To Cut or Not To Cut? How Do Corporate Tax Cuts Impact Business Investment, Economic Growth, Wages, and Unemployment?

The United States (U.S.) recently cut the maximum corporate tax rate from 35% to 22%. Previously, the U.S. had the highest statutory corporate tax rate in the developed world. Many supply-side economist believe that the higher tax rate caused American companies to move to low-tax jurisdictions to increase their after-tax profit. Advocates for the tax cut argue that a reduction in U.S. corporate tax rates will encourage U.S. businesses to reinvest in the U.S., causing an increase in business investment, output and wages, while reducing unemployment across America. Keynesian economist who oppose the tax cuts believe that the cut will have little impact on aggregate demand and thus not generate an increase in business investment, output or job creation, and will just simply increase the Federal Deficit and Debt.

In this paper, we empirically examine how corporate tax cuts impact business decisions to increase investment, production and hiring in the U.S. More specifically, we use annual data from 1960 to 2016 collected from the St. Louis Federal Reserve FRED and TAXSIM to determine the impacts that the U.S. corporate tax rates have on business fixed investment, output measured as GDP, median wages, and the civilian unemployment rate. Results show that the tax cuts generate a small and short lived increase in GDP and have no statistically significant impact on business investment, wages and unemployment.

Sala 2W17 (Edifício 1) – Tel.: 210 464 231 - E-mail: andreia_garcia@iscte-iul.pt