The Daily Item
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No Panacea for Economic Growth

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What is the rationale for a major corporate tax cut? The argument is that it would (1) increase the competitiveness of U.S. corporations, (2) stimulate economic growth resulting in increased investment jobs, and wages.

The reality is there is nothing in our experience or research to support these expectations. Our statuary corporate tax rates are higher than most of the other developed economies, but our effective rates is competitive globally. Reducing taxes may increase profits but higher profits do not automatically result in increased investment, jobs, or wages. Often, higher profits flow into stock buybacks, increased dividends for shareholders, and higher executive compensation.

We have come through a period of historic levels of corporate profits, leaving corporations with massive cash balances. There has not been an investment boom. U.S. and global economic growth has been tepid. Economic growth requires an increase in real productivity growth. Productivity growth requires many things: Technology, education, training, healthcare, infrastructure, and supportive economic policies.

Obama's economy is doing well and improving. Trump's deregulation focus and the prospects of major tax reform have created expectations for stronger growth; yet, his policies on immigration and trade will likely offset these. We need independent analysis of any serious tax reform proposal. The CATO institute and the Heritage Foundation will not do. The Congressional Budget Office will.