Trump Adviser Unfairly Attacks Tax Analysis: Economists

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Oct. 13 — Economists with Washington-based think tanks defended the Tax Policy Center's recent analysis of Donald Trump's tax plan, despite a Trump campaign representative calling the center's report "half-baked."

Peter Navarro, a business professor at the Paul Merage School of Business at the University of California, Irvine, and adviser to the Trump campaign, spent the majority of his remarks during an Oct. 13 forum on presidential tax policies hosted by the center discussing what he perceived as "malfeasance" by the TPC. He accused the group of liberal bias and criticized it for publishing its Oct. 11 analysis without dynamic scoring, which would include the macroeconomic impact of the plan.

He also faulted the center for failing to include Trump's larger economic agendas for energy and trade in its analysis. "They are living in a silo world where the only thing that matters is taxes," Navarro said.

Len Burman, the Robert C. Pozen director of the Urban-Brookings Tax Policy Center, said he has never had anyone lodge such critical remarks against one of the center's reports and defended the group's decision to publish the static results with a plan to update with macroeconomic effects at a later date.

Alan Cole, economist with the Center for Federal Tax Policy at the right-leaning Tax Foundation, which Navarro lauded in his remarks, defended the Tax Policy Center. He agreed that while some of Navarro's arguments are valid, there is "room to critique the Tax Policy Center from the right in a principled way, but I don't think that he should insult their character or call them overtly political."

Political Bias?

The Tax Policy Center labels itself as nonpartisan, but some of its work has been criticized by Republicans. Burman, one of the co-authors of the Trump plan analysis, served as the Treasury Department's top tax economist in the late 1990s under President Bill Clinton.

Cole conceded that the Tax Policy Center does tend to underrate the importance of economic incentives, which “is a left-leaning bias in a lot of ways.”

He, however, noted that the center didn’t completely ignore them in the Trump plan analysis. TPC’s report shows that Trump’s plan would increase incentives to invest due to the dramatic tax cuts on all income levels.

Chris Edwards, the director of tax policy studies at the Cato Institute, a libertarian think tank based in Washington, expressed similar sentiments. “The TPC has very good economists and they do a very good job,” he said.

Dynamic Versus Static

The other main accusation that Navarro made was that the Tax Policy Center should have held off on publishing its updated analysis until it could include a dynamic score, which would consider the effect of the tax changes on jobs, wages, investment, federal revenue and the overall size of the economy as opposed to looking at the numbers alone (static model).

According to Navarro, the TPC promised the Trump campaign that its report would provide a dynamic score. However, before the report was published, the center’s economists informed the Trump team that they had a bug in their system that would prevent them from modeling the macroeconomic effects in time for the initial analysis. This grievance was reflected in an Oct. 11 statement issued by the campaign.

Cole said he was glad the Tax Policy Center released its static estimate, even without the dynamic score. “Static analysis is valuable in and of itself,” he said. “Even a plan with pretty strong dynamic effects over a longer timeframe, what people care about in the very immediate term and what’s going to matter most and be most noticeable in the immediate term is the static effect of the tax plan.”

The Tax Foundation’s static estimate that the Trump plan would reduce revenue by $5.9 trillion over the next decade is consistent with the center’s projection of $6.2 trillion. In its dynamic model it estimates a much smaller decrease of between $2.6 trillion and $3.9 trillion.

Gene Sperling, former director of the National Economic Council and former assistant to the president for economic policy, showed distrust of the Tax Foundation’s dynamic estimates, illustrating that the concern over think tank bias goes both ways.

On Trump’s plan, the foundation found that repealing the estate tax would cost $240 billion on a static basis but $24 billion using a dynamic model. “I mean I am sorry but that’s kind of absurd on its face,” Sperling said. “Unfortunately, while I think the Tax Foundation does excellent work in many ways, their dynamic model—to me—allows people to think that they can drink chocolate malts and lose weight at the same time, and I don’t think that is responsible.”

Overcrowding

Navarro said he asked the Tax Policy Center to delay its report to wait on the dynamic estimates, but that the TPC’s Burman said the numbers wouldn’t change much because the tax deficits would be so large that they would drive up interest rates and create overcrowding. “That’s a lot of jargon thrown at you but I can sit down with you for 10 minutes and explain why that’s silly,” Navarro said.

Burman defended his statements during the Oct. 13 event. “When we do the dynamic scoring, what we do is we use models that are very similar to what’s used by the Joint Committee on Taxation and the Congressional Budget Office,” he said. “You said crowd out is ‘silly'—this idea that we could accumulate $5 trillion, $10 trillion in deficits and that it wouldn’t have any effect on interest rates the government was paying. I don’t believe that and I know the Joint Committee on Taxation doesn’t believe that,” Burman said.

Cole said the magnitude of the overcrowding problem is “very much up for debate,” so that was a decent point for Navarro to bring up. He added that based on what he knows of the model that the TPC uses and the center’s views on overcrowding, the Trump campaign is unlikely to approve of either score the group comes up with.

Cole estimates the Tax Policy Center’s dynamic score will be much higher than the foundation’s estimated $2.6 trillion reduction.

Eventually, the Trump team “will get what they want and they’re going to say they don’t like it,” he said.

Energy and Trade

Navarro and Wilbur Ross, chairman and chief strategy officer for WL Ross & Co. LLC, who also attended the TPC event, spent a large chunk of their allotted time discussing the fact that the TPC’s report is flawed because it doesn’t consider Trump’s other plans for energy and trade.

Ross said the rest of Trump’s plan when scored on a conservative basis would pick up $2.4 trillion in positive revenue offsets. That, in addition to spending cuts—which the campaign has yet to provide much detail on—would make the overall proposal revenue neutral when compared with the Tax Foundation’s low estimate of $2.6 trillion in reductions, Wilbur and Navarro said.

David Wessel, director of the Hutchins Center on Fiscal and Monetary Policy and a senior fellow in Economic Studies at Brookings, asked what would happen if Trump’s trade, regulatory and energy policies aren’t approved by Congress or his plans don’t produce the level of growth that Trump is anticipating.

Wilbur answered, “It’s no different from whether the stimulatory effects” of Clinton’s program don’t work. “There’s business risk in any of these programs, regardless of if there’s more tax or less.” He added that the campaign has been conservative with its numbers and built in a “considerable margin of error.”

Run Into Issues

Cole of the Tax Foundation defended the Tax Policy Center for not bringing in Trump’s wider policy plans.

A lot of people who have tried to simulate the effects of Navarro and the Trump campaign's view on trade, "have come up with very sharply negative effects," Cole said, mentioning the Peterson Institute for International Economics that Navarro directly criticized and Moody's Analytics.

During the event, in response to a question about whether Trump's trade plan would work if some trading partners didn't agree, Wilbur, mentioning Mexico and China, responded that "our main trading partners simply cannot afford a trade war."

Cole said one would be hard-pressed to find a constituency of economists viewing that approach as a solid plan to pay for tax cuts. "If you really want to dynamically score the entire package, you're going to run into some issues on how people view the Trump plan as a whole."

Edwards also supported the TPC on this issue, noting that providing analysis on larger economic plans is not its purpose. "The Tax Policy Center is set up to do tax analysis, not regulatory analysis."