AMERICANS FOR TaxFairness

EXPERTS ON THE ECONOMIC EFFECTS OF THE TRUMP TAX GIVEAWAY

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Moody's Investor Service [MarketWatch, 1/28/2018]

"We do not expect a meaningful boost to business investment because U.S. nonfinancial companies will likely prioritize share buybacks, M&A and paying down existing debt," said Moody's analysts led by Rebecca Karnovitz. "Much of the tax cut for individuals will go to high earners, who are less likely to spend it on current consumption."

More than three-quarters of the $1.1 trillion in individual tax cuts will go to people who earn more than $200,000 a year in taxable income, who constitute only about 5% of all taxpayers, said Karnovitz.

CNBC poll of S&P 100 Corporations [CNBC, 1/17/2018]

Only 10 companies in the S&P 100 contacted by CNBC said they have specific plans to use some of the money saved from the corporate tax cuts to boost worker pay or invest in facilities or charitable causes. … Despite a handful of high-profile announcements, the recent cuts in corporate taxes haven't yet had a meaningful impact on American companies' plans to boost investment or raise workers' pay, a CNBC survey of large companies found.

Edward Yardeni, president & chief investment strategist at Yardeni Research [USA Today, 1/26/2018]

Companies, he says, are unlikely to boost wages because they remain cost-conscious in a tight labor market, are focused on maintaining profit margins and are still mindful and fearful of the fallout from the Great Recession nearly a decade ago. … "Workers won't see many wage increases," says Yardeni, adding that "if all these corporations were coming back with wage increases (rather than bonuses), it would have more substantial impact on consumers."

Savita Subramanian, head of U.S. equities & quantitative strategy, Bank of America/Merrill Lynch [Bloomberg Markets, 1/19/2018]

"The fact that M&A has been twice as popular as capex among companies with the most cash suggests that multinationals bringing home cash may spend it on acquisitions rather than capex," strategists including Subramanian said in a note dated Wednesday. "2018 could be the record year for M&A."

Foreign cash repatriation may push the number of deals in the U.S. to more than 350 in 2018, the most on record, the bank estimates. Not that shareholders will go wanting. Stock repurchase may take up half of whatever freed cash companies decide to spend. But rising corporate leverage and rich valuations may rein in the total.

Unlike buybacks, the pace of capital spending will pick up, but it won't result in a material boost. Tight capacity combined with cheap borrowing costs have historically been more important for capex than tax policy, according to Subramanian.

Michelle Meyer, chief economist at Bank of America Merrill Lynch [CNBC, [12/21/2017]

BofAML believes the tax cuts will add about 0.3 percentage point in economic growth each of the next two years "or something close to that," Meyer said in an interview with "Power Lunch."

The bigger question, however, is whether those cuts will stimulate long-term growth, she noted.

"We're skeptical," Meyer said. "Are you actually going to see a transformation in the economy that gets us out of a slow-growth environment? ... I don't think that we're seeing legislation that gets us to that point."

Mihir Desai, Professor of Finance at Harvard Business School and a Professor of Law at Harvard Law School [New York Times, 1/16/2018]

The flurry of high-profile bonus announcements "are hard to interpret," said Mihir Desai, an economist at Harvard Business School and Harvard Law School whose research supports the idea that corporate tax cuts lead to at least modest wage increases. "They may well be evidence for these gains, but just as well may be an example of savvy public relations. The reality is we'll have to wait for a few years and good empirical work to really know the answer."

Jim O'Sullivan, chief United States economist at High Frequency Economics [New York Times, 1/16/2018]

"Certainly, a lot of what you're seeing is bonuses, rather than wages. It's a one-time thing — you don't have to do it again. It's political, obviously. It's P.R."

Lloyd Greif, president of Greif & Co., a Los Angeles investment bank [Los Angeles Times, 1/15/2018]

"This is going to be a robust year for mergers and acquisitions with the influx of cash that's going to be brought into the U.S."

Nick Sargen, chief economist at Fort Washington Investment Advisors, a money-management firm in Cincinnati [USA Today, 1/26/2018]

"It's a drop in the bucket. … Companies are doing it mainly as a PR gesture. It looks good that they are sharing a portion, however small, of the corporate tax cuts."

Howard Marks, billionaire founder of investment firm Oaktree Capital [Business Insider, 1/25/2018]

"We've seen a number of companies give raises or bonuses following the enactment of the tax law, but I doubt it was done out of generosity," Marks wrote.

He says there's every reason to believe that most of the corporate tax benefit will be used to "enhance credit ratings, fatten dividend payments, and finance stock buybacks."

All of that is fine and well, but those weren't the rationales Republicans gave for passing the tax plan, according to Marks.

“Instead, it was billed as a job-creator,” he wrote. “With unemployment already below average, many CEOs tell me they’re hamstrung by a scarcity of qualified workers. So who will fill the new jobs if corporations expand in the US? And if workers aren't available, will new plants (and jobs) really be created?”

Lawrence Summers, former U.S. Treasury Secretary under Clinton [CNBC, 1/26/2018]
Former Treasury Secretary and Obama administration economic advisor Larry Summers said Friday that recent employee bonuses are stunts and not reflective of long-term hopes for prosperity that tax cuts are supposed to bring.

"I think it's a gimmick," Summers told CNBC's "Squawk Alley." "I think in many cases the firms have to raise wages because labor markets are tight, and so why not curry some favor with the White House by linking it to the tax cuts.

"That's a very common device: If you want to give somebody some money but you don't want to promise it to them on a continuing basis, you frame it was a bonus," he said. "Look, the corporate tax cuts are going to be forever. If the firms really believe this had to do with corporate tax cuts, why aren't they committing to bonuses forever?"

New York Times Article [The New York Times, 1/3/2018]
For most large companies, experts believe that the proceeds of the big tax cut will largely go toward paying for companies to repurchase their own shares, a tactic that tends to boost stock prices. The new law will drop the corporate income tax rate to 21 percent from 35 percent and usher in other big side benefits.

Economists and analysts expect much less of the tax winnings to go to permanent pay increases for employees, who, as a whole, have endured stagnant wages over the past decade. That’s especially true for larger companies.

“The majority of these funds will go to shareholders,” said Jeffrey A. Sonnenfeld, a dean of leadership studies at the Yale School of Management.

MarketWatch [12/14/2017]
For anyone who saw the appearance by President Donald Trump’s top economic adviser, Gary Cohn, at The Wall Street Journal’s CEO Council meeting in November, the flurry of announcements is not a surprise.

Audience members there were asked to raise their hands if their company planned to invest more if the Republican tax bill were to pass. When very few hands went up, Cohn expressed surprise, asking, “Why aren’t the other hands up?”

Executives later told reporters that they would use the anticipated tax savings to reduce debt, increase buybacks or pay dividends. David Mendels, the former chief executive of online video company Brightcove Inc. and before that an executive at Adobe Systems Inc. called the idea that companies would do otherwise “bonkers.”