

Activated Knowledge/Ignorance or Inert Information?- case of tax cut

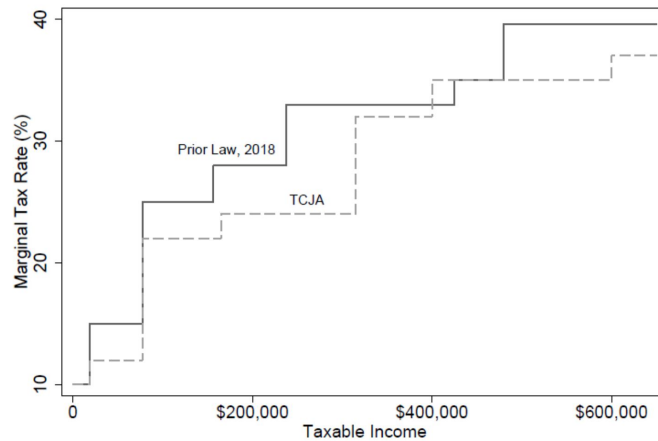
One consequential ongoing debate facing our society is the one surrounding the efficacy of tax cuts, particularly those designed to benefit wealthy private individuals and large corporations. This debate is of great importance and relevance because it is an issue that lies at the heart of the current political discourse and is sharply divided along party lines. In recent years, the debate has been of particular prominence as liberal politicians have fought for tax hikes on the wealthy, while conservatives have made tax cuts and “trickle down” policies a central element of their proposed monetary policy. Like the climate change debate, the tax cut debate is particularly interesting to critical thinkers, since it is one in which both sides present opposing “facts” to support why their viewpoint is better for the economy as a whole. While a full examination of this issue requires complex economic analysis for which I am woefully unequipped, I hope to address it to the extent possible in the context of this project.¹⁶

My current stance on this issue is rather undeveloped and not particularly scientific, but the impression I have received from family members and classmates over the years is that tax cuts on wealthier individuals benefit the economy as a whole by increasing the amount of spending, which then stimulates the economy. For example, cutting taxes might enable a couple to buy a new car, which will result in employment for the factory workers who manufacture it, the salespeople who sell it, and the advertisers who advertise it. In this way, the increased disposable income of the one couple finds its way throughout the economy, benefiting people on every rung on the ladder. This principle would also expand to corporations, since lower taxes would result in increased investment, benefiting workers. Thus, I would be in favor of policies that result in tax cuts with the goal of benefiting the economy. I would also be skeptical of tax hikes, since they have the potential to reduce spending and result in the exact opposite effect—taking away jobs.

In order to conduct research for this project, I used the Google search tool to find relevant articles, studies, and graphics. While I did primarily use the normal search tool, I also used the image search tool to streamline the process of finding graphs, though I ultimately ended up using graphs from the articles I found. I tried to keep my methodology in this part of the project as neutral as possible, for example I did not google “tax cuts evil” or any other similarly charged search terms. The searches I used were:

- “Tax cut result”
- “2018 tax cut results”

FIGURE 1
Marginal Tax Rate by Taxable Income



¹⁶ Graph: William G. Gale et al., "Marginal Tax Rate by Taxable Income," digital image, EFFECTS OF THE TAX CUTS AND JOBS ACT: A PRELIMINARY ANALYSIS, June 13, 2018, https://www.brookings.edu/wp-content/uploads/2018/06/ES_20180608_tcja_summary_paper_final.pdf.

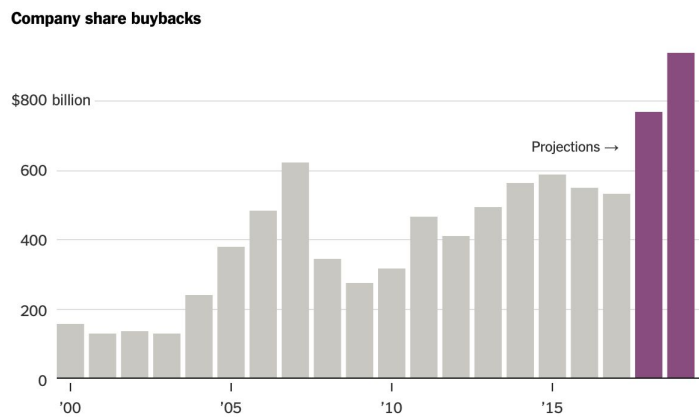
- “Tax cut results business investment”
- “Tax cut graphs”

Most of the sources that resulted from these searches were either economic-focused news outlets or foundations. As my first line of defence in ascertaining the legitimacy of any given source, I tried to stick to websites whose names I recognized. Additionally, I steered clear of sources with names that gave any indication party identification or political leaning. This stipulation precluded me from using some of the foundations that came up. For the Brookings Institution I conducted another search to see if it had a strong documented party leaning, which it does not, being labeled “centrist.”¹⁷ Fortunately, because this debate is both a prominent, current, and economic one, there is no a shortage of coverage by legitimate news sources with strong numerical and graphical analysis. Since most of the sources I found were news sources, they tended to place an emphasis on the most recent tax legislation, which reflects the fiscal policy of the Trump administration. While this particular set of tax cuts might not reflect the possible effects of any tax cut at any time in the past, it can serve as a acceptable illustration of the factors at play.

The general consensus of the available, seemingly-unbiased articles is one of decent skepticism towards the ability of the current tax cuts to make a positive impact in a redistributive way. While this could be a result of my Google searches or a potential variation of the

“publication bias,” in which news outlets might feel more inclined to publish critical articles, the overarching trend does seem one of ambivalence toward the most recent tax cuts. One common theme in many of the articles is the question of whether companies are spending the tax cuts in a redistributive way such as through raising employee salaries or investing in productivity-increasing technologies, or whether they are being spent on things that have a lower impact on everyday Americans. One article I read suggested the results were

mixed, stating that “many companies are returning huge portions of their billions in tax savings to shareholders in the form of share buybacks and dividend increases — not necessarily new hiring and investment.”¹⁸ This trend is echoed in the graph above, which shows the increased level of projected share buybacks in post-tax reforms. While this way of spending the tax cuts



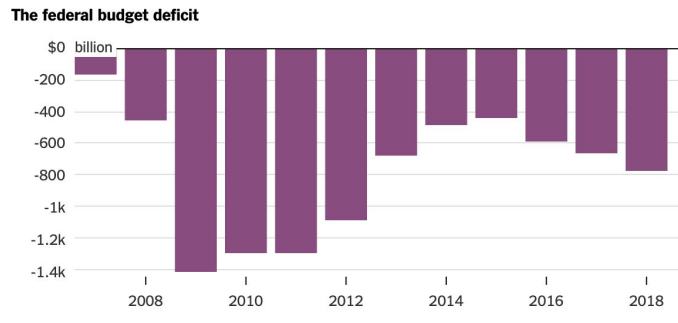
By The New York Times | Source: Goldman Sachs

¹⁷ "In Economy Speech, Obama Offers Tax Breaks and Spending Programs," Washington Post, December 9, 2009, , <http://www.washingtonpost.com/wp-dyn/content/article/2009/12/08/AR2009120803928.html>.

¹⁸ Alix Langone, "How Companies Are Spending the Trump Tax Cuts | Money," Time, May 17, 2018, <http://time.com/money/5267940/companies-spending-trump-tax-cuts-stock-buybacks/>.

might result in “a flood of payouts to shareholders, both as buybacks and dividends,” it does not have the beneficial trickle-down effect I had expected.^{19 20}

Another crucial point mentioned by most of the articles is that the tax cut results in higher government deficits, because tax revenues naturally decrease. This trend is shown in the graph



By The New York Times | Source: U.S. Department of the Treasury

on the left.²¹ In his analysis of the cuts, Paul Krugman states that “anything that increases the budget deficit should, other things being the same, lead to higher overall spending and a short-run bump in the economy.”²² This quote is troubling since it suggests that the effects of such policies are not long-lasting in the way conservatives often suggest they will be. Another issue with the heightened government deficits caused by tax cuts is the fact that they must eventually be paid

for. This point is mentioned in a Brookings Institution study which states that “if it is not financed with concurrent spending cuts or other tax increases, TCJA (Tax Cuts and Jobs Act) will raise federal debt and impose burdens on future generations,” but even “if it is financed with spending cuts or other tax increases, TCJA will, under the most plausible scenarios, end up making most households worse off than if it had not been enacted.”²³ This analysis of the budget deficit resulting from the tax cuts demonstrates that the issue is not as clear cut as I had initially believed. Specifically, the sources highlight the fact that any money given out through tax cuts must come from somewhere, which can result in other tax increases or decreased social services—both decidedly negative and counterintuitive outcomes. Additionally, the higher deficit can result in a depressed economy in the long-run, presenting another counterintuitive outcome.

While I do think that, before this examination of the tax cut question, I had the intellectual humility to admit my lack of expertise, my prior view would nevertheless fall into the category of activated ignorance. Perhaps, however, my prior information would be a little less “activated,” since I was not entirely sure of it and thus less likely to act on it. The research conducted as a part of this assignment did not completely refute my initial assumptions, since it

¹⁹ Jim Tankersley and Matt Phillips, "Trump's Tax Cut Was Supposed to Change Corporate Behavior. Here's What Happened.," The New York Times, November 13, 2018, <https://www.nytimes.com/2018/11/12/business/economy/trumps-tax-cut-was-supposed-to-change-corporate-behavior-heres-what-happened.html>.

²⁰ The New York Times and Goldman Sachs, "Graph of Company Share Buybacks," digital image, New York Times, November 12, 2018, <https://www.nytimes.com/2018/11/12/business/economy/trumps-tax-cut-was-supposed-to-change-corporate-behavior-heres-what-happened.html>.

²¹ The New York Times and The U.S. Department of the Treasury, "Graph of Federal Budget Deficit," digital image, New York Times, November 12, 2018, <https://www.nytimes.com/2018/11/12/business/economy/trumps-tax-cut-was-supposed-to-change-corporate-behavior-heres-what-happened.html>.

²² Paul Krugman, "How's That Tax Cut Working Out?" The New York Times, April 30, 2018, <https://www.nytimes.com/2018/04/30/opinion/republican-tax-cut-workers.html>.

²³ William G. Gale et al., "Effects of the Tax Cuts and Jobs Act: A Preliminary Analysis," Brookings.edu, June 14, 2018, <https://www.brookings.edu/research/effects-of-the-tax-cuts-and-jobs-act-a-preliminary-analysis/>.

did show that the basic assumption that lower taxes can lead to higher investment is correct. The sources did, however, also show that there is much more to the issue than I had originally allowed for. For example, I had not considered the effects of increased budget deficits or the possibility that firms and individuals could spend the tax cuts in self-interested ways. Thus, my assumption was activated ignorance because it does not reflect the complexity of the whole picture. Even if there is some truth to it, it does not come close to describing the reality and is consequently a dangerous assumption to operate under. While I do not think that I would change my views on this topic dramatically, I do think that I should update them to reflect the information found in this project. Notably, I would want to include the fact that in economics the effects of a fiscal policy change are never simple. Thus, I should not have taken such a simplistic “cause and effect” view of the situation.