TCJA: Searching for Supply-Side Effects

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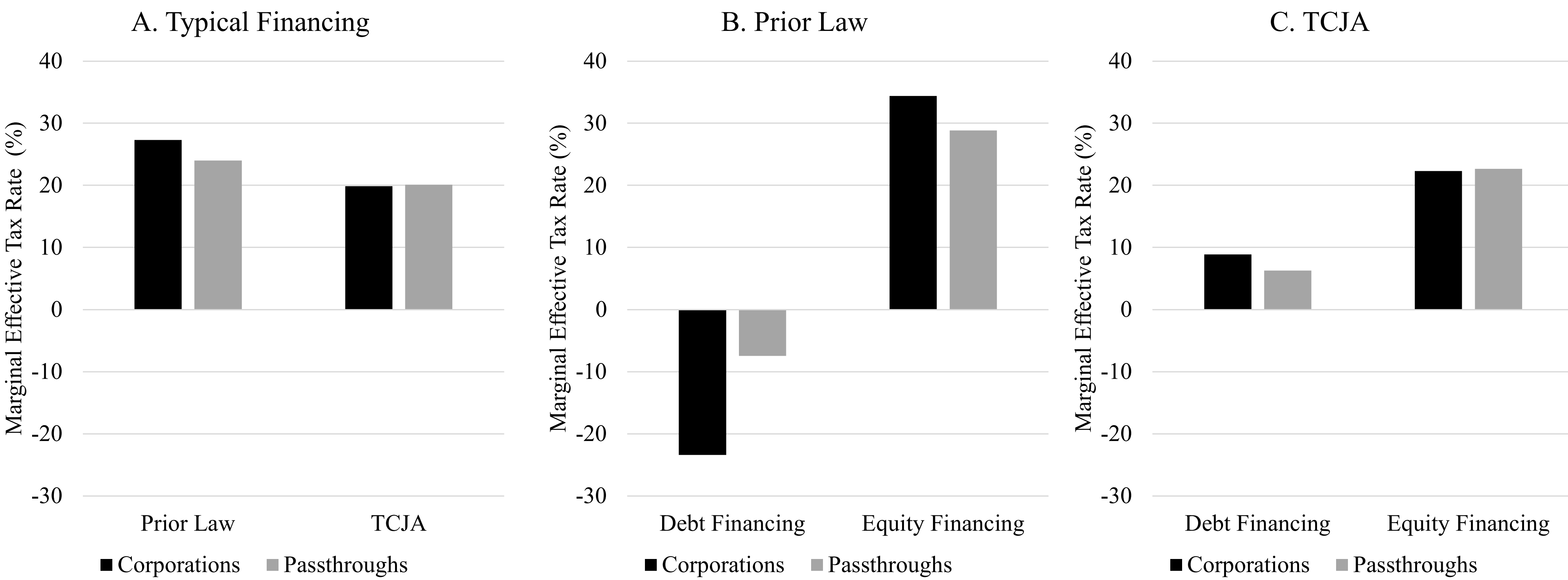
METR on New Investment Under Prior Law and TCJA



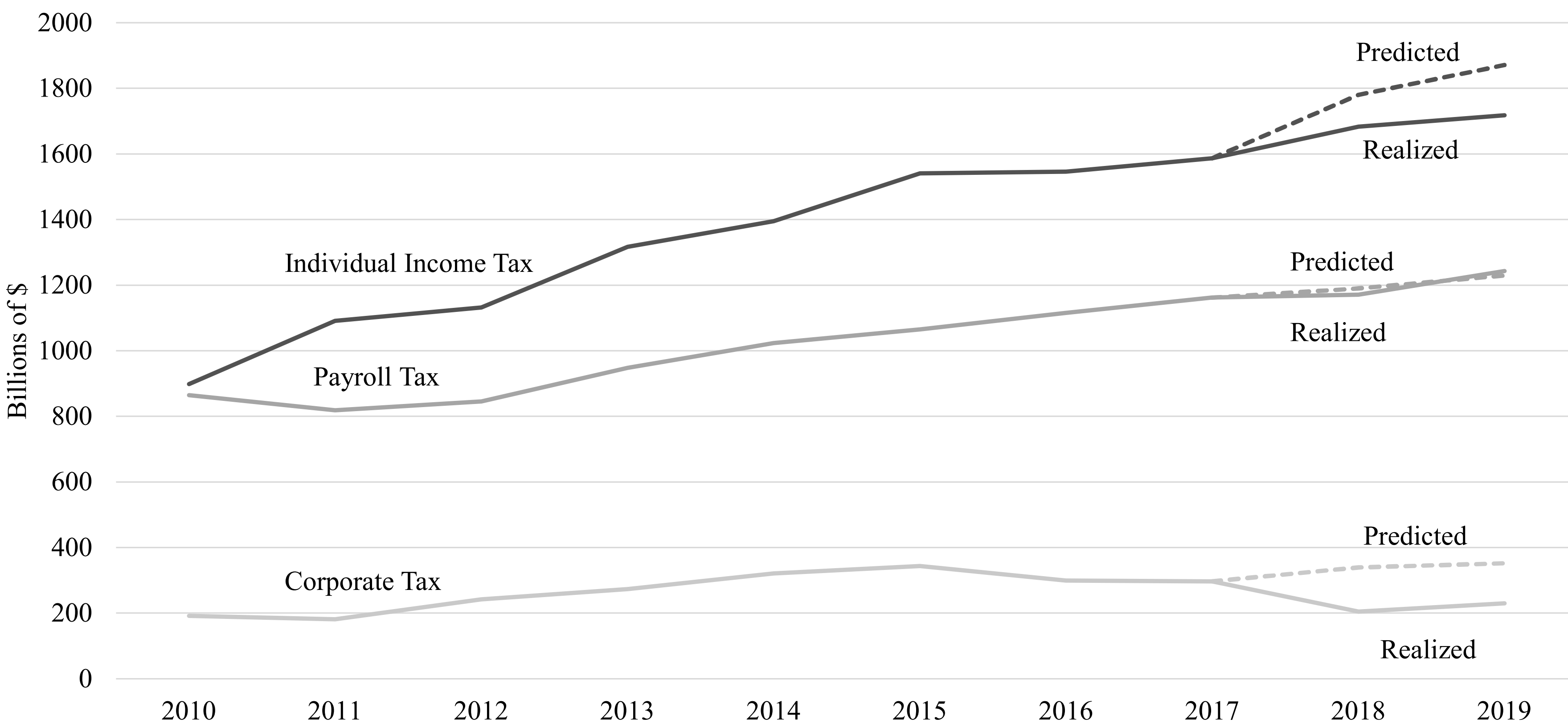
Outline

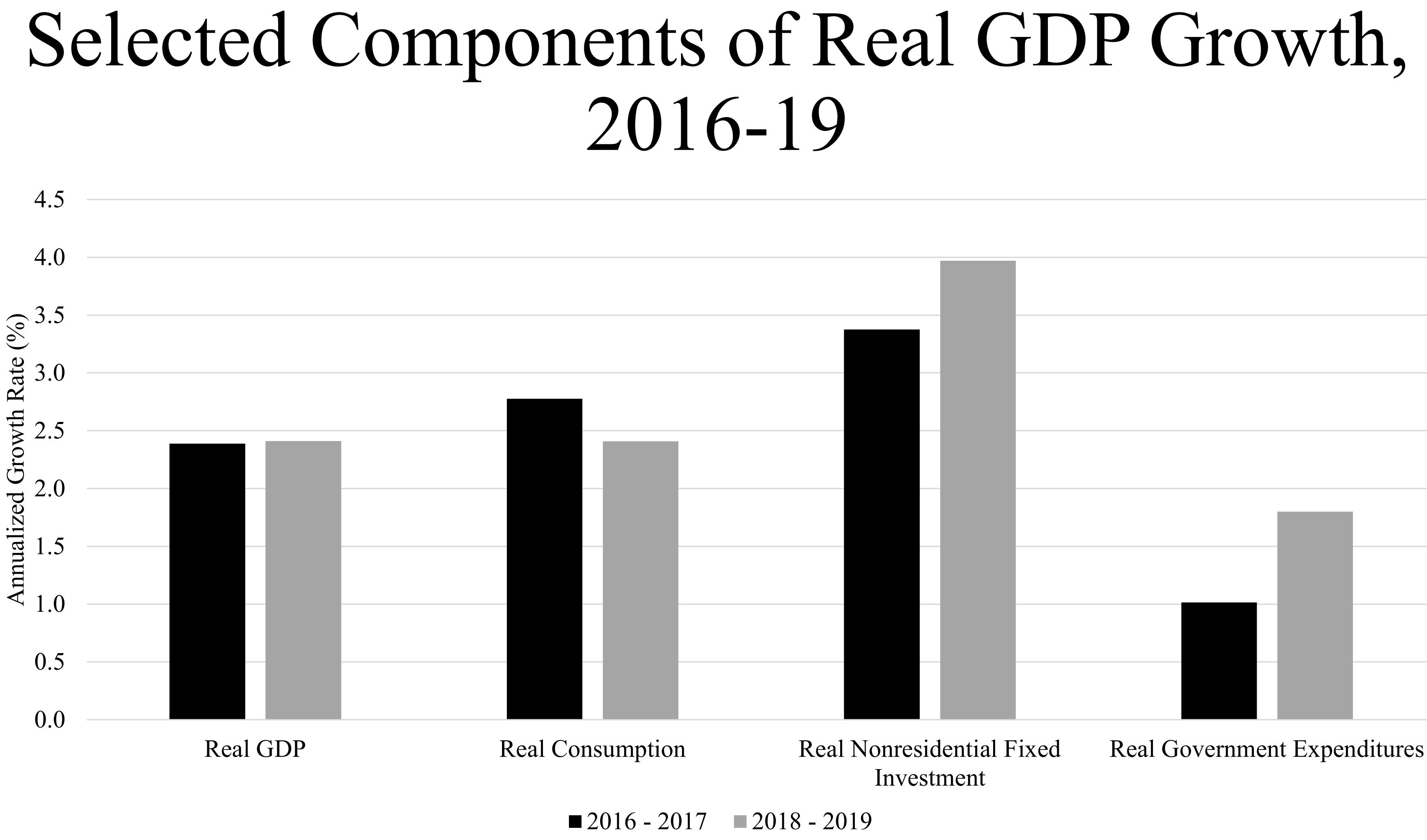
- Revenue
- GDP
- Investment
- New business formation
- Wages and Labor Markets
- Profit shifting
- Repatriation and Share Repurchases

Caveats

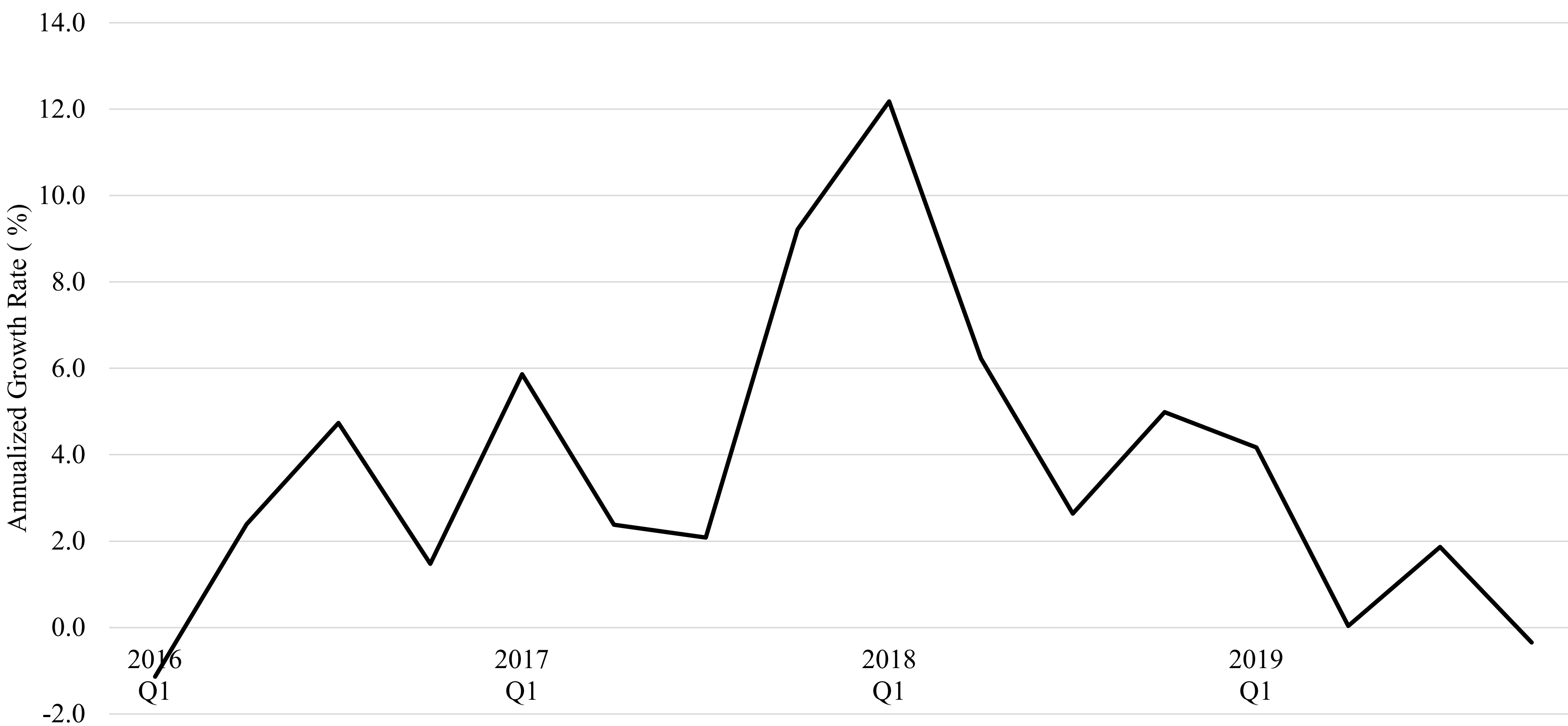
- Measuring effects only through the end of 2019
  - Before COVID
  - Short-term not always a good predictor of long-term, especially for development of supply side effects
- Other things going on (spending package, monetary policy easing, tariffs)
- Aggregate data can mask micro effects

Selected Components of Revenue, 2010 - 2019

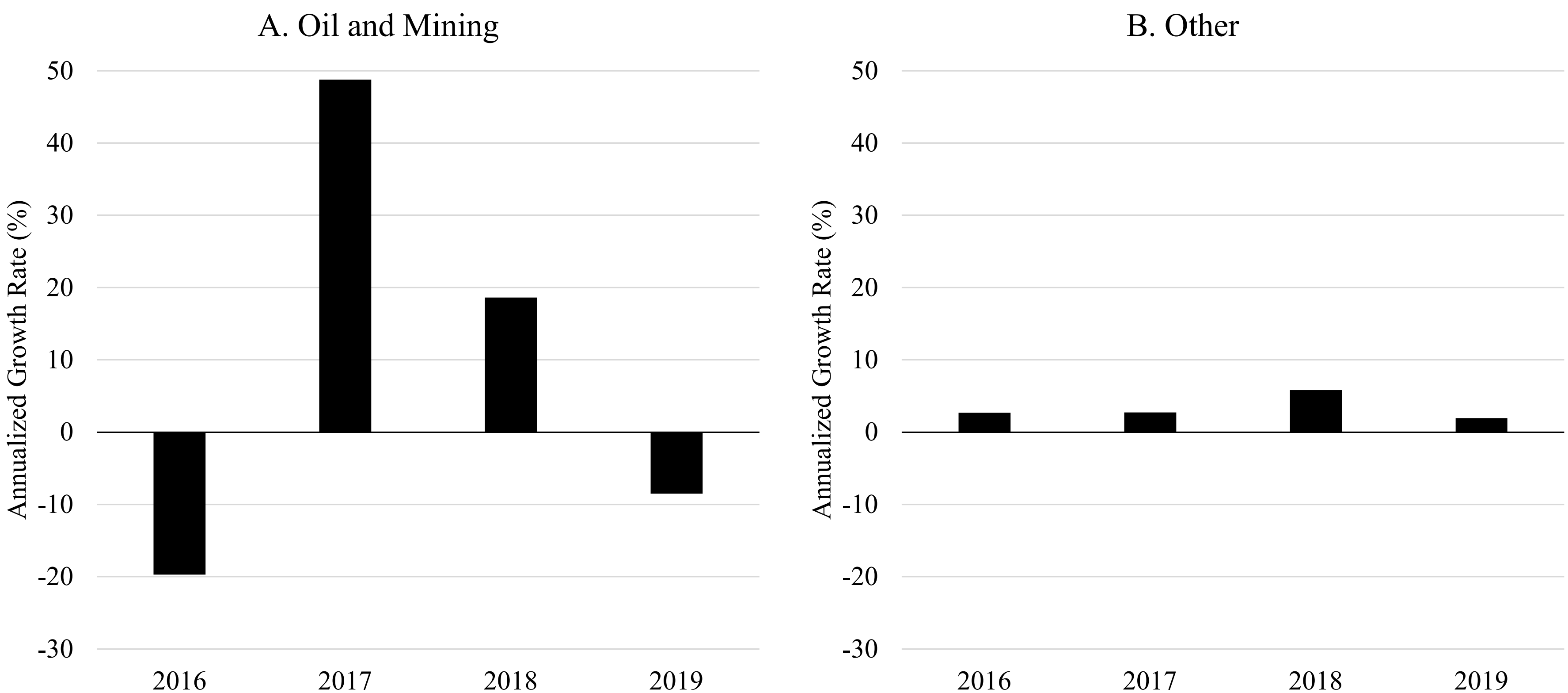



Selected Components of Real GDP Growth, 2016-19
Annualized Growth Rate (%)
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
Real GDP
Real Consumption
Real Nonresidential Fixed Investment
Real Government Expenditures
2016 - 2017
2018 - 2019

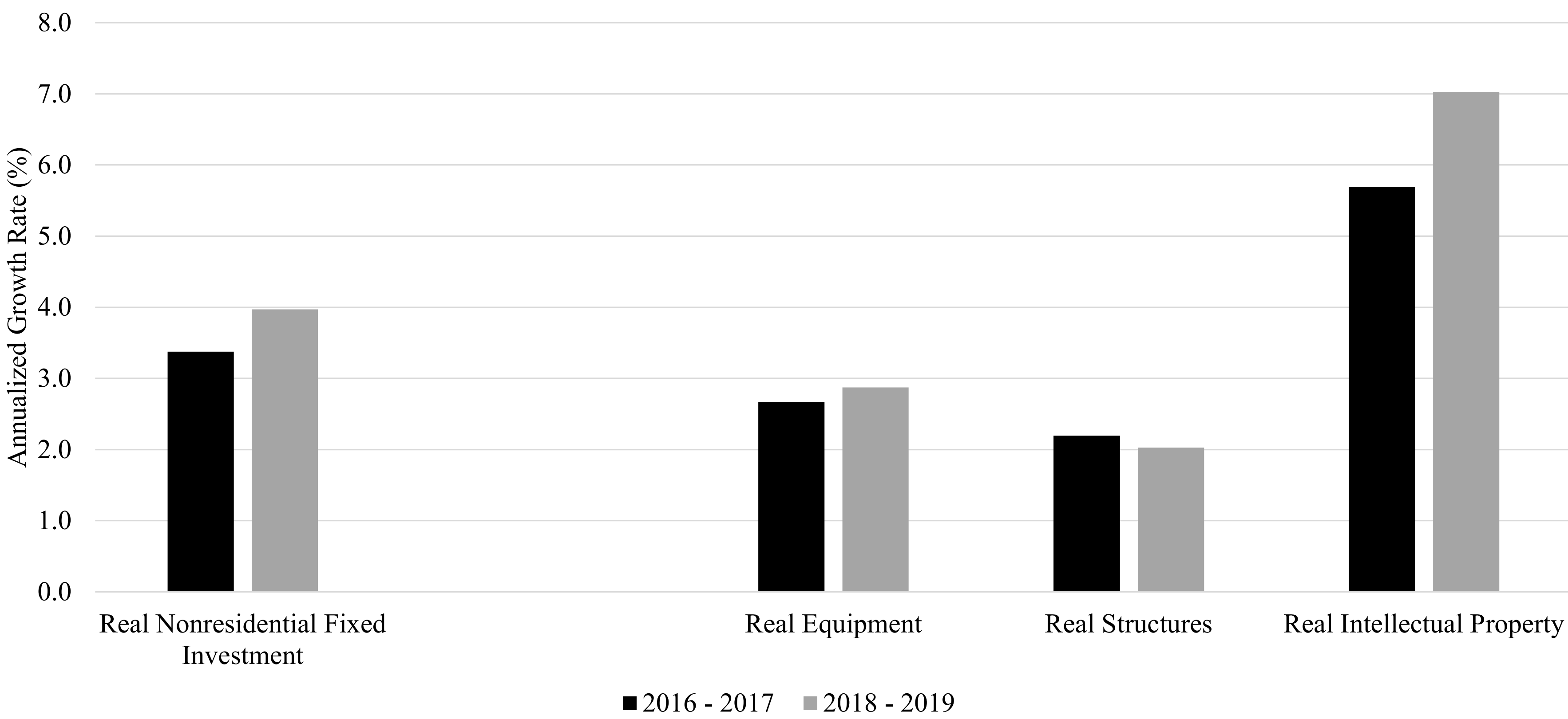
I: Timing of Investment Growth



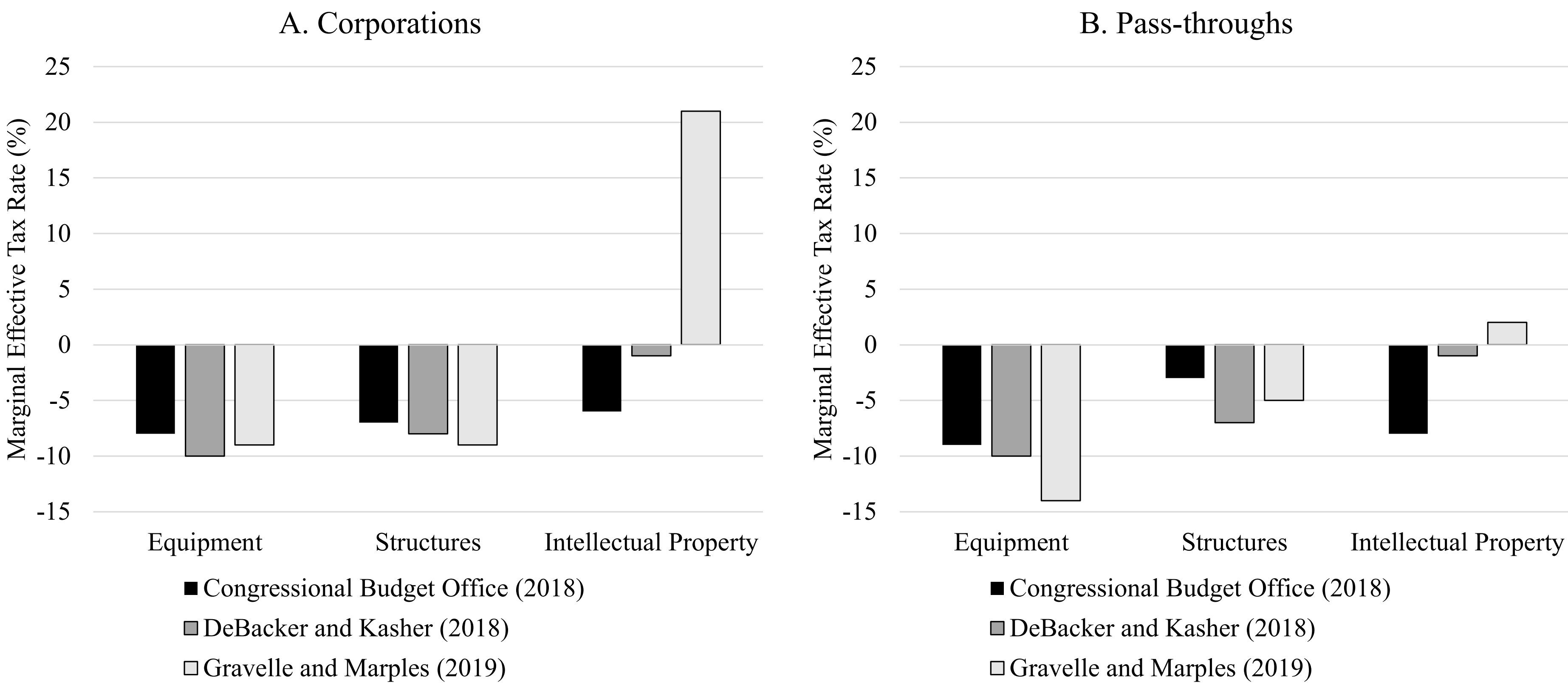
II: Oil/Mining Versus Other Investment



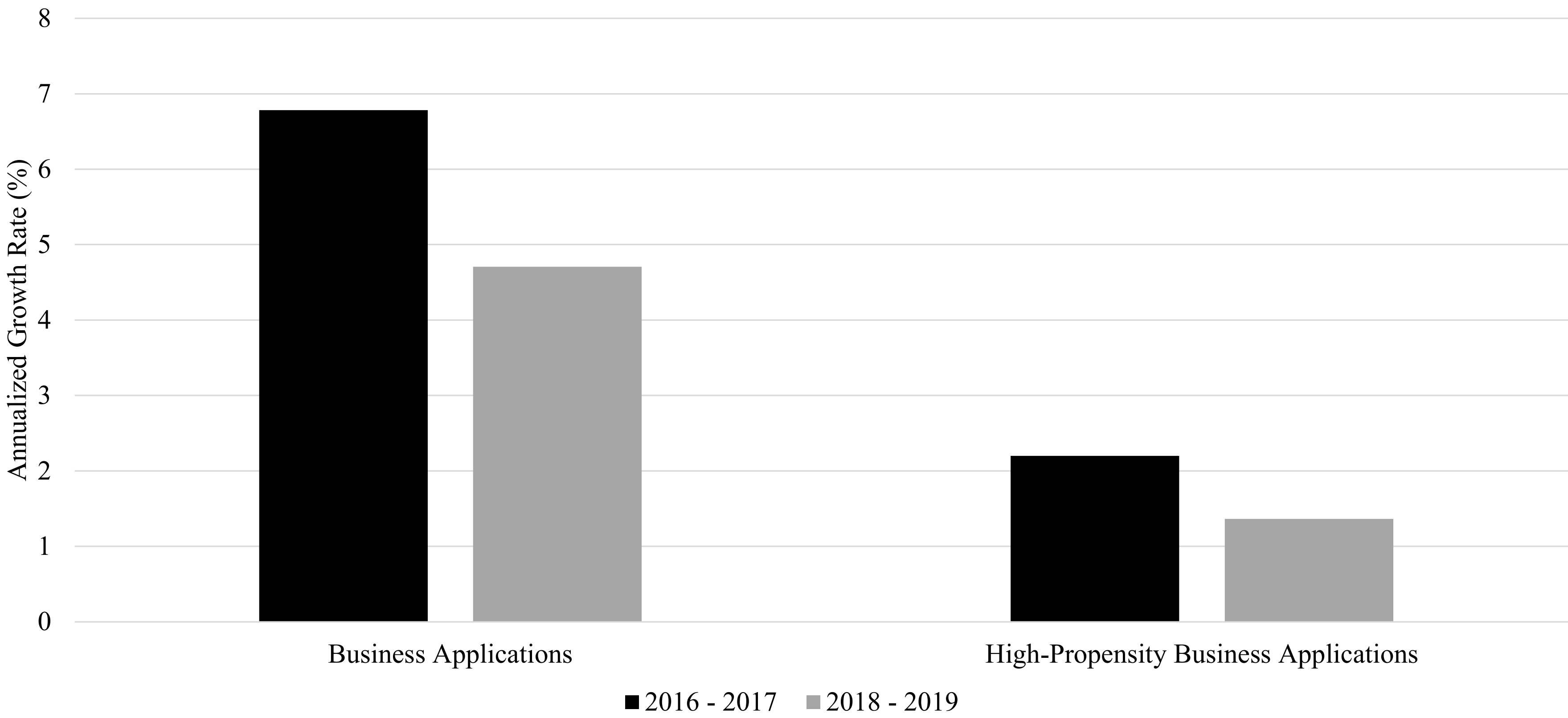
III: Investment Growth by Asset Type



Change in METR by Asset Type and Entity



Growth in Number of New Business Applications, 2016 - 2019

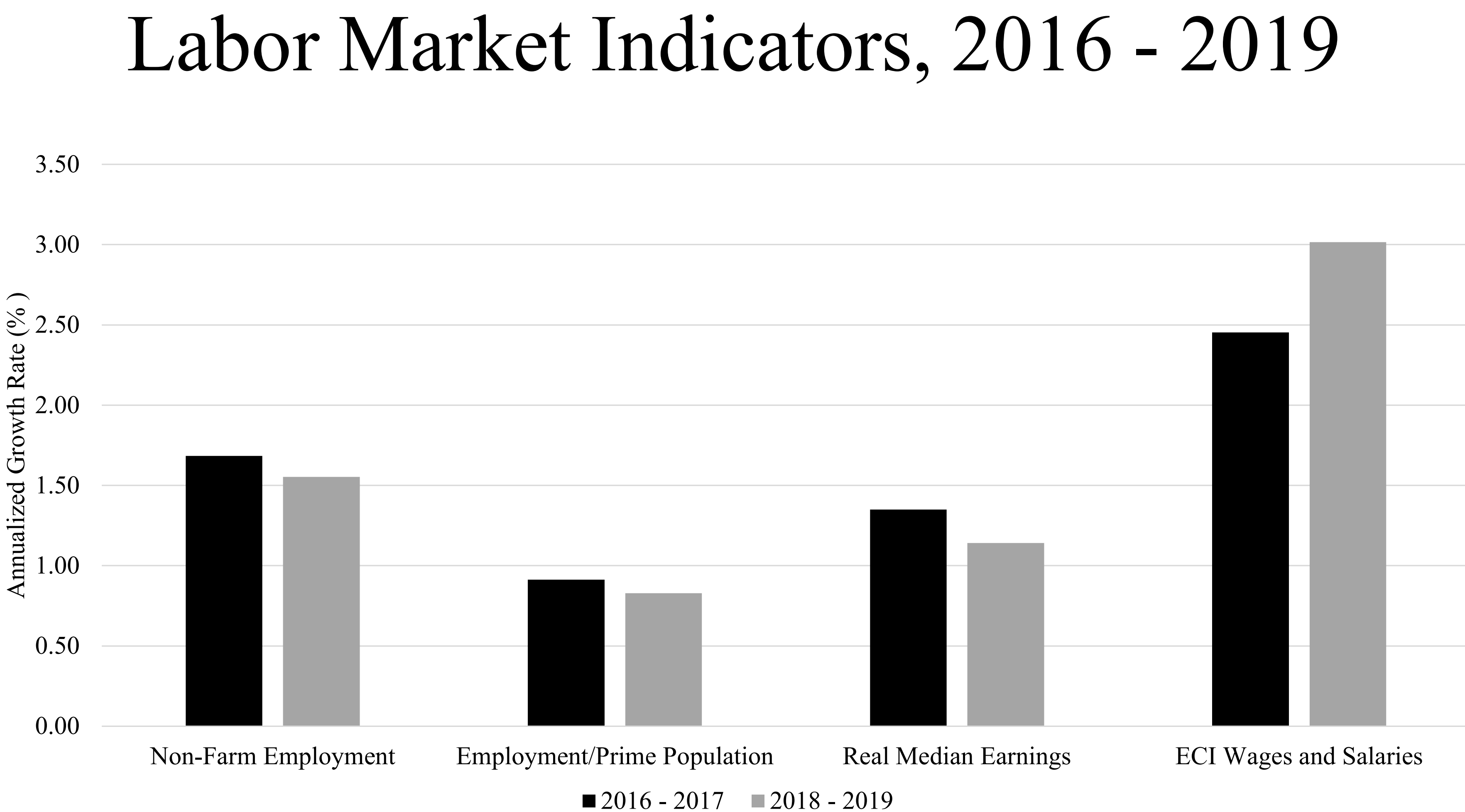


Labor Markets

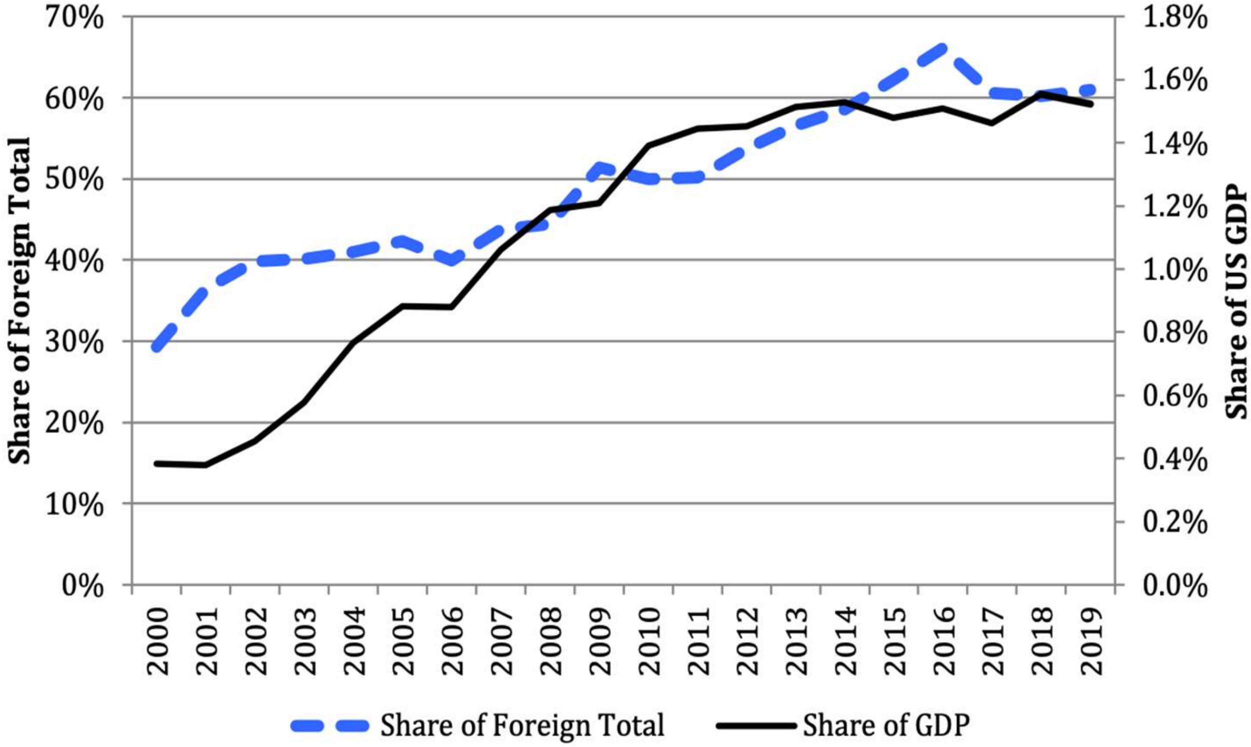
- Bonuses
  - Small in aggregate ($4.4 billion, $28 per employee, 0.05% of overall wages)

  - Motivated at least in part by
    - Tax avoidance (35% rate in 2017 versus 21% in 2018)
    - Political affiliation

  - Viard: "a public relations gimmick"

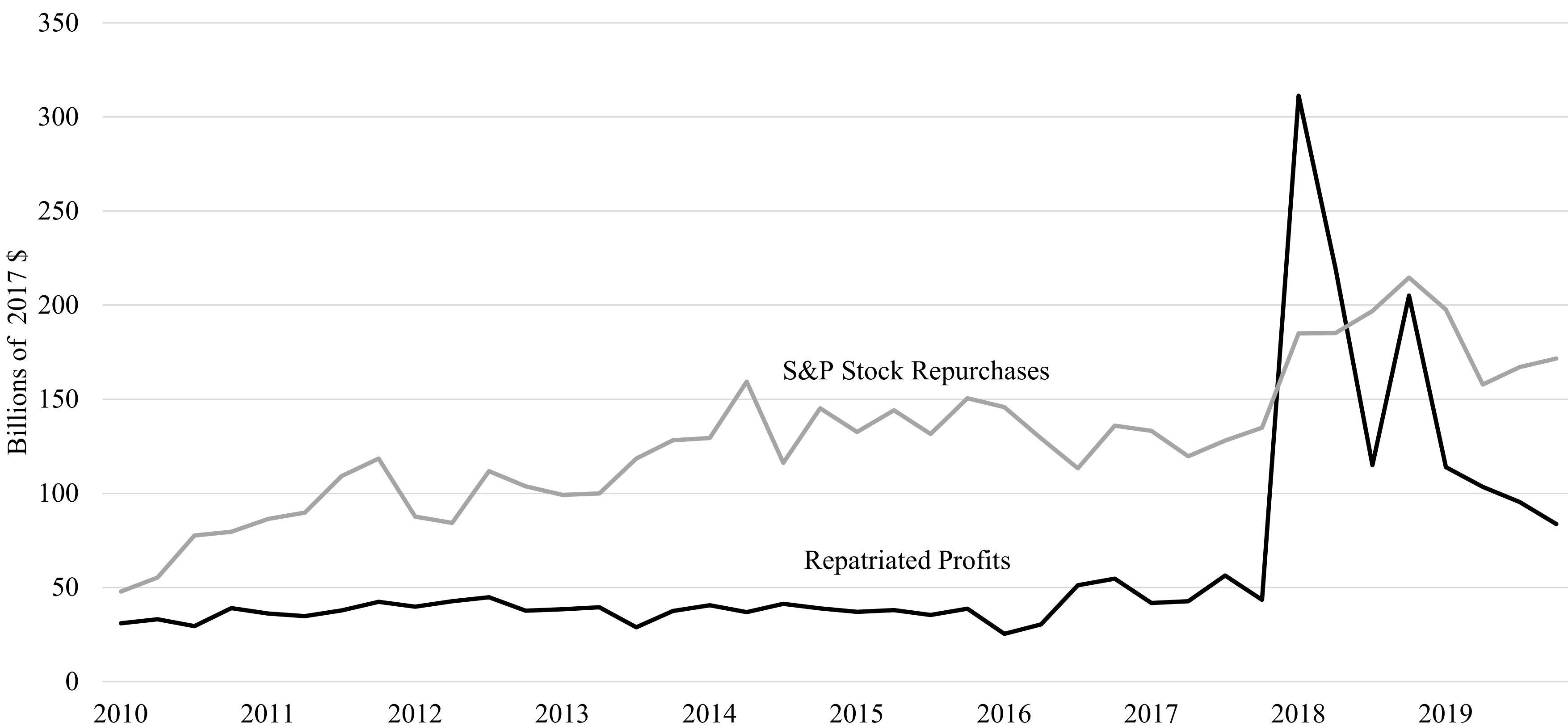

Labor Market Indicators, 2016 - 2019
Annualized Growth Rate (%)
3.50
3.00
2.50
2.00
1.50
1.00
0.50
0.00
Non-Farm Employment
Employment/Prime Population
Real Median Earnings
ECI Wages and Salaries
2016 - 2017
2018 - 2019

MNC Foreign Income Claimed in Big Seven Havens, 2000-2019



Source: Clausing (2020).

Repatriations and Repurchases, 2010 - 2019



Conclusion

- Evidence consistent with weak response to supply side incentives
  - Revenues fell
  - GDP effects are hard to discern
  - Investment
    - Explainable without supply side responses
    - Several patterns are inconsistent with a supply-side story driving the results
  - Business formation, wage growth, profit shifting – no significant impact