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Written by William P. Hoar on November 6, 2017

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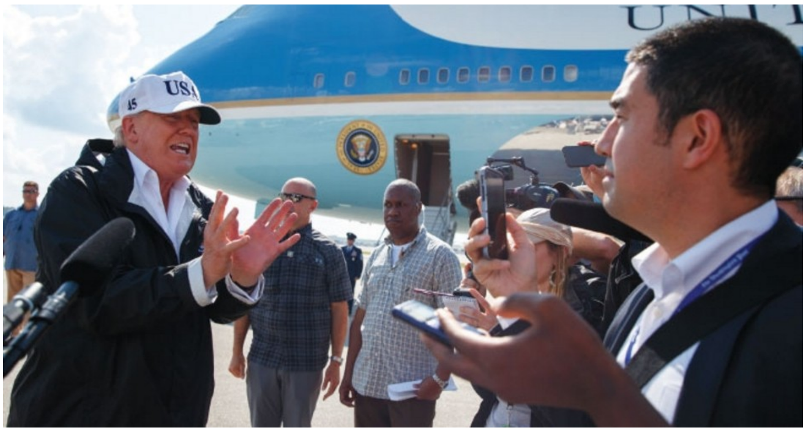
Correction, Please!

Want a Lift? Stop Hindering Business With High Taxation



Item: *The proposed tax overhaul, in terms of changing the amount of U.S. corporate taxation, was criticized in a* Washington Post *column ("Wonkblog") for September 28, which argued that there are not enough previous applicable time frames to make good comparisons. There has not been a major overhaul for corporate rates in the United States since 1986, said the Post writer. But, said columnist Heather Long, "other countries" have made such changes. And the conclusions of economists about the results "are all over the place."*

"'There's just not any evidence that there's a huge effect on wages or economic growth' if you cut business taxes, says Len Burman, co-founder of the Tax Policy Center, a think tank, and a former Treasury official under President Bill Clinton. 'It's irresponsible to overhype the claims.'"

Item: *Reuters reported on October 5 that "Democrats have assailed it [the tax reform plan] as benefiting the wealthiest Americans while raising taxes on the middle class and cutting spending on social programs, including the Medicare and Medicaid healthcare programs for senior citizens, the poor and the disabled.... The Trump tax plan would add about $2.4 trillion to the deficit over the next decade, said the nonpartisan Tax Policy Center, a Washington think tank, at a time when the national debt already exceeds $20 trillion."*

Item: *In an account entitled "There's One Clear Winner From Trump's Tax Plan: The Bottom Line of Giant Corporations," CNBC reported on October 4 about the Trump administration's tax reform plan, saying the beneficiary would be the corporate "bottom line." Estimates "being tossed around by Wall Street analysts have companies overall getting an extra 7 to 12 percent boost in profits, with some banks reaping 25 percent growth above current estimates."*

Item: *The* New York Times, in *a September 28 editorial entitled "The Republican Tax Boondoggle," maintained that the GOP "proposal depends largely on the discredited notion that cutting taxes on the rich will help everyone." Among other gripes, the editors noted that Republican leaders wanted to lower the corporate tax to 20 percent "from 35 percent," even though corporations "already pay a much lower effective tax rate."*

Correction: Left-wingers seem to believe that American businesses should be rewarded for ambition and success — with higher taxes. Moreover, proponents of heavy corporate taxation would have us believe that only the filthy rich — certainly not the workers! — benefit from any relief in the burdens placed on business.

The arguments of opponents are certainly all over the place. A piece in the *New York Times* (October 4), for instance, contended that cuts might be a "stimulus" — not in a good way, mind you, but for reviled "inequality." And the editors of the *Washington Post* reasoned (to use that word very loosely) that this current effort is "tax reform for cowards." One major supporting point offered: Americans "have no idea how much [President Trump] would benefit from his own tax plan."

Overhauling taxes is a complicated matter, and the details being debated in Washington are still in flux as we write.

In this column, we are largely concentrating on corporate taxation (and not dwelling on such extraneous matters as the contention that the president has not disclosed enough of his own tax returns to satisfy the *Washington Post*). *The Post*, for its part, prefers to ignore key analyses that conclude that such tax reform would increase wages by eight percent (in one example) or (in another example) lift the Gross Domestic Product by five percent over several years.

It's a competitive world. This affects workers and businesses, small and large. In September, the president of the Tax Foundation, Scott Hodge, testified on Capitol Hill about that matter, among others, before the Senate Committee on Finance. His comments deserve quotation *in extenso*. It is well-known, said Hodge, that

the 35 percent U.S. federal corporate tax rate is the highest among the 35 member nations in the OECD [Organisation for Economic Co-operation and Development]. However, U.S. firms also pay state income taxes. When the average state rate is added to the federal rate, American companies face an average U.S. rate of 38.91 percent tax on corporate earnings.

In a recent study, Tax Foundation economists compared the corporate tax rates levied by 202 jurisdictions across the globe and found that the United States has the fourth highest statutory corporate income tax rate in the world. The only jurisdictions with a higher statutory rate are the U.S. territory Puerto Rico (with a population of 3.7 million), the United Arab Emirates (population 9.4 million), and the tiny African island nation of Comoros (population 826,000).

From a tax perspective, most other countries look much more competitive than the U.S. The worldwide average statutory corporate income tax rate, measured across 202 tax jurisdictions, is 22.96 percent. When weighted by GDP, the average statutory rate is 29.41 percent — ten points lower than the U.S. statutory rate.

Making exact comparisons among tax codes in different nations is challenging, but they can provide a fair overview. Hodge also pointed out that America's major trading partners in Europe "have the lowest regional average rate, at 18.35 percent (25.58 percent when weighted by GDP). Conversely, among our major trading partners, Africa and South America tie for the highest regional average statutory rate at 28.73 percent (28.2 percent weighted by GDP for Africa, 32.98 percent weighted by GDP for South America)."

Photo: AP Images

Hodge also spoke to the counter-argument — as quoted in the *New York Times* above — that we should not pay heed to complaints about high corporate tax rates because some firms take advantage of the law and wind up paying less than the maximum. (That practice, it should go without saying, is what company accountants are paid to do.) As the Tax Foundation president put it:

> While we frequently hear the excuse that "nobody really pays the headline rate" because of loopholes in the tax code, the fact is, the tax codes in other countries also have loopholes. This means that the effective corporate tax rate in those countries is typically well below our effective rate.

Lowering the corporate tax rate to at least 20 percent, in his common-sense-view, "would instantly make the U.S. more competitive, while reducing the incentives for profit-shifting and inversions."

Should America be more competitive in the world or less? Will high corporate taxation make us more competitive or less competitive? If the answers to those questions are obvious, you probably have common sense.

The situation is basic. The level of our tax burden does affect growth rates. And we have been hurting ourselves. Writing in the *Orange County Register* (California), Grover Norquist, president of Americans for Tax Reform, puts it clearly:

> Our present corporate income tax rate of 35 percent is higher than any other major nation. China has a 25 percent tax rate. How did we expect to create jobs and opportunities here at home weighed down by taxes higher than a communist country? Russia's top corporate rate is 20 percent. Canada's is 15 percent (federal rate). The European average is just above 20 percent. This rate cut makes America competitive in the world once again.

Viewing such facts, many see tax reform not as a pleasant indulgence, but a vital necessity. The world has changed since the reforms of 1986. This is a point made not long ago by Glenn Hubbard, the dean of Columbia Business School; Hubbard was also the chairman of the U.S. Council of Economic Advisers under President George W. Bush. Hubbard also has noted that there is now more global competition — at a time that the United States has put itself in a disadvantaged position by having higher corporate tax rates that our competitors. This has discouraged firms "from investing, hiring and even maintaining their headquarters in the U.S."

Meanwhile, continued Hubbard, "much of the burden of the corporate tax is borne not by owners of capital (the professional wisdom in 1986), but by workers, as wages are held back by tax-induced underinvestment and insufficient productivity growth."

However, there are still very influential "experts" who downplay or will not acknowledge the advantages of tax cuts. The Tax Policy Center, a joint project of the Urban Institute and the left-leaning Brookings Institution, falls into that category. Others in this corner actually do the official "scoring" for politicians on Capitol Hill, namely, the Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT). The latter organizations, as the *Wall Street Journal* (among others) has noted, "consistently underestimate the effects of tax cuts on capital and labor." Such projections are very convenient for left-wingers, who enjoy the cover it gives their opposition to cuts.

Many opponents of tax cuts also have become, rather suddenly, outspoken about the ills of deficits and debt — despite the fact that they were silent for many, many years amid wild spending that ran up the national debt. Now they insist that taxes shouldn't be cut, lest the deficit grow. (Knock, knock: *How about spending less?*) One such well-publicized forecast by opponents of cuts, made even before details were available about the tax plan, came up with a huge projected increase in the deficit.

Nonetheless, pointed out the *Wall Street Journal*, the proposal in question really does not mean

> the deficit will increase by $1.5 trillion. CBO's slow-growth gnomes assume that the economy will grow at a limp 1.9% on average over the next 10 years — a rate even slower than the 2% of the Obama years. CBO says this will turn up about $43 trillion in revenue. Yet a return to 3% growth — the historic average — would produce at least $2.5 trillion more revenue over 10 years.

The official scorekeepers have a record that can be checked. The record of the projections is impressive only insofar as their inaccuracies. "We know," writes economic policy analyst Stephen Moore, "from the Reagan tax cuts, the Kennedy tax cuts, the Clinton capital gains tax cuts and so many other historic changes in policy that the CBO and JCT often aren't even in the right ZIP Code in predicting responses to big policy changes."

Another prominent economist and commentator, Larry Kudlow, has reminded us that tax-cutter Kennedy was indeed a Democrat, and that the reductions that passed under President Reagan came with significant bipartisan majorities. But, as Kudlow wrote recently, "today's Democrats have written JFK's tax story out of the history books (never mind Reagan's)." He went on to say:

> The argument that the U.S. is doomed to 2 percent or less growth — commonly called "secular stagnation" — no matter what we do in terms of tax policy, is nonsense. During the JFK era, across-the-board tax cuts produced annual growth above 5 percent. And after tax cuts were fully implemented in 1983, real growth averaged 4.6 percent for the remainder of Reagan's presidency. Treasury Secretary Steven Mnuchin and National Economic Council Director Gary Cohn are touting the 3 percent growth scenario, saying it will pay for the tax cuts. But the naysayers refuse to admit that tax-rate incentives matter.

Also, if you believe that only a faceless corporation benefits from a tax cut, you are not thinking about the larger picture. Corporations, explains Cato Institute economist Ryan Bourne, might "pay the corporate tax in a legal sense. But its cost is ultimately borne by some combination of shareholders (through lower dividends or less valuable shares), workers (through lower wages), and consumers (through higher prices)."

As Heritage Foundation president Ed Feulner recently remarked, there a lot of misperceptions out there:

> "Across the U.S., corporations employ 54.8 million hard-working individuals who create products for global and domestic markets," writes tax expert Adam Michel. "Corporate profits also are ultimately claimed by people. More than half of Americans invest in the stock market, and almost 40 percent of corporate stock is owned through retirement plans."

Moreover, if U.S. corporate tax rates go down, the chances that the GDP will go up are very high. Indeed, as we write, Kevin Hassett, the chairman of the Council of Economic Advisers, has concluded: "The truth is that a tax cut like this very conservatively will increase the median wage by about $4,000 a year over a relatively short time." There is, of course, a potential obstacle: It's called the U.S. Congress.

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