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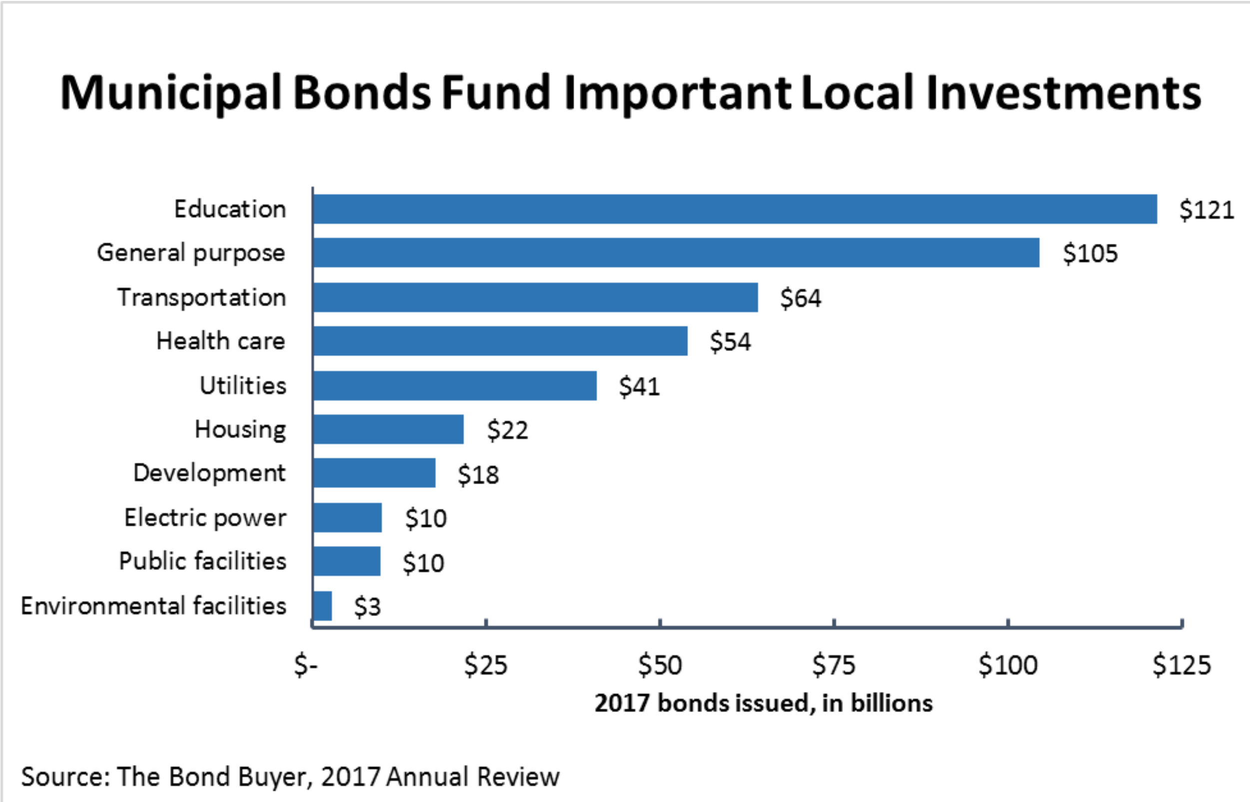
GOP Tax Scam Undermines Local Investments

It was inevitable that there would be unintended consequences from the GOP tax law. Debate and input were limited and the plan changed rapidly, barely giving nonpartisan experts any time to think through its impact. Now that the law has taken effect we are starting to see more and more of those unintended harms. Just this week, the Wall Street Journal reported how bank holdings of municipal bonds dropped for the first time since the recession, due to the new tax law leading to less demand.

This is a big deal for state and local governments that rely on municipal bonds to finance key investments, which fuel long-term economic growth. It also compounds the challenges of the new limitations on state and local tax deductions. In 2017, state and local governments issued $121 billion in municipal bonds to finance education activities, $64 billion to finance transportation, and $54 billion for health care. As the tax bill leads to less demand for these bonds, and thus higher interest rates, it is likely that these entities will need to cut back on future investments.

Against this backdrop, federal investment in infrastructure becomes even more important. Yet, the only plan we've seen from President Trump actually shifts more responsibility onto state and local governments. Democrats, meanwhile, have put forward a plan that would ramp up federal investment to close the backlog of maintenance and replacement needs while building an infrastructure system that allows American businesses and workers to compete in the 21st global economy. Given the harm that the Republican tax cuts are doing to the municipal bond market, now is the time to start this investment, otherwise we risk letting American infrastructure deteriorate even further.


Municipal Bonds Fund Important Local Investments
Education
General purpose
Transportation
Health care
Utilities
Housing
Development
Electric power
Public facilities
Environmental facilities
$121
$105
$64
$54
$41
$22
$18
$10
$10
$3
$-
$25
$50
$75
$100
$125
2017 bonds issued, in billions
Source: The Bond Buyer, 2017 Annual Review