United States Senate
COMMITTEE ON FINANCE
WASHINGTON, DC 20510–6200

June 21, 2019

Mary B. Mazanec
Director
Congressional Research Service
Library of Congress
101 Independence Avenue, S.E.
Washington, DC 20540

Dear Director Mazanec,

A recent paper by the Congressional Research Service (CRS) put forward what CRS seems to believe are noteworthy observations with respect to economic effects of the Tax Cuts and Jobs Act. I have received comments from others who believe that the CRS observations are not entirely nonpartisan in tone or objective. As indicated in the attached "Overview," my professional staff has also expressed reasons to be concerned about your recent report. Additionally, I have received the attached communication from an official at the Department of the Treasury that calls into question elements of the recent CRS paper.

If CRS wishes to produce original research analysis that takes a position and tone that is favorable to one side of a debate, without balancing it with alternative objective views, then CRS ought not to present its analysis as objective, nonpartisan, and authoritative. One immediate question that arises is whether CRS subjects its original research to any sort of balanced and objective external peer-review process. Another is: how should Congress and the Public interpret research analysis of the economy when faced with differences that arise between CRS and our scorekeepers, the Congressional Budget Office and Joint Committee on Taxation, when all are to be regarded as authoritative voices of Congress.

I request that you meet with my professional staff to discuss these issues. Please contact Alex Monie (202-224-4515).

Sincerely,

Chuck Grassley

Charles E. Grassley
Chairman
Senate Finance Committee

Overview of Congressional Research Services Paper R45736
Professional Staff, Senate Finance Committee

The Congressional Research Service (CRS) recently issued a paper titled "The Economic Effects of the 2017 Tax Revision: Preliminary Observations," offering its view of how the Tax Cuts and Jobs Act may have affected the economy. The report is concerning, especially when taken widely to be an authoritative and objective assessment.

There are many ways in which analysts can make observations about the evolution of economic variables during 2018 and how they may or may not have been affected by passage of the Tax Cuts and Jobs Act (TCJA).[1] Here's one, with some observations about economic performance in 2018 relative to pre-TCJA performance:[2]

- **Growth in the real** (inflation-adjusted) gross domestic product (**GDP) is up** (3.0% post-TCJA vs. 2.3% pre-TCJA) and significantly surpassed CBO's growth estimates made prior to enactment of the TCJA;
- **Growth in real private nonresidential fixed investment has strengthened significantly** (7.0% post-TCJA vs. 3.9% pre-TCJA) and has been much stronger than analysts projected prior to enactment of the TCJA;
- **Employment growth has strengthened** broadly (monthly average gain in total nonfarm payroll employment of 223,000 in 2018 vs. 209,000 for 2013 through 2017) and in the manufacturing sector (monthly average gain of 22,000 in 2018 vs. 9,800 for 2013 through 2017);
- **Labor productivity growth**, which drives wage growth, **is up** (1.7% post-TCJA vs. 0.9% pre-TCJA);
- **The unemployment rate is down** (monthly average of 3.9% for 2018 vs. 5.6% for 2013 through 2017), and unemployment rates have been at historic lows, **including record low rates** in 2018 for what the Bureau of Labor Statistics labels: Black or African American workers (6.5%); Hispanic or Latino workers (4.7%); Black or African American women workers (5.6%); Hispanic or Latino women workers (4.7%). The unemployment rate for women in 2018 was 3.8%, the lowest since 1953; and,
- **Wages, compensation, and earnings are increasing** with, for example, average annualized growth in median usual weekly real earnings of wage and salary workers of 2.9% vs. an

[1] CRS refers to the Tax Cuts and Jobs Act interchangeably as "the revision," the "Tax Revision," or, most typically, "the Act," after making reference to the fact that Democrats in Congress struck the Title from the Act before final passage because, following so-called "Byrd Rule" proceedings, those elements of the Act had no budgetary effect.

[2] We provide results for post-TCJA National Income and Product Account aggregates and real output per hour (productivity) and real wage growth expressed in terms of averages of annualized quarterly or monthly data for 2018, since CRS's analysis (curiously) focuses on 2018 as a post-TCJA period, even though data for at least the first quarter of 2019 were available before the report was published. We take pre-TCJA "trends" as averages from January 2013 through December 2017, consistent with CRS's use of a sample average as a "linear trend," though we depart from CRS's use of post-TCJA data in determining the trend (i.e., we exclude data from January 2018 onward to depict the trend, since interest presumably lies in what post-TCJA outcomes obtained relative to some sort of trend pre-TCJA). By contrast, CRS's analysis seems to take averages of outcomes beginning from January 2013 through December 2018 to be the relevant linear trend, although CRS does not make clear why January 2013 was selected as the beginning period and outcomes beyond December 2018 were ignored or why post-TCJA outcomes are compared to a trend that is an average that seems to include both pre- and post-TCJA outcomes.

average of 0.8% for 2013 through 2017; and with nominal wage growth for lower earners outstripping that of upper earners in 2018.

It is straightforward to identify even more observations consistent with or indicative of significant positive effects of tax relief on economic aggregates and broad-based positive effects on labor market experiences for America workers, including what CRS calls, without definition, "ordinary workers." Of course, observations such as those above do not definitively identify the TCJA as the single causal factor in generating all or most of the impressively strong economy of 2018. Nonetheless, the observations above can be used, in the spirit of the CRS observational approach to objectively claim that they are consistent with or indicative of what might be expected from a tax reform as significant as the TCJA.

The observations above are consistent with many of the objectives of proponents of the TCJA, including stronger economic growth and broad-based, strengthened wage growth. Others, too, have assembled observations and impressions consistent with positive outcomes stemming from the TCJA.[3] Unfortunately, observations that seem to differ in substance and tone from those offered recently by CRS did not seem to be weighed or considered in CRS's compilation of preliminary observations of possible effects of the TCJA on the economy. It seems clear that CRS did not undertake a very comprehensive survey of competing views when providing Congress with analysis that purports to adhere to the values of objectivity and nonpartisanship. Rather, CRS has presented its own independent and purportedly "authoritative" observations and interpretations of the data.

Most analysts agree that it is still too early to detect the full effects of tax reform, and that identification and separation of effects of changes in taxes is challenging, even over long periods, given that economic outcomes are generated from processes in which not only taxes, but numerous other features of the economic environment, are changing.[4] But, as indicated by observations provided above, early indications are promising, at the very least.

In stark contrast to what we and others have observed, evidently to CRS: there were little (if any) substantive positive economic effects of the TCJA; many positive aspects of the 2018 economy may have arisen absent the TCJA in any event; and, it is possible to compile observations to help refute arguments made by proponents of tax relief for the American economy.

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[3] See, as examples, testimony of Douglas Holtz-Eakin on "A Preliminary Evaluation of the Tax Cuts and Jobs Act," before the House Committee on Ways and Means (available at https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/Holtz-Eakin%20Testimony.pdf , or Chapter 1, "Evaluating the Effects of the Tax Cuts and Jobs Act," in the March 2109 Economic Report of the President (available at https://www.whitehouse.gov/wp-content/uploads/2019/03/ERP-2019.pdf).

[4] CRS even recognizes this point somewhat by noting that: "…examining the growth rates [of real GDP] cannot indicate the effects of the tax cut on GDP…" Nonetheless, it awkwardly goes on to say that such an examination "…does tend to rule out very large effects in the near term."

CRS's recent paper was initially published on May 22, 2019 and subsequently reissued on June 7, 2019 with a correction to a mistake discovered by outside analysts.[5] Based on the Summary page of the report, CRS's main observations seem to be:

- **Real GDP growth rates** "…**show a relatively small (if any) first-year effect [of the Act] on the economy.**"
- "Although **investment** grew significantly, the **growth patterns for different types of assets do not appear to be consistent with the direction…one would expect from the tax changes**."
- **A measure of real wages grew more slowly than GDP**, which has happened in the past.
- While a significant amount of dividends were repatriated in 2018 compared with prior years, "…**the data do not appear to show a significant increase in investment flows from abroad.**"
- "While **evidence does indicate significant repurchases of shares**, either from tax cuts or repatriated revenues**, relatively little was directed to paying worker bonuses**, which had been announced by some firms."
- **While the Act contained provisions that discourage inversions, such activities "…had apparently been significantly slowed by regulations adopted in 2014, 2015, and 2016." (Emphases added).**

This is one way of looking at the data, though, as indicated earlier, others seem not to share CRS's interpretations of the data or many of CRS's choices with respect to how to analyze the data, which data to analyze, or which claims to question or seek to refute.

CRS seems to have selectively used theory and evidence, and not in an entirely objective, nonpartisan way, yet, unfortunately, CRS's impressions are purported to be objective, nonpartisan, and authoritative.

Consider, for example, CRS's decision to use data on bonuses for workers announced by firms' post-TCJA from "[o]ne organization that tracks these bonuses…," which happens also to be an organization that is a "progressive" special-interest group dedicated to raising taxes. Our examination of the data, using the source specified in the CRS paper, shows spreadsheets filled with broken "source" links, along with inclusion of "corporate cheapskates spreadsheets." Presumably, CRS has verified the data for accuracy from ATF data, though we are not confident that is true.

CRS used the aggregated bonus data from the progressive group's website, divided the amount by the number of employed individuals in the civilian non-institutional population, and derived a

[5] The May 22 version of the paper improperly compared a quarter-over-quarter growth rate with a calendar year growth rate, though it remains a question why CRS used Congressional Budget Office (CBO) projections formed post-TCJA rather than projections formed prior to enactment of the Act. Nonetheless, while CBO fixed an error identified by outside analysts, one would expect that a careful editorial screening process would have been used to ensure that other, easily identifiable, errors did not remain. However, while it is not uncommon to see typographical errors in documents, and the like, the refreshed June 7 paper retained earlier errors, such as footnote 7 including ("table 1.10 from what publication?") as a source, and use of "GBP" on page 3, rather than GDP, and identification on page 5 that a decrease in net exports stems from a decline in imports and increase in exports.

per-individual bonus figure to argue that: the figure is small; a small figure is consistent with theory; bonuses may have been paid by firms to get a relatively larger deduction given a transition from a 35% to a 21% statutory top corporate rate; and, realized bonuses could simply reflect bonuses that would have been granted in any tax event given a tight labor market, but firms decided to tie bonuses to tax cuts as "a public relations move."

After calculating a number to show a small aggregate bonus-to-employed population figure, which the paper identifies that theory would predict, CRS identifies that "these funds," derived from abroad or through tax cuts, were used to (announce) large amounts of stock repurchases. Of course, theory also suggests that stock-repurchase activities facilitate reallocation of capital to its most highly valued uses, which can end up in investments in other economic activities that can lead to higher investment and wages elsewhere, though CRS decided not to include that well-established point. CRS also decided not to check to see whether significant shares of total buyback data may be concentrated in recent periods in a small number of firms. Nor did CRS consider whether firms engaged in (actual) stock repurchases might also be firms that have strengthened investment. Evidently, to CRS, such observations are not interesting to explore in its original research and are not appropriate for Congress to consider.

Rather, to CRS, the important observations are limited to telling a story that bonuses are small when spread out among a base of aggregate employment, and there were a lot of stock buybacks announced. Those observations, it is interesting to note, are no different from those emphasized and promoted by the "progressive" group CRS chose to use as its objective data source.

Next, consider CRS's analysis of the "Contribution of Investment Growth," where CRS briefly mentions that "nonresidential investment grew at 7%" (significantly higher than the average from 2013 through 2017, which CRS decided not to observe). According to CRS, we should "…not necessarily view that growth as a supply-side effect of the tax change." Why? Because, according to CRS: investment is volatile; investment takes time to plan, and the strong investment growth in the first half of 2018 was unlikely to have been a result of such planning, even if investors anticipated tax reductions in late 2017; and, growth in subcategories of investment "…is inconsistent with the incentive effects of the tax change."

With respect to the subcategory-inconsistency argument, CRS used its own estimates of the user costs of various asset types, which may be inconsistent with those implied by estimates made by the nonpartisan, authoritative Congressional Budget Office (CBO).[6] If so, questions arise as to which authoritative Congressional estimate is appropriate to use and whether CRS authoritatively disagrees with CBO's authoritative estimates of user costs and other estimates that Congress trusts CBO to make in a nonpartisan, objective, and authoritative fashion. In either case, it would be more appropriate to litigate those issues in a separate analytical paper rather than distort and potentially mislead as part of an analysis of tax reform legislation.

Next, consider CRS's analysis of "Effects on Wages," where CRS focuses on two reports by the Council of Economic Advisers (CEA), which provided, among other things, possible wage and income implications, given empirical studies in the literature, from a significant corporate tax

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[6] See, for example, "Comments on Congressional Research Service's Preliminary Analysis of the TCJA," May 31, 20119, by Kyle Pomerleau, available at https://taxfoundation.org/comments-congressional-research-analysis-tcja/ .

rate reduction. CRS identified that that CEA posited that average household income would increase by a conservative $4,000 a year with a corporate rate cut from 35% to 20% according to one study and wages could increase by up to $9,000 according to another CEA study.

CRS then identified that: "While the CEA study with respect to the $4,000 to $9,000 amounts referred to a long-term effect, the study was portrayed by the Administration as indicating an immediate effect." To corroborate CRS's claim that the study was portrayed as indicating an immediate effect, CRS cites an article in Politifact. That Politifact article makes clear that "The Council of Economic Advisers report cautions that 'these are the **long-run**, recurring **values** measured in 2016 dollars'…" (emphasis added). As far as we are able to tell, nowhere in the Politifact article cited by CRS is there any reference to support a claim that the Administration portrayed income or wage gains of $4,000 to $9,000 as an immediate effect. Nonetheless, CRS proceeds with an inappropriate argument that if income and wage gains were $4,000 to $9,000 immediately, given the number of U.S. households in existence, total gains in a single year would range from half- to more than one-trillion dollars, far in excess of the amount by which corporate taxes would decline in a year because of the tax-rate reduction.[7] As even the CRS report itself notes, the CEA results were presented clearly as long-term effects, yet CRS decided to analyze CEA results as though they were immediate effects to arrive at one of CRS's observations. This does not seem consistent with objective analysis on the part of CRS.

We could go on to describe framing of data and theory by CRS that has a distinct tone and seeming objective of support for claims that the TCJA had little (if any) positive economic effect and refutation of select claims to the contrary.

CRS and outside entities promote CRS analyses of fiscal policies and their economic effects, from both a theoretical and empirical perspective, as objective, nonpartisan, and authoritative. Yet, when it comes to fiscal policies and their economic effects, some in Congress find it striking that CRS makes authoritative interpretive claims about theory and evidence that do not reflect the diversity of disparate findings. As a consequence, some in Congress do not look to CRS as an authoritative source of information about economic theory and fiscal policies and, more often than not, find a need to devote Congressional resources to pointing out that there are observations, data, and theory that are objective and nonpartisan, but differ significantly from those most heavily weighted by CRS. This is troubling, given CRS's mission and resources that Congress provides to CRS to produce objective, nonpartisan, and authoritative analyses to all Members of Congress.

[7] CRS's calculation essentially repeats a similar calculation made by Politifact which, in turn, attributes the nature of the calculation to FactCheck.org.