The Street

The White House Thinks Its Tax Plan Can Do Everything

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The Trump administration thinks they've got the Swiss Army knife of tax plans on their hands.

White House officials have been out and about pitching their tax reform proposal in recent weeks and making big promises for their yet-to-be-written bill. They say it will boost wages, lift markets, foster stock buybacks, grow the economy and shrink the deficit -- claims that have been derided by mainstream economists.

The White House this week released an analysis claiming corporate tax cuts would boost average household incomes, *conservatively*, by $4,000 annually. Put together by Trump Council of Economic Advisers chairman Kevin Hassett, the report holds that slashing corporate taxes to 20% from 35% would be a boon for American workers.

Jared Bernstein, chief economist to former Vice President Joe Biden, slammed the report as "non-credible, trickle-down fairy dust." Former Treasury Secretary Larry Summers called it "absurd."

Cutting the corporate tax rate, as the Trump administration has proposed, would cost the government about $200 billion per year. The White House's math implies total income growth of about $500 billion, meaning workers would benefit by 250% of the tax cut for it all to work out.

Essentially, the White House is arguing that for every dollar they reduce taxes, they get two and a half times the boost to consumer wages.

"I just don't understand how you can come up with these numbers," said Greg Daco, economist at Oxford Economics, in an interview. "It doesn't mean that a reduction in the corporate tax rate doesn't have longer and potentially stronger effects in time than reductions in household taxes, but it just means the effects that are assumed in this study are too high."

The CEA report arrives at its numbers in part by assuming labor accounts for a significant amount of the corporate tax bill, while most government agencies agree that's not the case. The Treasury Department puts the capital-labor split at 82-18, and the Congressional Budget Office at 75-25. Hassett estimates the labor burden to be 45% to 75%.

To arrive at the report's numbers, one would have to decide that corporations would use their tax cuts to create jobs and pay employees, but there is scant evidence that's how it works. Corporations instead often decide to engage in stock buybacks and pay investors dividends.

National Economic Council Director Gary Cohn acknowledged as much in an interview with Yahoo Finance this week when discussing how he hopes companies handle the money brought back through another facet of the White House tax plan: a repatriation holiday. "If they buy back stock, okay so they buy back stock," he said.

In fact, that tax reform is good for investors is a pillar of the White House's pitch. Treasury Secretary Steven Mnuchin said in an interview with Politico's Money podcast released this week that markets will go up if a tax deal gets done and down if it doesn't.

Analysts say that might not be the case. Earnings and fundamentals are strong and suggest there isn't a lot of slack for a tax-induced pop or crash. "At the end of the day, this stuff is like chapters, but the book is the broader macroeconomic narrative," Mike Thompson, managing director at S&P Global Market Intel, said in a recent interview with TheStreet.

Mnuchin in his sit-down with Politico reiterated White House talking points that their tax plan would boost economic growth to more than 3% annually and instead of increasing the deficit shrink it. The budget currently making its way through the Senate that would set the rules for a tax bill allows for a $1.5 trillion increase in the deficit over the course of a decade, but Mnuchin said when all is said and done it will actually end up being $1 trillion in the positive.

"We fundamentally believe we should get this growth," he said.

"Three point five to 4% is a range that the leading economies, the richest economies, have never achieved on a sustained basis," said Jeff Miron, Harvard economist and director of economics studies at the libertarian Cato Institute, in an interview. "It is not mathematically impossible, but it's really unlikely."

"Deficit-financed corporate tax cuts, which is what the Administration is proposing, do not increase GDP, profits or incomes," said Mark Zandi, chief economist at Moody's Analytics in an email. "To be sure, the tax cuts lower the after-tax cost of capital, but the larger deficits increase interest rates and thus the cost of capital. The net impact on the cost of capital is thus roughly a wash. Deficit-financed tax cuts will not significantly increase investment, hiring, wages or anything else. The proposal significantly increases the nation's debt load with no meaningful economic benefit."