



Who Is Right about Tax Cuts, Republicans or Economists?

The same folks who jumped on the stock market bandwagon the day after Trump's election are excited again. *Bloomberg* writes that the possibility of tax cuts is making waves in the stock market.

Amid FANG flu and another trash rally, a trade tied to Donald Trump has come quietly back into vogue with U.S. equity investors.

The rally reincarnates a trade that ascended after the November election and then died. Arousing interest is Trump's focus on one of his signature campaign promises to domestic businesses. He and Republican congressional leaders plan to preview their bill on Wednesday and the president said he expects the House will approve a version in October and the Senate by year's end.

As congressional action progresses so will the belief that tax cuts are in the wings. And thus the market may reignite and continue to go up. But eventually, what drives stock prices is the strength of the economy and one of the factors that drives or impedes the US economy is the cost of the nearly \$18 Trillion US debt. In the end the issue comes down to who is right about tax cuts, the Republicans or the economists. *The New York Times* looks at the battle over tax cuts.

Republican lawmakers are gearing up to battle a powerful force in the coming skirmish over a \$1.5 trillion tax cut: Economists.

Party leaders are rejecting criticism that their yet-to-be-unveiled tax plan will add to the ballooning federal deficit, saying the tax cuts will essentially pay for themselves by generating robust economic growth. And they are determined to secure economic assessments that prove those optimistic assumptions.

Their position is setting the stage for a fight with Washington's economic scorekeepers – such as the Joint Committee on Taxation and the Congressional Budget Office – who are required to assess the cost of tax legislation and its impact on the federal deficit. Those assessments – a so-called budget score – could ultimately determine the scope and permanence of any tax overhaul because of budget rules limiting legislation that adds to the long-term deficit.

This is not an esoteric argument. Stock traders may make short term profits from the enthusiasm generated by the possibility of tax cuts. And short term investors may do well from stimulated business activity. But long term investors like the Warren Buffetts of the world are essentially betting on the US economy and too much debt will kill any benefits of tax cuts on economic growth and on stock prices. In short congress needs to get this right.

Real Economists

Senator Corker of Tennessee sits on the budget committee and says that he cannot trust government economists in the Congressional Budget Office and wants real economists from outside the government. The point, of course, is that he wants someone to validate his trickle-down economics model in order to promote tax cuts. Corker wants folks to believe that three percent growth is attainable but the Fed and others disagree.

Yet economists also have concerns about that 3 percent growth number. The Federal Reserve this week said the economy is continuing to grow at a moderate pace and signaled it will likely raise interest rates in December. In March, the Fed estimated that the maximum sustainable pace of economic growth is around 1.8 percent and the Congressional Budget Office puts the ceiling at 1.9 percent. While low by historical standards, economic growth is determined by expansion of the work force and improvement in the amount that workers can produce, both of which have slowed in recent years as a result of an aging work force and lower productivity.

Who is right about tax cuts, Republicans or the economists?

Educational Resources

**Click the links below to get your
FREE training materials.**

Free Weekly Investing Webinars

Don't miss these free training events!

<http://www.profitableinvestingtips.com/free-webinar>

Forex Conspiracy Report

Read every word of this report!

<http://www.forexconspiracyreport.com>

Get 12 Free Japanese Candlestick Videos

Includes training for all 12 major candlestick signals.

<http://www.candlestickforums.com>

Disclaimer: Trading and investing involves significant financial risk and is not suitable for everyone. No content on this document should be considered as financial, trading, or investing advice. All information is intended for educational purposes only.