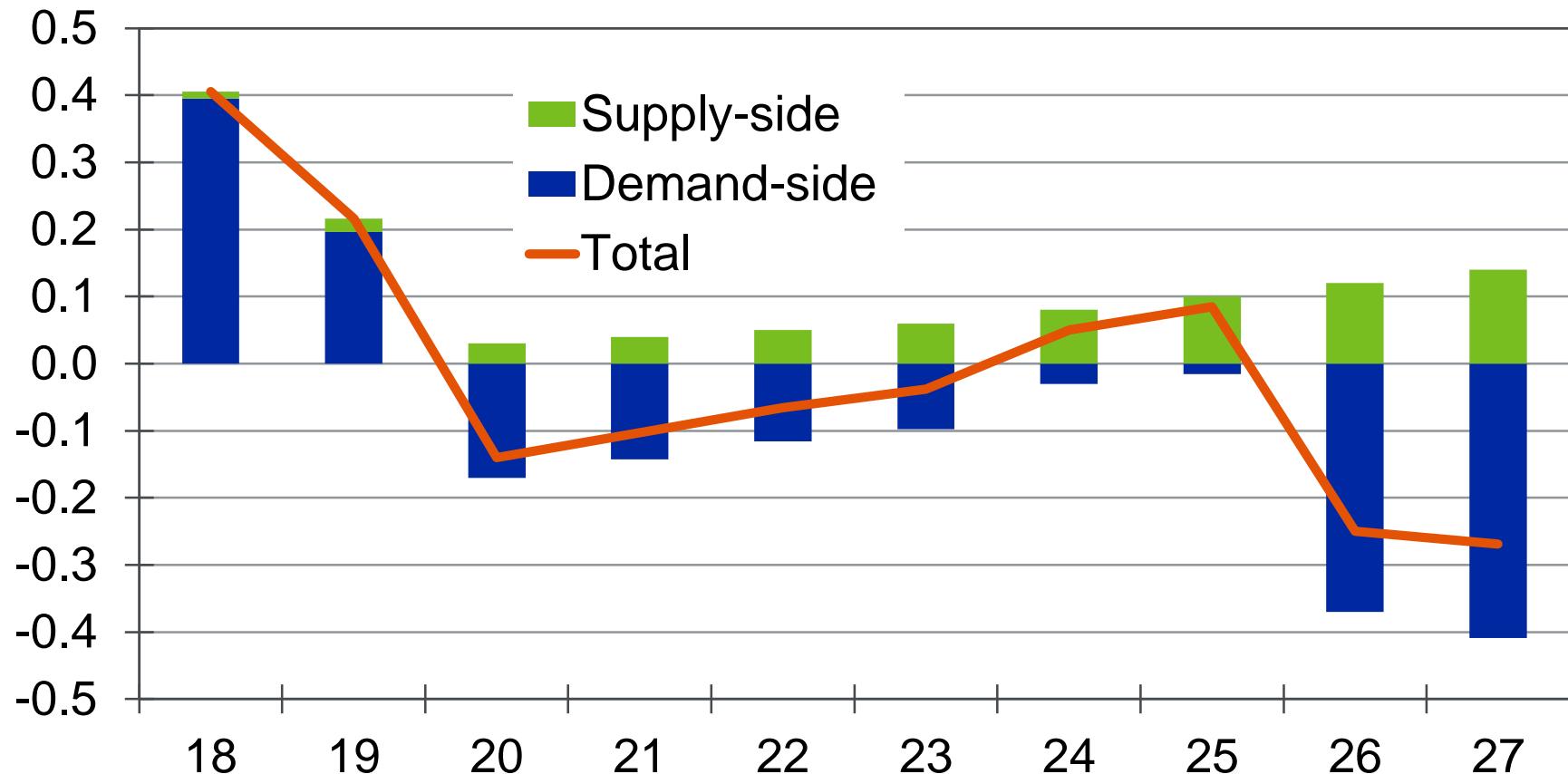


# Assessing the Trump Tax Law

April, 2018

# The Tax Law Provides Near-Term Stimulus...

Difference in real GDP growth due to tax law



Sources: BEA, Moody's Analytics

# ...But is Largely a Long-Term Wash

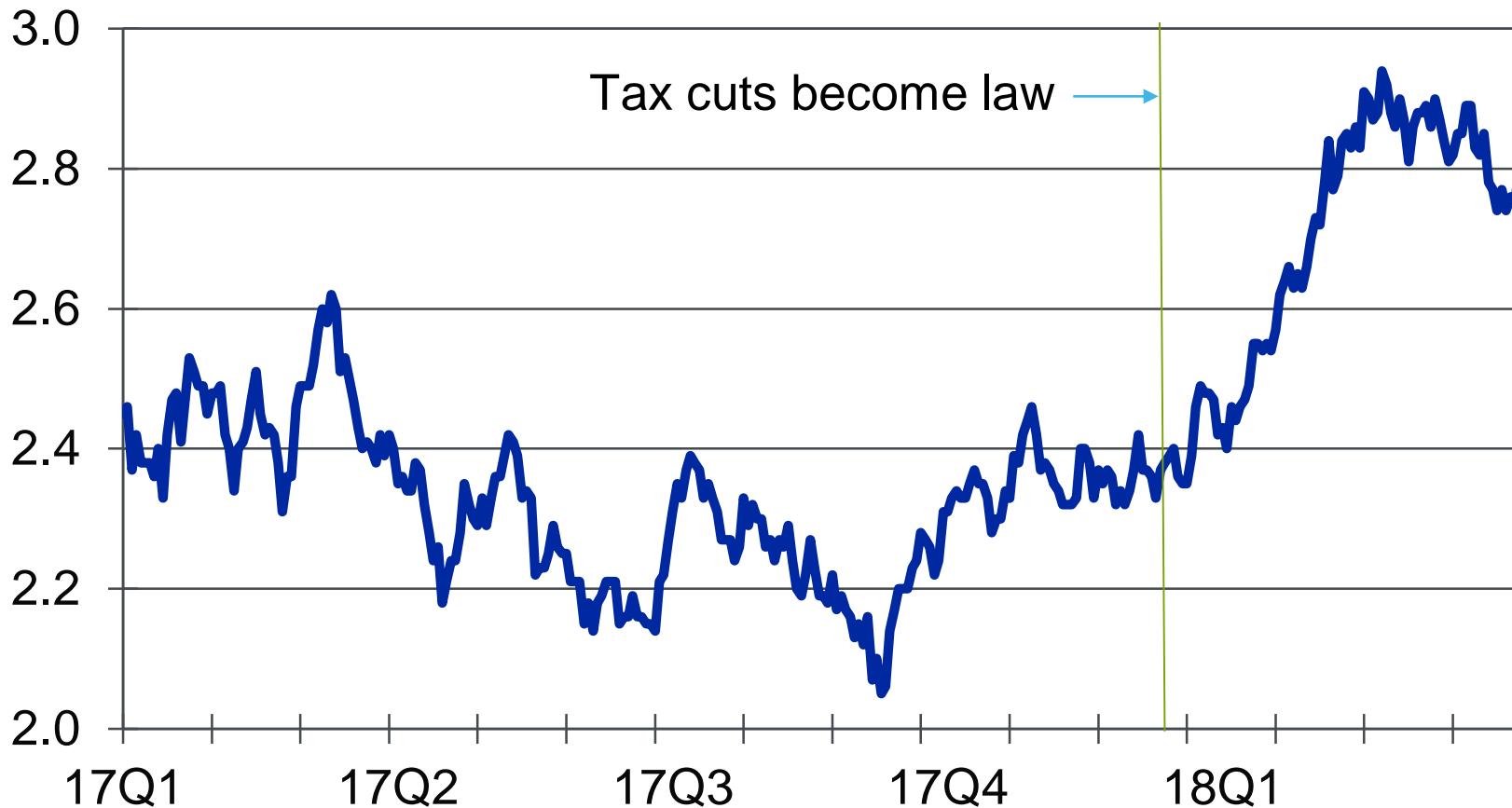
Economic impact of tax law

	2018	Long-Run
Real GDP growth (%)	0.40	0.05
Employment (Ths)	557	0
Unemployment (ppt)	-0.29	0
S&P 500 growth (%)	4.8	0.04
Federal Funds Rate (bps)	0.19	0.05
10-Year Treasury (bps)	0.31	0.28

Source: Moody's Analytics

# Rates Rise On the Deficit-Financed Cuts...

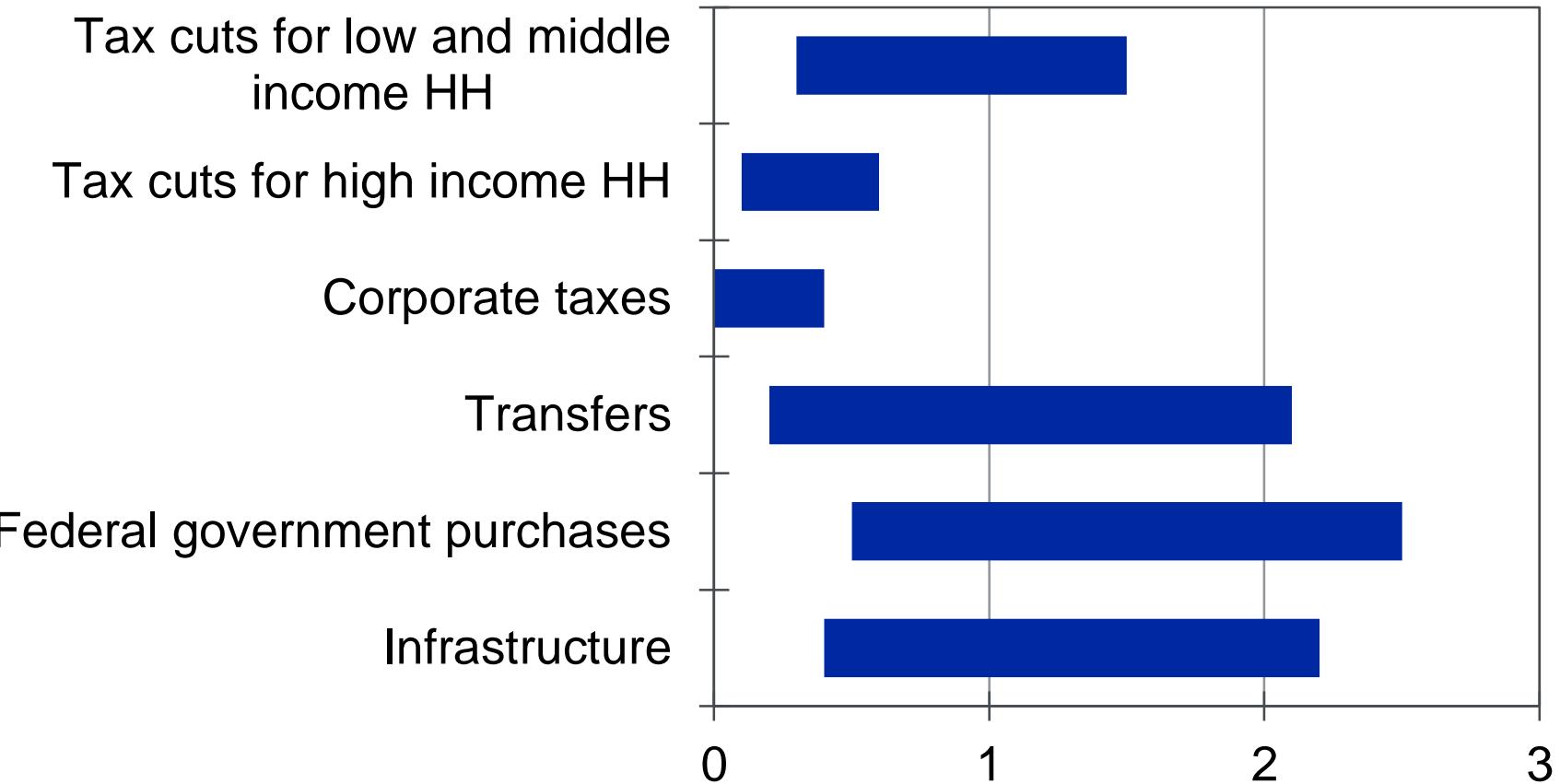
10-year Treasury yield, %



Sources: Federal Reserve, Moody's Analytics

# ...and the Multipliers are Small

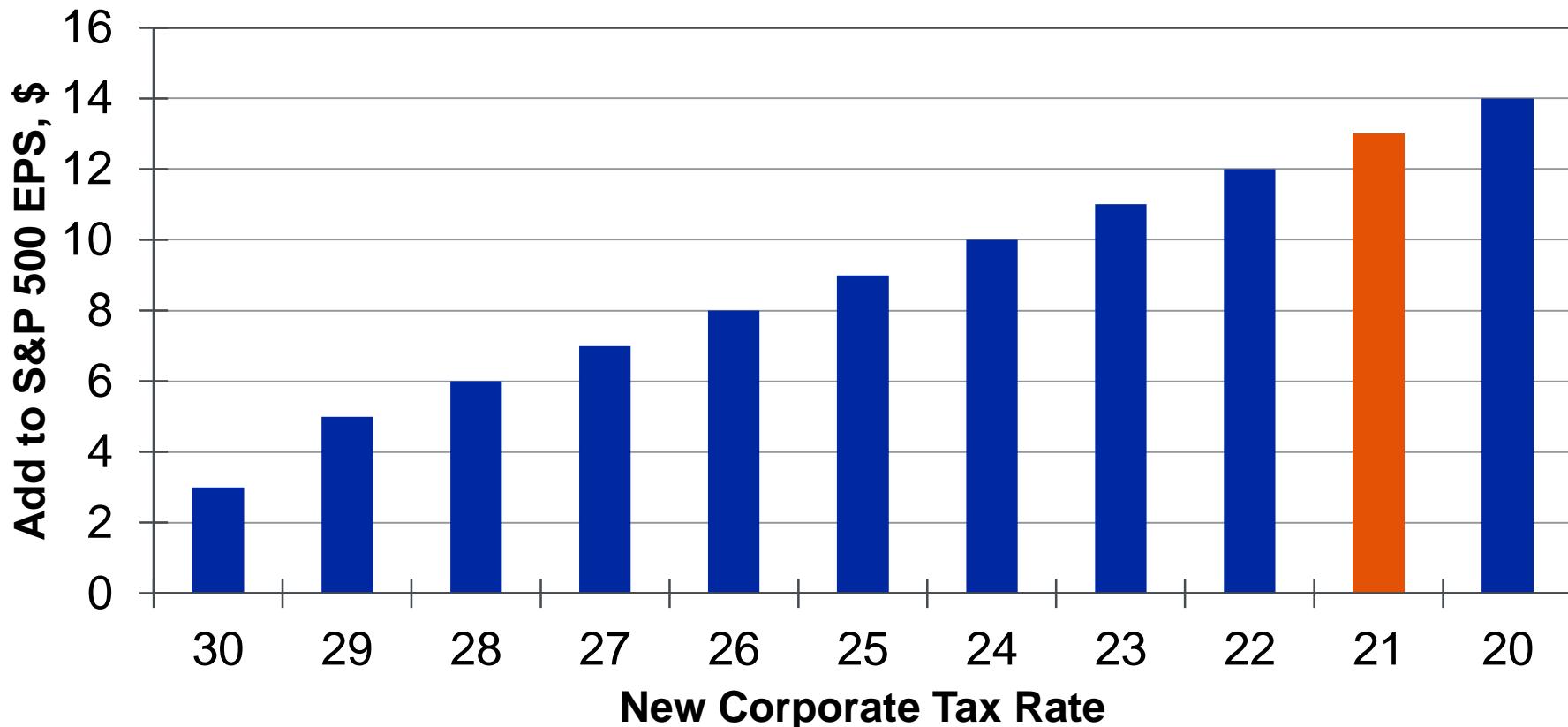
Range for U.S. fiscal multipliers



Sources: CBO, Moody's Analytics

# Tax Law Boosts Stock Prices...

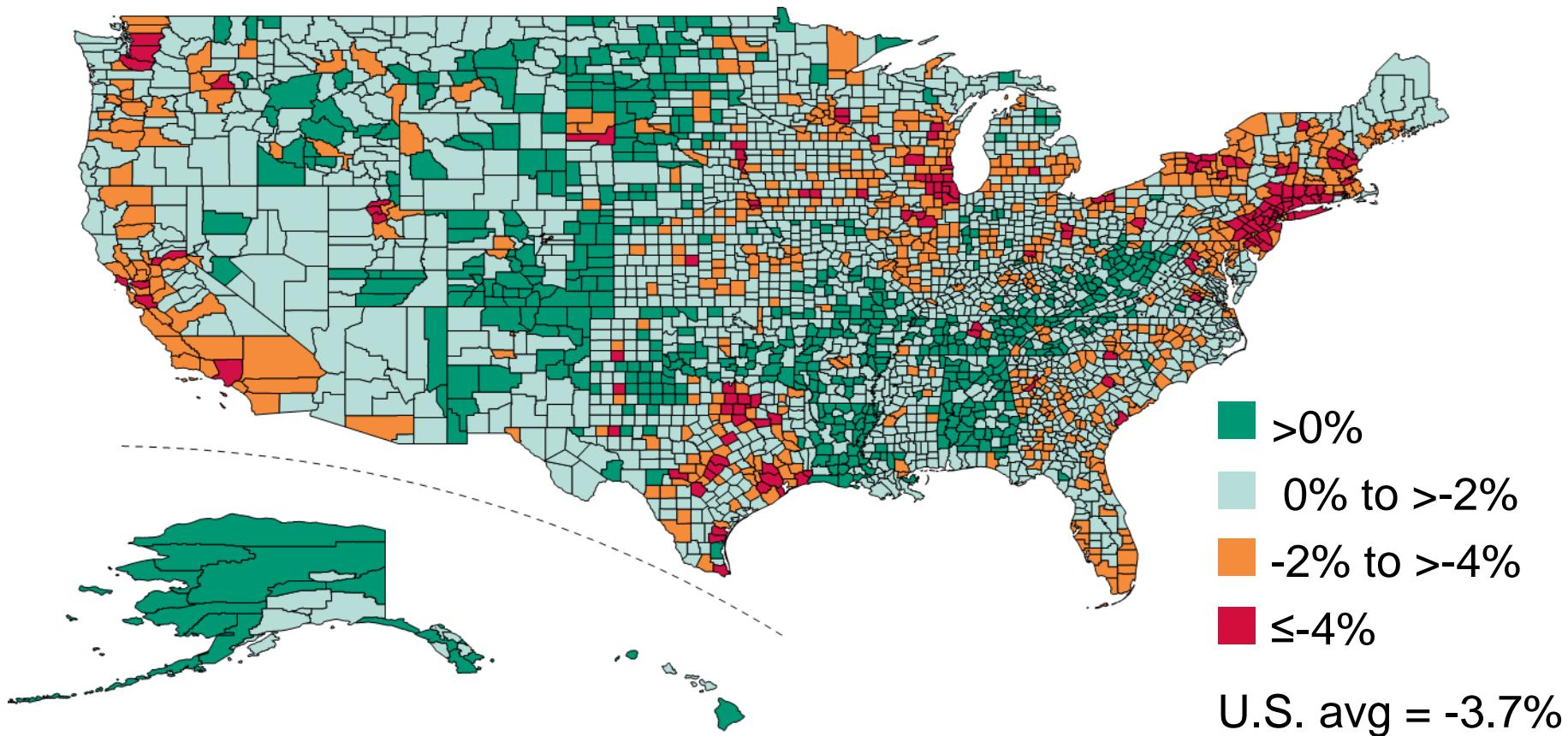
Addition to S&P EPS from lowering the corporate tax rate, \$



Sources: S&P, Moody's Analytics

# ...But Weighs on House Prices

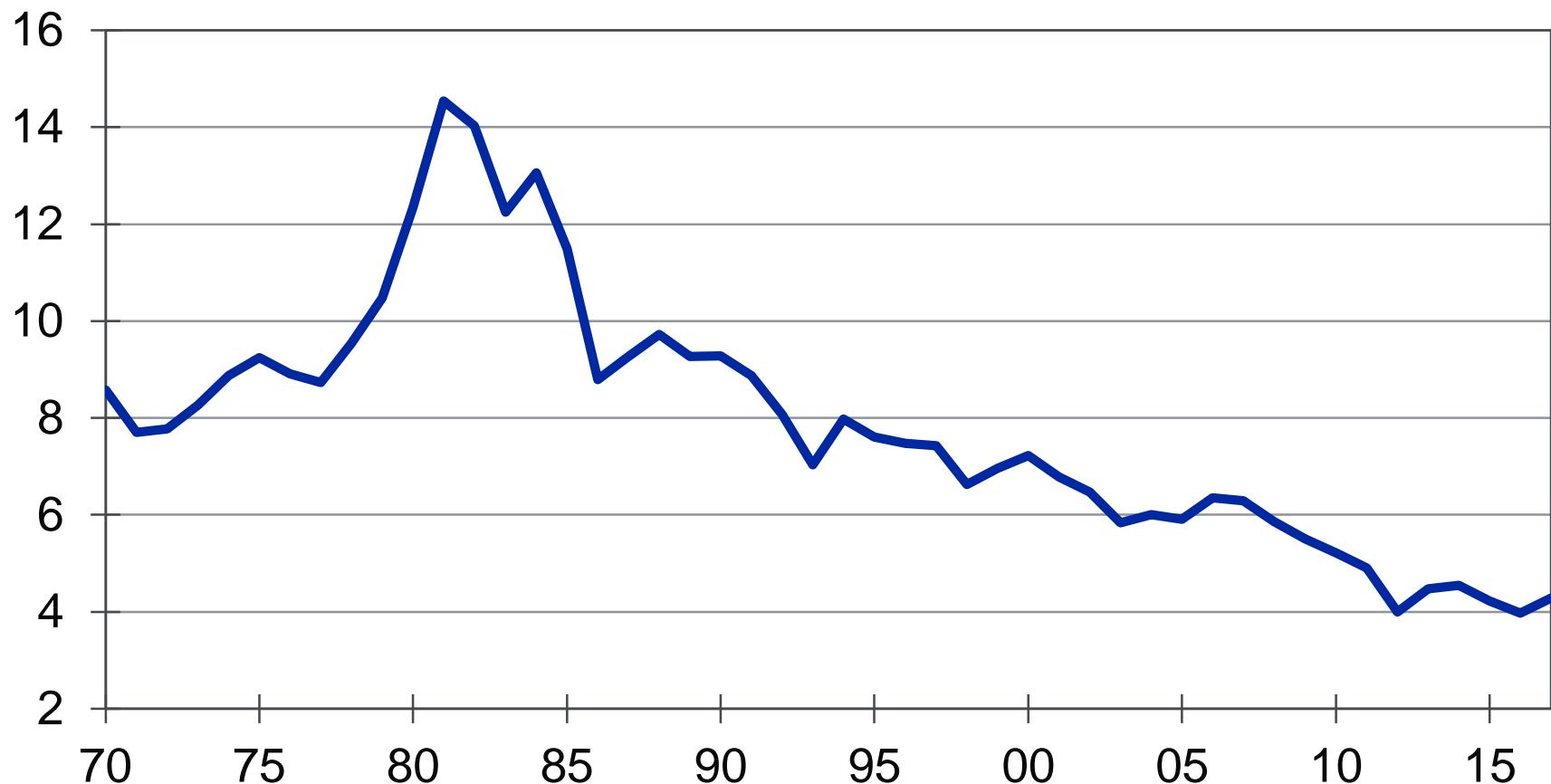
FHFA HPI, ppt peak change due to tax law



Sources: FHFA, IRS, Moody's Analytics

# The Cost of Capital is Low...

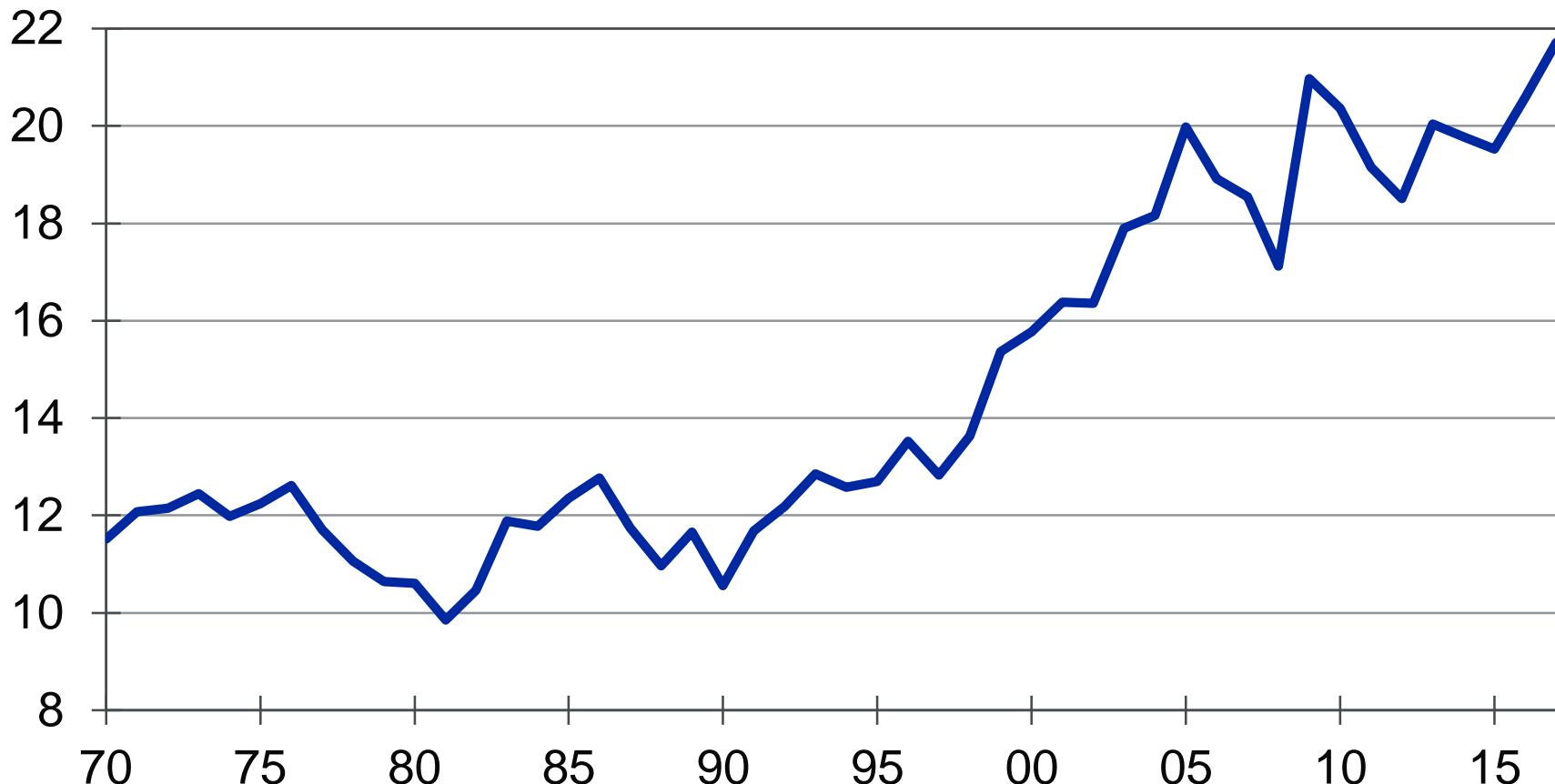
Cost of capital for nonfinancial corporate businesses, %



Sources: Federal Reserve, Moody's Analytics

# ...and Businesses Are Flush With Cash

Cash as a % of corporate GDP



Sources: Federal Reserve, Moody's Analytics

# Well-Designed, Paid-For Tax Reform Would Help Impact on the level of output

Source	Policy Change	Short-Run	Long-Run
Gravelle (2014)	Stylized Reform: 20% Reduction in Income Tax Rates	n. r.	0.7 - 4.0
JCT (2014)	Camp Plan	0.1 - 1.6	n. r.
Treasury (2006)	President's Advisory Panel on Tax Reform		
	Simplified Income Tax	0.0 - 0.4	0.2 - 0.9
	Growth and Investment Tax	0.1 - 1.9	1.4 - 4.8
	Progressive Consumption Tax	0.2 - 2.3	1.9 - 6.0
JCT (2005)	20% Cut in Federal Corporate Tax Rate		
	Not Financed	0.2 - 0.4	0.0 - 0.3
	Financed with Future Spending Cuts	0.2 - 0.4	0.5 - 0.9
Altig et al. (2001)	Stylized Revenue-Neutral Tax Reforms		
	Flat Tax with Transition Relief	0.5	1.9

Source: Furman (2016)

n. r. = Not reported.

Note: Output measure is (in order of preference if multiple measures are reported) national income, real gross national product, and real gross domestic product. Time period for short-run effects varies across studies, but (in most cases) is an average over several years in the first decade. Long-run effects typically reflect estimates of the change in the steady state level of output.

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