

THE ECONOMIC OUTLOOK GROUP



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ECONOMIC TALKING POINTS

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INSTANT COMMENTARY:

The White House Tax Plan - A One-Page Opus

President Trump's one-page tax plan is not just dead on arrival. It was stillborn the moment the ink dried.

Based on its few character letters that was supposed to outline "the largest tax cuts in history" plus comments made by Steven Mnuchin and Gary Cohn, we expect to see strong opposition in Congress and by most Americans in the country.

In terms of its design to boost economic growth, create jobs, and avoid a larger deficit, we can point to seven decades of history to show such naked supply side policies have consistently fallen short of those objectives.

Some brief thoughts:

- Those in Congress representing high tax states will violently reject any effort to instantly disallow the deduction of state and local taxes. These states typically provide the greatest tax revenue to the federal government. At best, we expect to see this deduction phased out over at least a five to ten year period.
- The announced plan will also end deductions for medical expenses. That will not go over well for households who are already deeply worried, if not furious, over how Washington has fumbled the process to replace Obamacare.

- Certainly deficit hawks will be scathing in their criticism because they expect this blueprint will explode the budget deficit and add trillions more to the \$20 trillion national debt.
- While the just announced tax plan seeks to encourage US firms to bring home \$2.6 trillion in foreign profits stashed abroad to avoid paying a 35% US tax, there is nothing in the plan that prevents these firms from using their home-bound earnings to just buy back more shares, or increase dividends to shareholders, or even boost the pay of top executives --- rather than hire more people and invest in their domestic operations!
- Did we see anything about immediate expensing of capital investments? Not yet.
- We know the White House and Congress want to pass this legislation via the reconciliation process, but that likely means the tax cuts will have to be temporary. But will companies really ramp up capital spending projects under such circumstances.

In the end, we come back to the fact that supply side economics has emerged from the grave once again, despite the fact that history and economic research have repeatedly discredited it. Yet the dogma lives on: Slash taxes and restore the invisible hand and a rip tide follows that will lift all boats. It is an idea that is profoundly simplistic and ultimately without merit. Frankly, whenever I hear someone suggest to me that tax cuts will pay for themselves, I instinctively place my hand over my wallet.

Look, the effort to introduce more fiscal stimulus into the economy is genuinely underway. But the bare bones plan we saw unveiled today is already conceptually flawed and unlikely to go far in Congress. The final product will bear no resemblance to the principal points highlighted in today's meager release. Certainly the first step in this process was unimpressive.

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