably in the 3-percent range. According to the JCT estimate, the TCJA falls short of that. Qualitatively, this is understandable, as the TCJA in the Senate includes a number of concessions to the legislative process, such as sunsets, higher rates, and other elements that should suppress the bill's growth effects. What observers are left with is a bill that would likely deliver somewhere north of no growth but less than 3 percent.

The JCT's dynamic score offers no great surprise. It doesn't repudiate serious arguments in favor of the bill, nor does it do the bills' fiercest advocates any great favors. Rather, it offers observers another useful, albeit hardly dispositive, reference point for evaluating tax legislation.