

Taxes, the Economy, and Schools

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Here are a few of the reasons why no mainstream economists think the federal tax cut is a good idea:

**1. Basic macroeconomics:
We shouldn't even be
talking about fiscal
stimulus when we are at or
near full employment.**

Will the tax cuts generate investment that wouldn't have happened anyway?

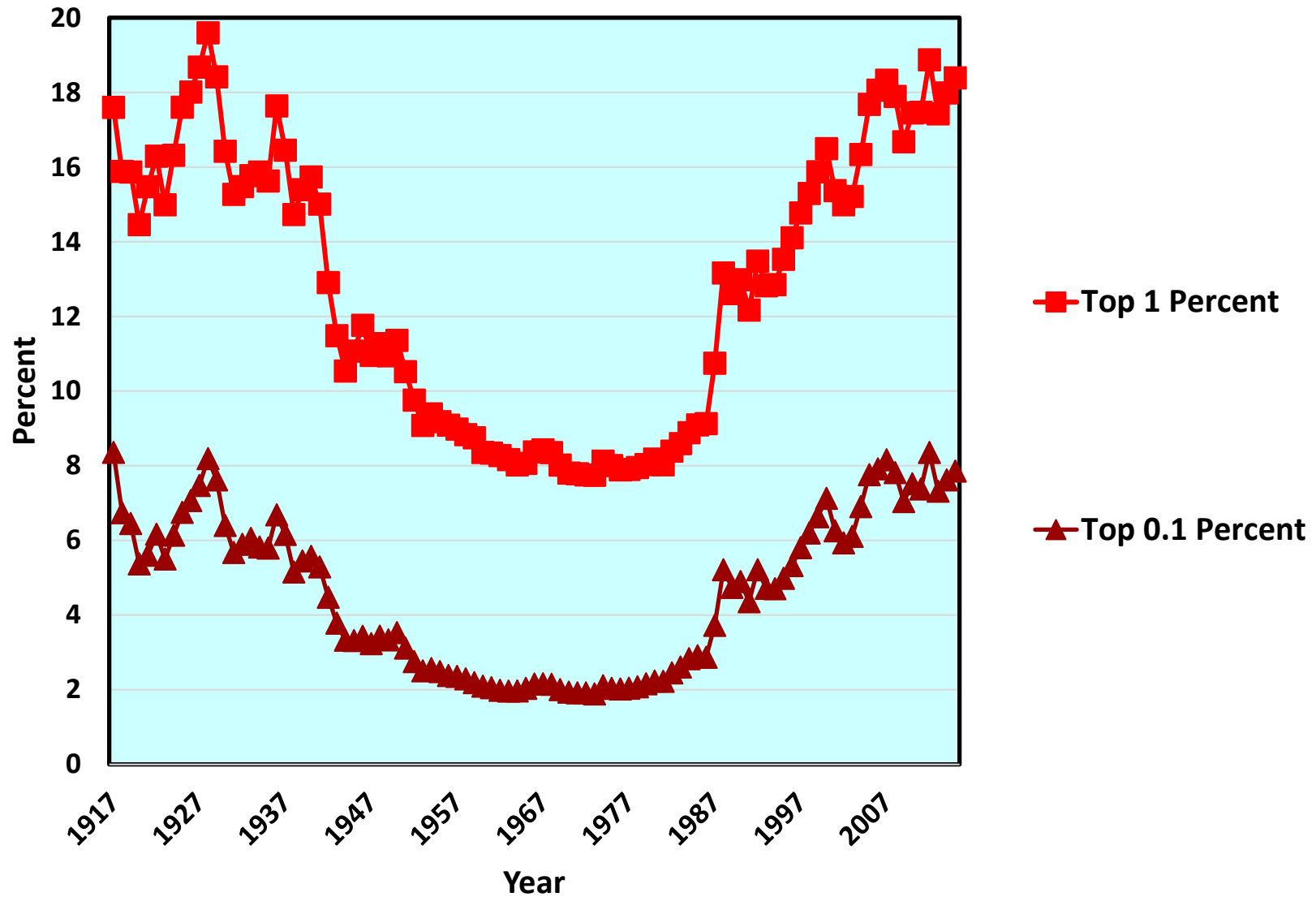
Maybe, but changes in corporate culture make me think the effect will be small.

Will U.S. companies decide to invest in the U.S., instead of overseas?

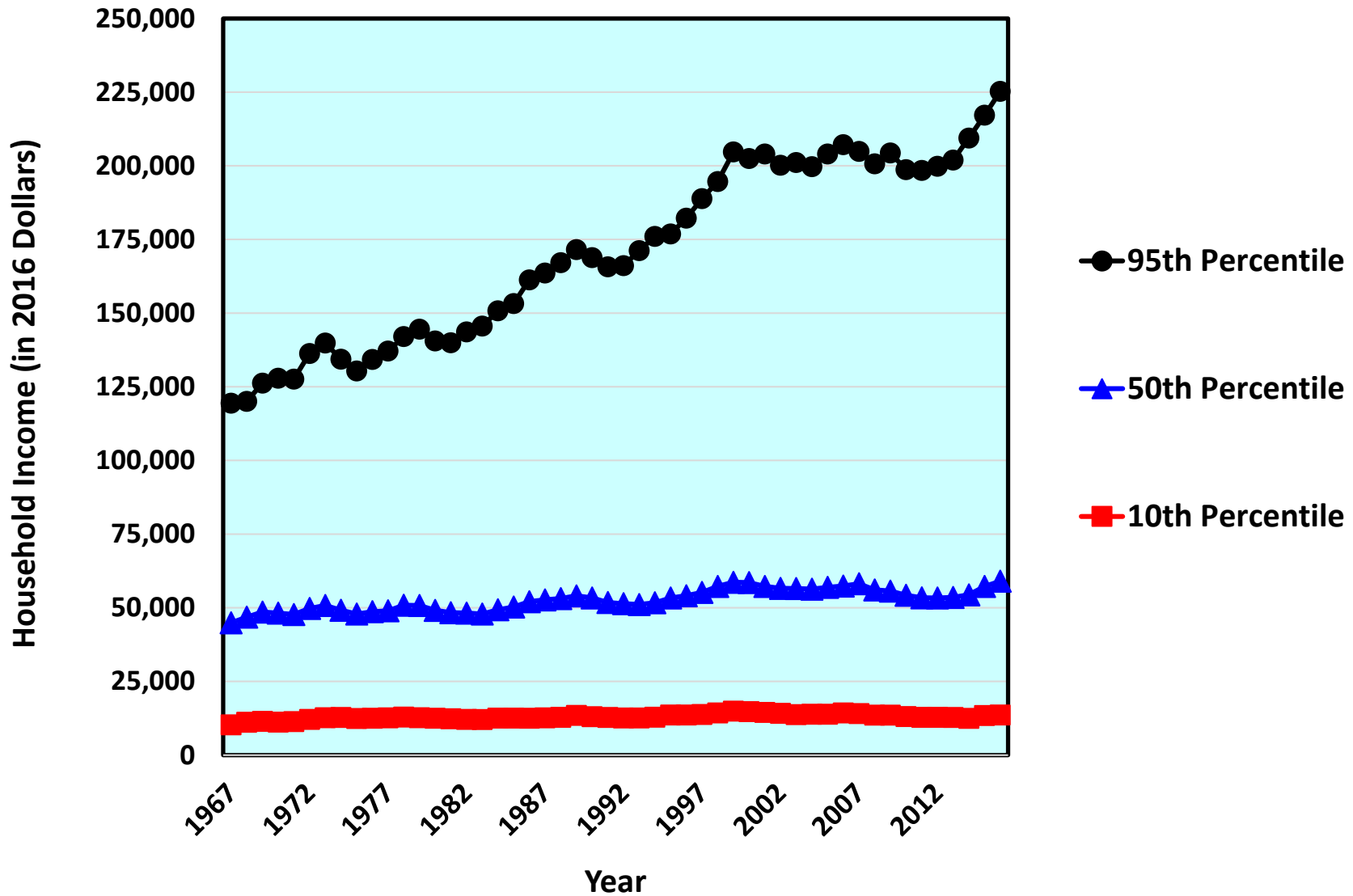
The tax rate on domestic-source corporate income drops from 35% to 21%, while the tax rate on foreign-source income drops from 35% to zero.

2. We have now had 40 years of historically unprecedented increases in income inequality.

Percentage of Income in the United States Received by the Highest-Income Households, 1917-2015



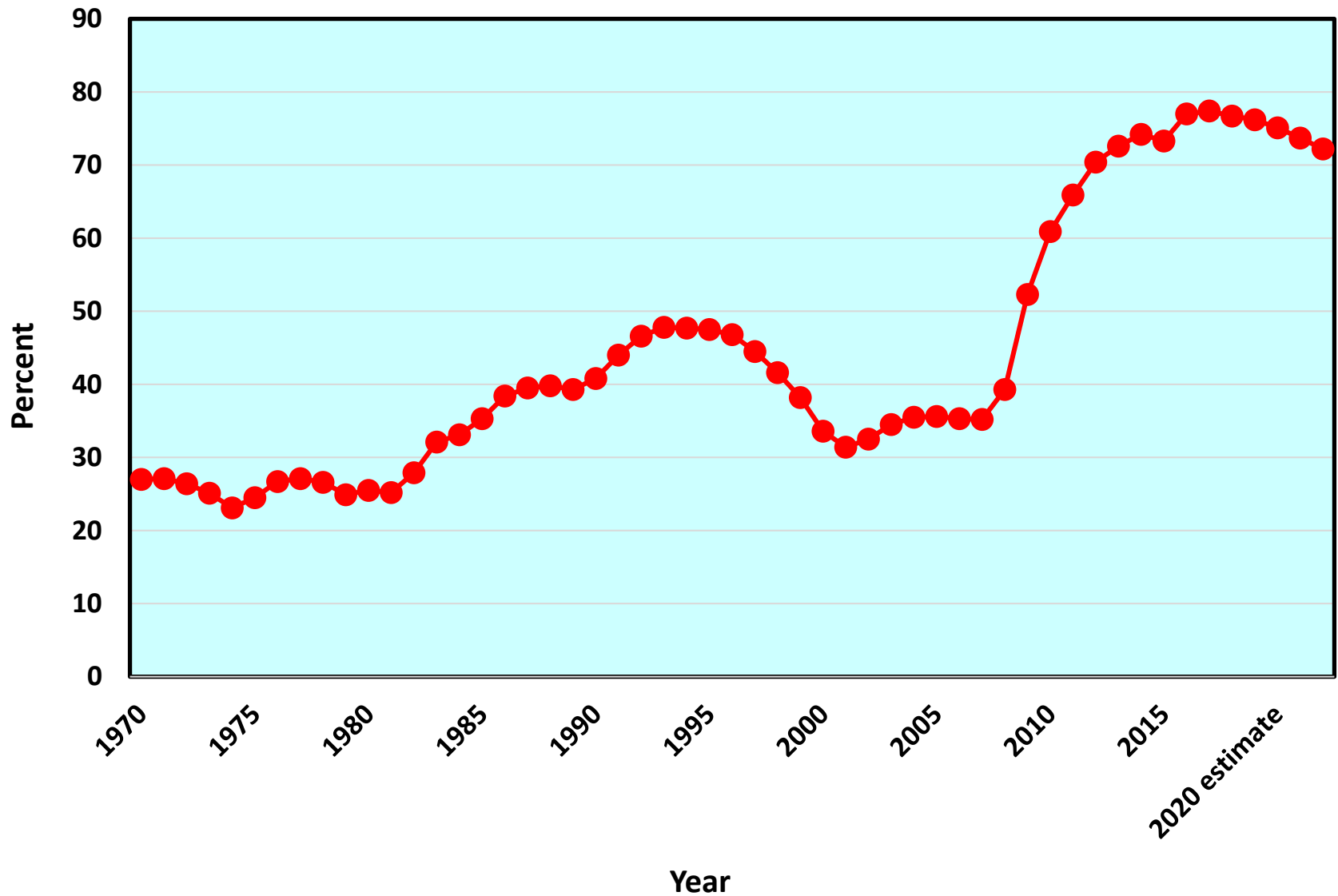
Inflation-Adjusted Income at Selected Percentiles of the U.S. Household Income Distribution, 1967-2016



The tax cuts are mainly targeted at those with high income and wealth, *i.e.*, proponents of the tax cut think are comfortable with even further increases in inequality.

3. Nonpartisan calculations indicate that the proposed tax cuts will increase the national debt by between \$1 trillion and \$1.5 trillion, on top of all the debt we already have.

Federal Debt Held by the Public, as Percent of Gross Domestic Product, 1970-2016, with Estimates to 2022



The projections in the previous slide assume that we will never have another recession.

If we do have another recession, the debt will rise faster.

Office of Management and Budget estimates of federal debt held by the public as percent of GDP:

	2008	
	<u>Estimate</u>	<u>Actual</u>
2008	36.8%	39.3%
2009	36.3	52.3
2010	35.2	60.9
2011	33.9	65.9
2012	32.1	70.4

In Fiscal Year 2016, net interest payments by the federal government were about \$430 billion.

The number is that low because we are borrowing at historically low interest rates.

If interest rates were to rise to rates that we all have seen in our lifetimes, debt service would soar.

**Oh, but proponents of
the fiscal stimulus
say it won't raise the
deficit!**



The irrational obsession with cutting taxes is at least as strong in Michigan as it is in Washington, D.C.

The General Fund is down by **35 percent** since 2000, if we adjust for inflation.

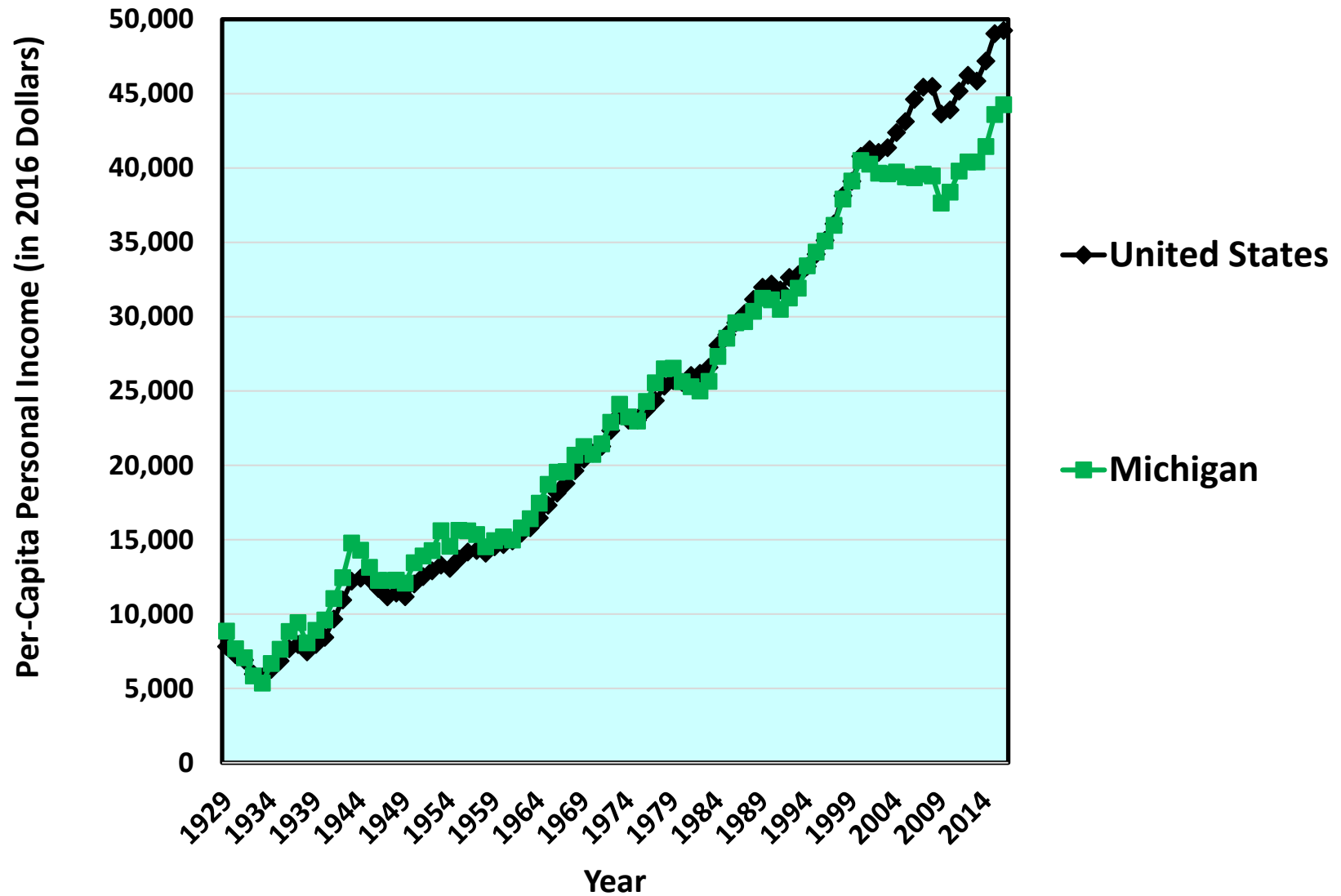
In the same time period, the School Aid Fund has “only” fallen by **9 percent**.

Why?

Not because the resources aren't there.

The Michigan economy is larger than it has ever been.

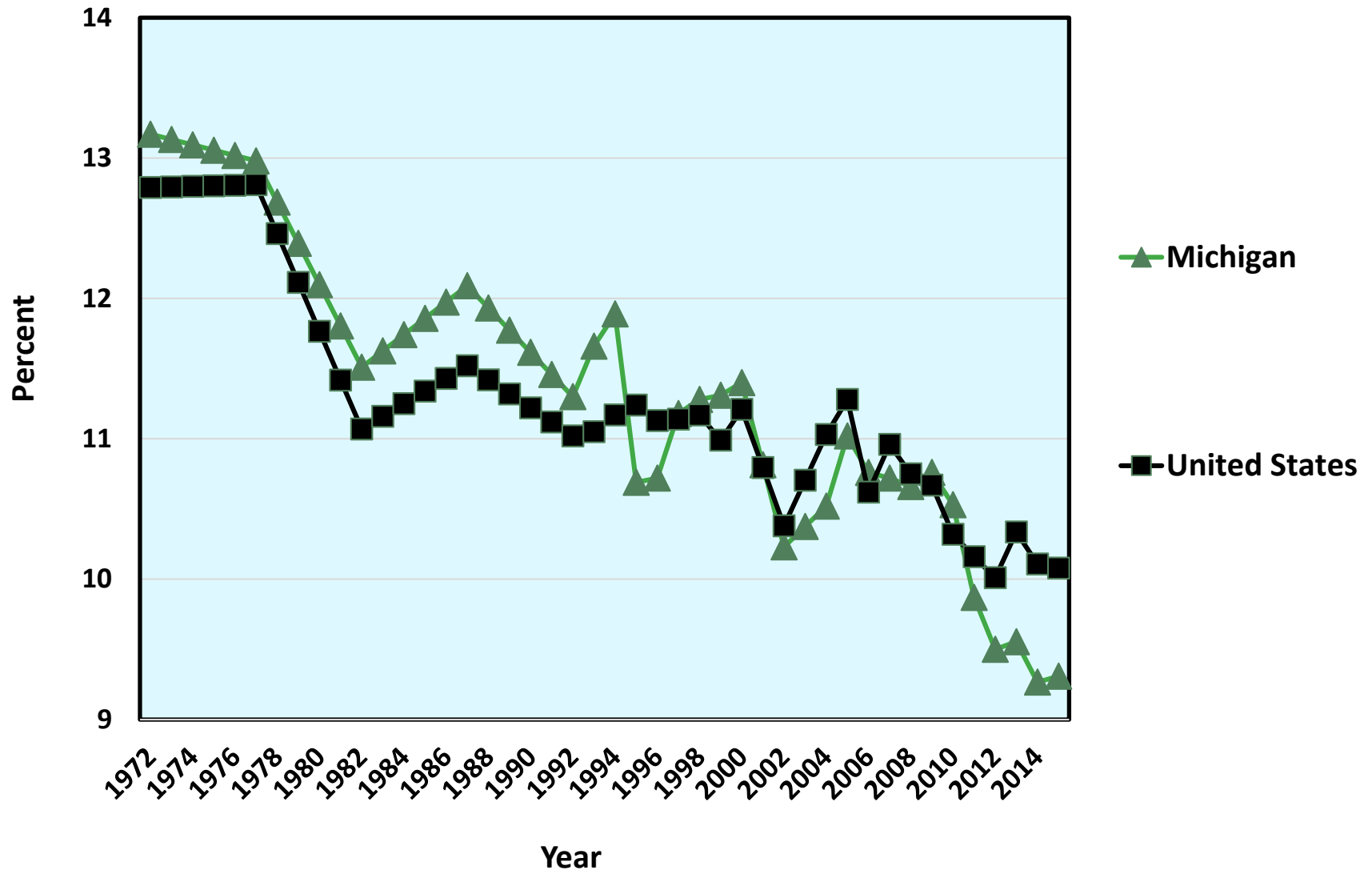
Per-Capita Personal Income, Adjusted for Inflation, In Michigan and the United States, 1929-2016



The reason that the budget is down is that “tax effort” is down.

Tax effort is the percentage of the economy that goes to taxes.

State and Local Taxes as Percent of Personal Income, In Michigan and the United States, 1972-2015



If the fraction of our economy that is devoted to state and local taxes were at the national average, we would collect an additional \$3 billion per year in tax revenues.

If the fraction of our economy that is devoted to state and local taxes were at the level at which we taxed ourselves in 1972, we would collect an additional \$15 billion per year in tax revenues.

**On those wary
notes, let's
sing!!!!**

Michigan, My Michigan

A song to thee, fair State of mine,
Michigan, my Michigan.

But greater song than this is thine,
Michigan, my Michigan.

The whisper of the forest tree,
The thunder of the inland sea,
Unite in one grand symphony
Of Michigan, my Michigan.