What Did Trump’s Tax Cuts Do?

nytimes.com/2025/01/17/business/economy/trump-tax-cuts-effects.html

Andrew Duehren January 17, 2025

What Did the Trump Tax Cuts Do? Nobody Really Knows.

Economic upheaval caused by the pandemic has clouded analysts’ ability to understand the effects of the 2017 tax law. Republicans call it a huge success and want to extend it anyway.

After President Donald J. Trump signed the tax law in 2017, a pandemic and a surge in inflation convulsed the global economy, scrambling the data needed to draw conclusions about whether the tax cuts worked as promised.Credit...Doug Mills/The New York Times

By Andrew Duehren

Reporting from Washington

Jan. 17, 2025

Seven years ago, when Republicans passed the most significant overhaul of the tax code in a generation, they were sure the law would supercharge investment, raise wages and shift the American economy into a higher gear.

So did it?

The answer, at least for now, is largely lost to history.

A pandemic and a surge in inflation convulsed the global economy not long after the law passed in 2017, scrambling the data that analysts would have typically relied on to draw conclusions about whether the tax cuts helped the economy grow the way Republicans had promised.

As a result, policymakers in Washington are now relying on only a partial understanding of the law's past as they weigh committing roughly $5 trillion toward continuing it.

"Basically, from 2020 the data is kind of useless," said Alan Auerbach, an economics professor at the University of California, Berkeley, who counts Kevin Hassett, a top economic adviser to President-elect Donald J. Trump, among his former students.

Economists have focused on just two years before the coronavirus pandemic, 2018 and 2019, to measure the law's consequences for the most important economy in the world. But that's a limited window for trying to discern whether the tax cuts prompted a cycle of investment and growth that can take years to play out.

"In terms of looking at longer-run effects, pretty much just forget about it," Mr. Auerbach said. "There's just no way to control for the effects of Covid."

Not that everything about the 2017 tax law is a mystery. The legislation slashed marginal tax rates for almost every individual income bracket, created a larger standard deduction and expanded the child tax credit. For businesses, the law cut the corporate rate to 21 percent from 35 percent, temporarily incentivized new capital investments, overhauled the taxation of earnings overseas and offered a new deduction to owners of many typically smaller companies.

To Republicans, who passed the law over unified Democratic opposition in the first year of Mr. Trump's first term, these changes amounted to an unqualified economic success. They credit the tax cuts with strong growth and wage increases in the years before the pandemic, warning that letting many of the 2017 cuts expire, currently scheduled to happen at the end of the year, would create an economic drag.

"We saw the power of these tax cuts in '18, '19 and going into January of '20 before they were interrupted by Covid, and the great success that we had," Scott Bessent, Mr. Trump's pick to lead the Treasury Department, said at his Senate confirmation hearing on Thursday. "If we do not renew and extend, then we will be facing an economic calamity."
Economists are more circumspect. Trying to pinpoint the role that any single factor plays in a sprawling economy shaped by changing interest rates, oil prices and dozens of other variables is an inherently difficult task. Only with carefully constructed models do economists offer some findings about how a tax cut affects the economy.

They generally view tax cuts for individuals as having little effect on the economy overall, despite their popularity. Economic research suggests that marginally lower tax rates do not motivate people to work more, which could bolster growth, and the money that Americans save from lower taxes does not affect the economy in a lasting way, either. So some of the most expensive pieces of the 2017 law — the lower individual rates and larger standard deduction — are most likely the least important to the economy.

"If you look at the bang for the buck of different kinds of tax reforms, you'll find broad individual tax cuts aren't as growth enhancing as something targeted at capital investment," said Erica York, the vice president of federal tax policy at the Tax Foundation, a think tank that generally favors lower taxes.

That leaves much of the scholarly focus on the corporate tax cuts included in the 2017 law. Textbook economic theory states that lower taxes cause companies to invest more in their businesses, which in turn helps make workers more productive, lifting wages and the prospects of the entire economy.

In a paper last year, a team of researchers from Harvard, Princeton and the University of Chicago reviewed several different ways of measuring the corporate response to the tax cuts. Despite some of the scattered data, the academics concluded that the lower corporate tax cuts had in fact helped stimulate more corporate investment.

The team then used what Eric Zwick, an economist at the University of Chicago and one of the paper's authors, called "back of the envelope" modeling to extrapolate the effect of higher corporate investment to the performance of the entire economy. They estimated that the law would help the economy become 1 percent larger over 10 years, growth that in turn pointed toward roughly $750 more in wages for each American worker. Such an increase would still be far below the $4,000 per employee that Mr. Trump's White House had originally promised the corporate tax cuts would generate.

Mr. Zwick said he felt confident about the general conclusions of his research, even if he acknowledged the added challenge of understanding long-term economic effects from only two years of Covid-free data.

"It's not ideal," he said. "Having at least five years of data would have been really helpful for thinking through dynamic effects."

The research from Mr. Zwick and his colleagues threw cold water on the Republicans' insistence that the tax cuts paid for themselves. Even with the added growth that Mr. Zwick and his co-authors found, they maintained that the lower corporate taxes had cost the U.S. government billions. Estimates at the time of the 2017 law's passage found that it would add $1.5 trillion to the deficit over 10 years.

Republicans have long argued that lower tax rates will stoke so much economic activity that the government will collect just as much revenue as it did before it cut taxes. More recently, they have cited higher-than-forecast tax revenue in the years since the pandemic as evidence of the tax cuts' success.
Seemingly in response, the nonpartisan Congressional Budget Office explained in a recent publication that much of the higher tax revenue was a result of higher inflation's pushing up prices and earnings.

Other analysts have found that the benefits of the tax cuts have gone largely to the rich. One study by economists at the nonpartisan Joint Committee on Taxation and the Federal Reserve looked at the near-term corporate response to the tax cuts, finding that employees saw higher earnings as a result. But those increases went entirely to the people who were already the top earners at their companies, with the bottom 90 percent of employees seeing no gains, the researchers found.

The finding comes on top of the fact that the individual income tax cuts, while affecting many Americans, skewed toward most benefiting the rich, who pay the bulk of the nation's income taxes.

"There are two things we know it did: It increased the deficit, and it redistributed resources toward the wealthy," said Bill Gale, a co-director at the Tax Policy Center, a think tank, of the 2017 tax law. "The things that are harder to pin down are whether and how much it raised investment and whether and how much it affected wages."