Trump's $700 billion gift to wealthy foreigners

By Paul Krugman
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Why is Donald Trump planning to give away $700 billion — that's billion, with a "b" — to foreigners, no strings attached? You probably didn't know that he's planning to do this. In fact, he himself almost surely has no idea that he's planning to do this. But it would be one clearly predictable consequence of the tax "reform" he and his congressional allies are trying to pass.

Some features of the Trump tax plan are still up in the air. For example, we don't know exactly how upper-middle-class taxpayers will be punished — will they lose their deduction on state and local taxes, some of their tax breaks on retirement accounts, or something else? But the core of the plan is clearly an enormous cut in taxes on corporate profits, which the nonpartisan Tax Policy Center estimates at $2 trillion over the next decade.

Now, the administration claims that all of this tax cut will be passed on to workers in the form of higher wages. In fact, it claims that the wage gains from the tax cut will be several times as large as the revenue loss.

Few independent analysts believe this. In fact, the administration itself doesn't believe it. Recently Steven Mnuchin, the Treasury secretary, warned that stocks will crash if Congress doesn't pass tax cuts. But why would stocks crash if all the benefits go to wages rather than profits?

For what it's worth, the argument goes like this: Cutting corporate taxes would bring foreign capital into the United States, which would raise investment, which would increase productivity, and this productivity would then get reflected in higher wages. If this sounds like a convoluted and uncertain story, with many weak links in the supposed chain of events that ends up helping workers so much, that's because it is.

There are, in reality, multiple reasons not to believe much of this account, ranging from the fact that a lot of the corporate income we tax represents monopoly profits — which won't be competed away even if foreign money comes flooding in — to the sheer size of the U.S. economy, which can't pull in lots of foreign capital without driving up interest rates worldwide.

Also, to the extent that the story makes any sense at all, it's a story about the very long run. In the short run, drawing in foreign money by cutting taxes on profits would lead to a stronger dollar, which would slow the pace of foreign investment by making U.S. assets look expensive. So we're talking about a process that would take many years if not decades.

Oh, and the stronger dollar would also mean much bigger trade deficits — a consequence of tax cuts that Republicans, strange to say, haven't advertised, even though the same thing happened during the Reagan years.

Realistically, then, the benefits from cutting corporate taxes would overwhelmingly flow into after-tax profits rather than wages, especially in the first few years and probably for a decade or more. And this in turn means that the main beneficiaries would be stockholders, not workers.

So who are these stockholders, exactly? You can guess part of the answer: We're talking mainly about the very affluent. Even if we count indirect holdings in retirement accounts and mutual funds, the richest 10 percent of U.S. residents account for about 80 percent of American-owned stocks, and the richest 1 percent own about 40 percent. So we're talking, as always when it comes to Republican plans, about tax cuts heavily tilted toward the wealthy.

But that's not the whole story, either — it gets worse.

The whole sales pitch for the Trump tax plan rests on the claim that everything is different because we're now part of a global financial market. The truth is that this makes less difference than many imagine.

But one thing is true: These days there's a lot of cross-border investment. In particular, as Steven M. Rosenthal of the Tax Policy Center notes — in a paper I found revelatory — around 35 percent of U.S. equities are now owned by foreigners, triple the level during the Reagan years.

What this means is that around 35 percent of a tax cut from an administration that proudly uses the slogan "America first" — $700 billion over the next decade — wouldn't even go to Americans. Instead, it would be a windfall to wealthy foreigners, who would probably gain a lot more from the tax cut than U.S. workers. Oh, and it makes all that talk about allies not paying their "fair share" sound kind of silly, doesn't it?

And meanwhile, the result would be a huge hole in the budget, which Republicans would try to close at the expense of the poor and middle class. The budget resolution the House and Senate passed over the last week called for cuts of $1 trillion in Medicaid and almost half a trillion in Medicare. The resolution doesn't have the force of law, but it's a pretty clear indication of what's next if the big tax cuts pass.

Now, it may sound extreme to say that Trump and his allies want to take away health care from millions largely so that they can give wealthy foreigners a $700 billion gift. But however it may sound, it's also the literal truth.