America’s Tax-Cut Peronists

By Simon Johnson *Thu, Nov 2, 2017*

'Facts used to matter in Washington, at least a little bit. But this is no longer the case in the age of Trump, at least not when it comes to taxes,' writes the MIT Sloan School professor and former chief economist of the International Monetary Fund.

Name the country. Its leader rails against foreigners, erects various import barriers, and pushes for low interest rates and lots of cheap credit for favored sectors. Government debt is already high, but the would-be strongman in power decides to pile on even more by increasing the budget deficit, arguing that this will boost prosperity to previously unattainable levels. While the government claims to represent the common people, state contracts are awarded to friends of friends.

The answer, of course, is Argentina under Juan Perón, who was in power from 1946 to 1955 (and again briefly in 1973 and 1974), and many of his successors. One of the richest countries in the world around 1900 was laid low by decades of unsustainable economic policies that made people feel good in the short run but eventually ended in disaster, such as runaway inflation, financial crisis, and periodic debt defaults. (To be clear, Argentina’s economic policies today are quite different; for deep and up-to-date analysis, I recommend the work of my colleague Alberto Cavallo.)

But if your answer was the United States under President Donald Trump, you would not be far off. There is reason to fear that the US is now on the path to what was previously known as Latin American populism.

Consider the remarkable volte-face of the Republican Party on fiscal responsibility. There used to be a national debt clock in the hearing room of the House Financial Services Committee, and Republicans would rant about government profligacy as it ticked upward. When I was in that room recently, the clock was “under repair.”

Self-proclaimed “fiscal conservatives,” such as Mick Mulvaney (a former member of the House of Representatives who now runs government finances as head of the Office of Management and Budget), are close to enacting a massive tax cut, despite knowing that it will drive up the deficit and the national debt. Mulvaney and his colleagues could not care less.

Despite controlling both Houses of Congress and the presidency, the Republicans are beset by internal divisions. As a result, they are finding it hard to “pay for” the tax cuts with any reduction in tax expenditures (incentives for various activities such as corporate borrowing, mortgage financing, or retirement saving). But Republicans are deeply committed to gigantic tax cuts, in large part because their donors are demanding that they enact them. As a result, the US will merely end up with bigger budget deficits.

Facts used to matter in Washington, at least a little bit. But this is no longer the case in the age of Trump, at least not when it comes to taxes. Instead, the strategy has been to state, in a bald-faced manner whatever one wants to believe and heap ill-mannered abuse on anyone who cites evidence to the contrary.

In Chapter 3 of White House Burning, James Kwak and I reviewed what happened after the tax cuts enacted in 2001 under George W. Bush. Great promises were made about the cuts, including that they would help most Americans. But while they did help rich people become richer, there is no evidence that they delivered faster growth or higher incomes for the middle class. Instead, they boosted the budget deficit and contributed significantly to increasing the US national debt (by around $3 trillion through 2010), which weakened the government’s ability to respond to crises, either in terms of national security or financial instability.

I have testified repeatedly before Congress on matters of fiscal policy. During the financial crisis of 2008-2009, Republicans were certainly interested in the facts. But this quickly tapered off, most notably in the House of Representatives. In fact, Kevin Brady, the representative who told me most clearly that he was not interested in looking at even moderately inconvenient facts, is now Chair of the House Ways and Means Committee, which plays a key role in what happens with taxes.

Ron Wyden, the senior Democrat on the Senate Finance Committee, calls the proposed Republican tax cuts “a middle-class con job.” He is being polite.

The cut in corporate taxes that the Republicans are likely to support will not boost wages significantly. As the Congressional Research Service, describing the broader blueprint put forward by House Speaker Paul Ryan, has put it, “the plan’s estimated output effects appear to be limited in size and possibly negative.”

Including all possible positive effects of the Republican proposals, the Tax Policy Center has concluded that federal government “revenue would fall by between $2.4 trillion and $2.5 trillion over the first ten years and by about $3.4 trillion over the second decade.”

The Trump administration has responded to this type of sensible, fact-based analysis in the way one has come to expect: by being rude.

American populism in the Trump era, though promising great gains for working people, will in fact benefit only those who are already rich. To be fair, this is quite a twist on anything Perón could have imagined pulling off. The results of irresponsible populism, however, are always the same.