

Corporate Tax Cuts and Economic Growth

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Abstract

Empirical evidence on the effect of corporate income tax on economic growth is mixed. This paper explores the ambiguous mechanism of corporate income tax by using a Schumpeterian growth model with heterogeneous innovators and endogenous market structure. Our main findings are as follows: (i) Corporate tax cuts do not necessarily enhance innovation. (ii) Corporate tax cuts are likely to have a positive growth effect when the research and development (R&D) productivity across firms is heterogeneous. (iii) R&D tax deduction increases the growth rate. (iv) Based on our calibration, the corporate tax cut in 2018 had a negative effect on economic growth and welfare in the U.S. economy.

Keywords: Corporate income tax, R&D tax deduction, Innovation, Heterogeneity, Endogenous entry, Market competition

JEL-Classification: H21, H25, O31

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