Lies, lies, lies, lies, lies, lies, lies, lies, lies, lies

By Paul Krugman

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Modern conservatives have been lying about taxes pretty much from the beginning of their movement. Made-up sob stories about family farms broken up to pay inheritance taxes, magical claims about self-financing tax cuts, and so on go all the way back to the 1970s. But the selling of tax cuts under Trump has taken things to a whole new level, both in terms of the brazenness of the lies and their sheer number. Both the depth and the breadth of the dishonesty make it hard even for those of us who do this for a living to keep track.

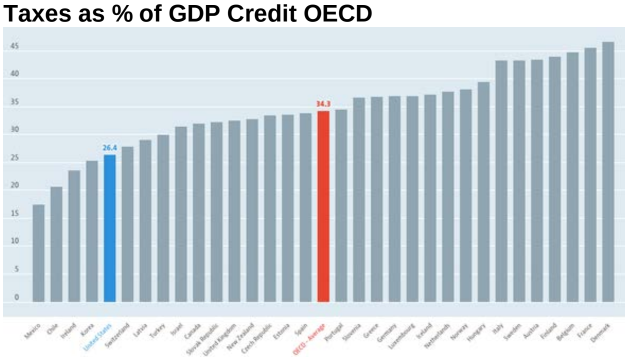
In fact, when I set out to make a list of the bigger lies, I thought there would be six or seven, and was surprised to come up with ten.

So I thought it might be useful, both for myself and for others, to put together a crib sheet: a fairly long-form description of ten big lies Trump and allies are telling, what they've said, and how we know that they are lies. I'm probably missing some stuff, and for all I know some new big lie will have been tweeted out by the time this is posted. But we do what we can. So here we go.

Lie #1: America is the most highly-taxed country in the world

This is a Trump special: he's said it many, many times, most recently just this past week. Each time, fact-checkers have piled on to point out that it's false. Here's taxes as a percentage of GDP, from the OECD:

Taxes as % of GDP Credit OECD



Note: The blue bar is the US; the red bar the average for advanced countries.

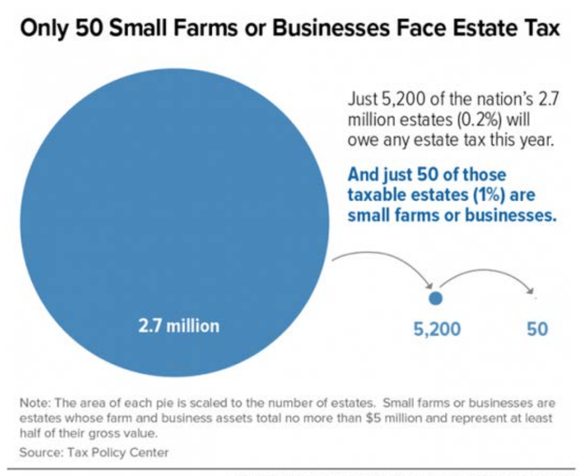
Why does Trump keep repeating what even he has to know by now is a flat lie? I suspect it's a power thing: he enjoys showing that he can lie repeatedly through his teeth, be caught red-handed in his lie again and again, and his followers will still believe him rather than the "fake news" media.

Lie #2: The estate tax is destroying farmers and truckers

Tales of struggling family farms disbanded because they can't afford the taxes when the patriarch dies have flourished for decades, despite the absence of any examples. I don't mean examples are rare: I mean that advocates of estate tax repeal haven't been able to come up with a single example at least since the late 1970s, when exemption levels were raised to the equivalent of around $2 million in today's dollars.

Lately Trump has added a new twist, portraying the estate tax as a terrible burden on hard-working truckers. For who among us doesn't own an $11 million fleet of trucks?

The reality, as this graphic from the Center on Budget and Policy Priorities shows, is that only a small number of very large estates pay any tax at all, and only a tiny fraction of those tax-paying estates are small businesses or family farms:



In fact, since transportation and warehousing are only 3 percent of GDP and farming less than 1 percent, it seems quite possible that this year only 2 or 3 truckers and not a single farmer will pay any estate tax.

Lie #3: Taxation of pass-through entities is a burden on small business

Most businesses in the United States, at least for tax purposes, aren't what we normally think of as corporations subject to profits taxes. Instead, they're partnerships, sole proprietorships, and S corporations whose earnings are simply "passed through": counted as part of their owners' personal income and taxed accordingly.

Trump wants to change that, and let owners simply pay a 25 percent tax on the earnings of pass-through entities, with no further taxes owed. This is being billed as a reduction in the burden on hard-working small business owners.

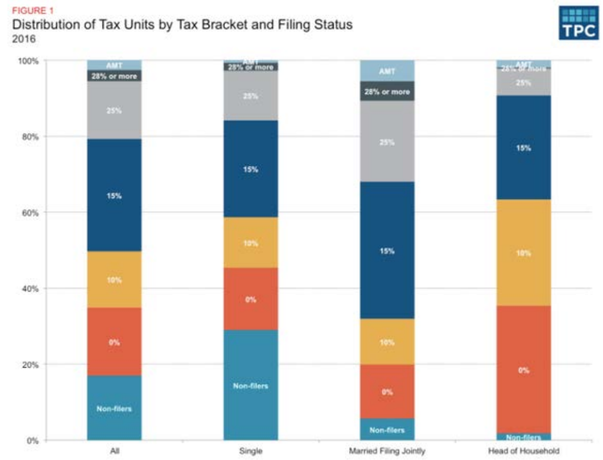
But as the Tax Policy Center explains, many middle-income households who own pass-through entities aren't running businesses; they generally derive only a small fraction of their income from these entities:

> Rather, they may receive occasional income from the rental of a vacation home, or from the sale of odds and ends on eBay, that they report as business income.

High-income owners of such entities, by contrast, get a lot of money from them – but they're not struggling small business people:

> This high-income group is made up of doctors, lawyers, consultants, other professionals, and, at the very highest end, partners in hedge funds or other investment firms.

And these are, of course, the people who would gain massively from the Trump proposal. The vast majority of Americans are in a tax bracket of 15 percent or less, so even if they control a pass-through entity, the Trump tax break is worth nothing to them:



High-income individuals, however, would gain a lot by paying 25 percent instead of the much higher rates they pay at the margin – 39.6 percent right now. And they'd also have a strong incentive to rearrange their affairs so that more of their income pops up in their pass-throughs. This wouldn't be small-business creation; it wouldn't add jobs; it would just be tax avoidance. That's what happened when Kansas tried something similar, and played a big role in the state's fiscal disaster.

So this isn't a tax break for small business, it's a tax break for, surprise, wealthy individuals.

Lie #4: Cutting profits taxes really benefits workers

Tax incidence is a headache-inducing subject at best, and my sense is that even the tax policy experts have gotten behind the curve in thinking through the implications of global capital markets for the subject. But I think there's a way to cut through at least some of the confusion.

Think about what happens if you cut the taxes on corporate profits. The immediate impact is that (duh) corporations have more money. Why would they spend that extra money on hiring more workers or increasing their wages?

Not, surely, out of the goodness of their hearts – and not in response to worker demands, because these days nobody cares what workers think.

Now, they might be inclined to invest more, increasing the demand for labor and therefore raising wages indirectly while competing pre-tax profits down. But there are a couple of major slippages in this story.

First, a lot of corporate profits aren't a return on physical capital and won't be competed down if capital gets cheaper. Apple, Google, Microsoft, and others derive their profits from technological advantages, brand name, and market power; cutting the taxes on those profits just leaves their owners with more money.

Second, to raise wages a tax cut must raise the overall stock of capital, which means it must lead to higher total investment spending. Where does the money for that increase in investment come from? The tax cuts are unlikely to raise national saving.

The money might come from abroad, via capital inflows. But the flip side of those capital inflows would be a bigger trade deficit – hardly what the proponents of tax cuts are advertising – and in any case running trade deficits on the required scale is a much more problematic thing than people seem to realize. The dollar would have to rise sharply – and the strength of the dollar would itself deter foreign investment, very much slowing the process of wage rise.

So for an extended period – at least 5 years, probably much more — cutting profits taxes is good for owners of corporations. Workers, not so much.

Lie #5: Repatriating overseas profits will create jobs

For tax reasons, corporations hold a lot of money in overseas tax shelters. Tax cutters always claim that lower rates and/or an amnesty will bring that money home and create a lot of jobs.

So, first of all, there isn't really a Scrooge McDuck-type pile of cash hidden overseas, ready to be put to work if the taxman will let it. Those overseas accounts are just an accounting device, which have very little real effect. Many of the companies with big overseas hoards also have plenty of idle cash at home; what's holding them back is a lack of perceived opportunities, not cash flow. And even those who don't have surplus cash can easily borrow at near-record low interest rates; remember, they can always use the overseas cash to secure their loans.

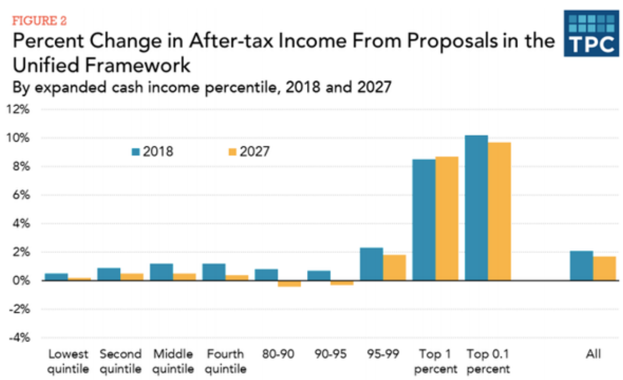
And we have solid empirical evidence here. In 2004 the U.S. enacted the Homeland Investment Act, which offered a tax holiday for repatriation of foreign earnings by U.S. multinationals. Careful study of its effects tells us that

> Repatriations did not lead to an increase in domestic investment, employment or R&D — even for the firms that lobbied for the tax holiday stating these intentions and for firms that appeared to be financially constrained. Instead, a $1 increase in repatriations was associated with an increase of almost $1 in payouts to shareholders.

Lie #6: This is not a tax cut for the rich

Trump says it isn't, so that's that, right? Oh, wait.

Actually, if you look at the major provisions of the Unified Framework, the big items are (i) Cuts in corporate taxes (ii) Pass-through tax cut (iii) elimination of the estate tax (iv) cut in top marginal rate. All these strongly favor very high incomes – and everything else is small change. Hence the Tax Policy Center estimate:



Administration flacks and defenders are accusing TPC of reaching conclusions without adequate information; but the administration is making lots of assertions about what its plan will do, with apparently no more information than the center. Furthermore, given the general shape of the plan there's no way it can fail to be very much a gift to the already very rich.

Lie #7: It's a big tax cut for the middle class

See Lie #6 above. All the big provisions benefit the rich, not the middle class. What's left is mostly small change – and some of it, like ending deductibility of state and local taxes and other deductions, actually raises taxes on a substantial number of middle-class Americans.

In total, by 2027, according to TPC, 80 percent of the tax cut goes to the top 1 percent; only 12 percent to the middle three quintiles.

Lie #8: It won't increase the deficit

OK, we're looking at big cuts in corporate taxes, elimination of the estate tax, lower rates on high-income individuals, and a massive new tax-avoidance loophole. How can this not increase the budget deficit?

The only answer would be if the tax proposal eliminated vast swathes of the existing set of tax deductions, massively broadening the tax base. It doesn't. The only even halfway biggish thing here is the state and local deductibility end – and that is already in very big political trouble. This is a multi-trillion-dollar budget buster, unless it summons up deep voodoo. But …

Lie #9: Cutting taxes will jump-start rapid growth

Insistence in the magical power of tax cuts is the ultimate zombie lie of U.S. policy discussion; nothing can kill it. And we know why: there's a lot of money behind the proposition that great things will happen if you cut the donors' taxes. It's difficult to get a man to understand something when his salary depends on his not understanding it.

Still, for the record: Reagan cut taxes, and although his administration began with a terrible recession, there was a fast recovery thereafter. Some of us think Paul Volcker had more to do with both the recession and the recovery than anything coming from the White House; but in any case we have more evidence.

For Bill Clinton raised taxes, amid cries from the right that he would destroy the economy. Instead he presided over a boom that surpassed Reagan in every dimension. For what it's worth, I don't think this boom was Clinton's doing. But it certainly refuted the proposition that cutting taxes is both necessary and sufficient for prosperity.

Then Bush the younger cut taxes, and there were many hosannahs about the "Bush boom." What he actually got was a lackluster recovery, followed by an epic crash.

Finally, Obama inherited the aftermath of that crash, and despite scorched-earth opposition from Republicans the economy gradually clawed its way back. Then in 2013 Obama first raised taxes substantially, then implemented the Affordable Care Act, again amid cries of disaster from the right. The economy did fine.

Oh, and there were the recent state-level experiments. Sam Brownback slashed taxes in Kansas, promising an economic miracle; all he got was a fiscal crisis. Jerry Brown raised taxes in California, amid predictions of – you guessed it – disaster; the economy boomed, and the main problem is a housing shortage.

There is nothing, nothing at all, in this history that would make any open-minded person believe that the Trump tax plan will cause dramatically accelerated growth.

Lie #10: Tax cuts will pay for themselves

If tax cuts don't generate an economic miracle, it's hard for them to generate a revenue surge that makes up for lower rates. True, some hidden money may come out of the woodwork and show up as taxable income, even if GDP doesn't rise. But this effect hasn't historically been anywhere big enough to offset the direct losses from lower taxes. Reagan's tax cuts led to deficits, Clinton's tax hike to surpluses; Jerry Brown presided over California's fiscal revitalization, Sam Brownback over a fiscal crisis that eventually prompted the legislature to overrule him and raise taxes again.

So there we are: ten big tax-cut lies. That was pretty exhausting, actually – and as I said, I've probably missed a few, and/or Trump will invent some new ones. But I hope this ends up being a useful reference.