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Two Years after Republican Tax Windfall for Wealthy, Corporations, Broken Promises for Middle-Class Families

Report of the Senate Finance Committee Democratic Staff

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President Trump and congressional Republicans promised that the benefit of tax cuts for the wealthiest Americans and multinational corporations would trickle down to middle-class families, and their massive giveaway to the most fortunate would magically benefit workers.

Democrats and experts debunked these laughable claims at the time, and two years after jamming their tax cuts through Congress, no Republican predictions have come to pass.

Middle-class families have not seen benefits they were promised, and Republicans have again used the exploding deficit to call for devastating cuts to Social Security and Medicare,[1] making working families pay for Republicans' massive giveaway to billionaires and Wall Street.

Broken Promise #1: Workers will receive at least $4,000 wage increases.

President Trump and congressional Republicans promised that tax cuts for multinational corporations would result in sustained $4,000 wage increases for workers,[2] but two years after multinational corporations received a trillion dollar windfall, wages for workers have barely budged. Rather than give hardworking Americans the raise they were promised, corporations spent their windfall on nearly $1 trillion in stock buybacks that overwhelmingly benefitted wealthy stockholders.[3]

> "Reducing the statutory federal corporate tax rate from 35 to 20 percent would, the analysis below suggests, **increase average household income in the United States by, very conservatively, $4,000 annually.** The increases recur each year, and the estimated total value of corporate tax reform for the average U.S. household is therefore substantially higher than $4,000. Moreover, the broad range of results in the literature suggest that over a decade, this effect could be much larger." *President Trump's Council of Economic Advisers*

The *Congressional Research Service (CRS)* confirmed in a May 2019 report that workers saw little benefit when accounting for inflation and previously projected wage growth:

> The Department of Labor reports that average weekly wages of production and nonsupervisory workers were $742 in 2017 and $766 in 2018. Wages, assuming full-time work, increased by $1,248 annually. But this number must account for inflation and growth that would otherwise have occurred regardless of the tax change. The nominal growth rate in wages was 3.2 percent, but adjusting for the GDP price deflator, real wages increased by 1.2 percent. This growth is

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[1] Dennis, Steven. "McConnell Blames Entitlements, Not GOP, for Rising Deficits." Bloomberg, December 16, 2018. https://www.bloomberg.com/news/articles/2018-10-16/mcconnell-blames-entitlements-not-gop-for-rising-deficits.

[2] The Council of Economic Advisers, "Corporate Tax Reform and Wages: Theory and Evidence." The White House. October 2017. https://www.whitehouse.gov/sites/whitehouse.gov/files/documents/Tax%20Reform%20and%20Wages.pdf

[3] Gravelle, Jane G., and Marples, Donald J. "The Economic Effects of the 2017 Tax Revision: Preliminary Observations." Congressional Research Service. May 22, 2019. https://www.everycrsreport.com/files/20190522_R45736_8a1214e903ee2b719e00731791d60f26d75d35f4.pdf

smaller than overall growth in labor compensation and indicates that ordinary workers had very little growth in wage rates.[4]

While Trump and Republicans have pointed to the one-time bonuses corporations announced at the end of 2017, CRS also confirmed that the bonuses were a public relations stunt, noting that "reported bonuses were equivalent to about **$28 per U.S. worker**. And many were announced so firms could deduct the cost at their higher 2017 tax rate of 35 percent instead of the 2018 rate of 21 percent."[5]

Broken Promise #2: Corporations will increase investment, which will boost job creation and lead to higher rates of economic growth.

President Trump and congressional Republicans promised that multinational corporations would use their windfall to increase capital investment. Increased investment in factories, offices and equipment would then boost job creation and lead to higher rates of economic growth. Two years after multinational corporations received a trillion dollar windfall, investment is down, not up, and higher than projected rates of job creation and economic growth have not materialized.

As the Tax Policy Center noted in an August 2019 analysis: "The economic benefits of the *Tax Cuts and Jobs Act* (TCJA) seem to have petered out…the rate of growth peaked in the second quarter of 2018 and has been slowing ever since…the government estimated that, after adjusting for inflation, the economy grew at an annual rate of about 2.1 percent in the second quarter [of 2019]."[6]

The Center for American Progress in a September 2019 report similarly concluded the effect of the tax cuts have not created sustained investment:

> The most recent data show that private nonresidential investment actually **declined** in the second quarter of 2019, contributing to an overall slowdown in growth. Instead of substantially increasing investment, the windfall businesses received largely went to paying off wealthy investors.
>
> One analysis of Fortune 500 companies found that just 20 percent of increased cashflow in 2018 was spent on increasing capital expenditures or research and development. The remaining 80 percent of cashflow went to investors through buybacks, dividends, or other asset planning adjustments. The vast majority of corporate stocks are held by the wealthy, including foreign investors, and thus they are the ultimate beneficiaries of the windfall corporate tax cuts. [7]

In fact, CRS found that sectors of the economy that showed the highest rate of growth in investment were **hurt** by Republican tax policy. [8] In analyzing CRS' work, *Forbes'* noted that "the [bill] reduced the cost of capital for structures by 11.7 percent but investment in structures grew by a modest 5 percent, after

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[4] Id.
[5] Id.
[6] Gleckman, Howard., Boddupalli, Aravind. "The U.S. Economy Reverts to a Pre-Tax Cut Growth Rate." Tax Policy Center. Urban Institute and Brookings Institute. https://www.taxpolicycenter.org/taxvox/us-economy-reverts-pre-tax-cut-growth-rate
[7] Hendricks, Galen., Hanlon, Seth., Madowitz, Michael. "Trump's Corporate Tax Cut Is Not Trickling Down." Center for American Progress. September 26, 2019. https://www.americanprogress.org/issues/economy/news/2019/09/26/475083/trumps-corporate-tax-cut-not-trickling/
[8] Gravelle, Jane G., and Marples, Donald J. "The Economic Effects of the 2017 Tax Revision: Preliminary Observations." Congressional Research Service. May 22, 2019. https://www.everycrsreport.com/files/20190522_R45736_8a1214e903ee2b719e00731791d60f26d75d35f4.pdf

taking inflation into account. By contrast, the [bill] raised the after-tax cost of research and development by 3.4 percent yet investment in intellectual property rose by 7.7 percent."[9]

Broken Promise #3: Tax cuts will pay for themselves.

President Trump and congressional Republicans laughably promised that the tax cuts would pay for themselves through increased economic growth. No experts agreed with this assessment at the time, and the Congressional Budget Office ultimately concluded that the bill would add nearly $1.5 trillion to the deficit.[10]

As was predicted, the deficit has exploded. CRS estimates the tax cuts reduced federal revenue by approximately $170 billion in Fiscal Year 2018 alone,[11] and CBO projects the deficit will exceed $1 trillion per year beginning in 2022.[12]

[9] Gleckman, Howard. "A New Congressional Study Finds Little Economic Benefit From the 2017 Tax Cuts." Forbes. May 29, 2019. https://www.forbes.com/sites/howardgleckman/2019/05/29/a-new-congressional-study-finds-little-economic-benefit-from-the-2017-tax-cuts/#64f77f4a549e

[10] Hall, Keith. "Cost Estimate for the Conference Agreement on H.R. 1, a Bill to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018." Congressional Budget Office. https://www.cbo.gov/publication/53415

[11] Gleckman, Howard. "A New Congressional Study Finds Little Economic Benefit From the 2017 Tax Cuts." Forbes. May 29, 2019. https://www.forbes.com/sites/howardgleckman/2019/05/29/a-new-congressional-study-finds-little-economic-benefit-from-the-2017-tax-cuts/#64f77f4a549e

[12] "Updated Budget Projections: 2019 to 2029." Congressional Budget Office. May 2019. https://www.cbo.gov/system/files/2019-05/55151-budget_update_0.pdf