Seth Hanlon[i]
Senior Fellow, Center for American Progress
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Mr. Chairman, Ranking Member Rush, Members of the Committee, thank you for the opportunity to discuss the effects of the 2017 tax law, informally known as the Tax Cuts and Jobs Act (TCJA). My testimony will focus on the law as a whole, and the ways in which it is failing to fulfill the promises that were made about it.

Rather than prioritize the working families who have struggled economically in recent decades, TCJA provided massive tax cuts for corporations and high-income Americans who were already receiving an outsized share of the economy's gains. The top 1 percent of Americans are getting a tax cut more than 50 times bigger than middle-income families – and in fact 8.5 million families will see their taxes go up this year. By draining revenue, TCJA will increase budget deficits by $1.9 trillion over the next decade, increasing the pressure on middle-class priorities like Social Security, Medicare, and Medicaid. By repealing part of the Affordable Care Act, the law is already increasing health care premiums for next year and directly harming Medicare's finances.

The full effects of the tax law will take years and even decades to materialize. But the early indications are that it is functioning as its critics predicted: conferring windfall tax cuts on wealthy Americans and large corporations, which are using the tax cuts primarily to reward wealthy shareholders through stock buybacks; having little or no effect on wages; raising health care costs for working Americans; and ballooning the federal budget deficit.

1. The tax law was badly skewed to the highest-income Americans

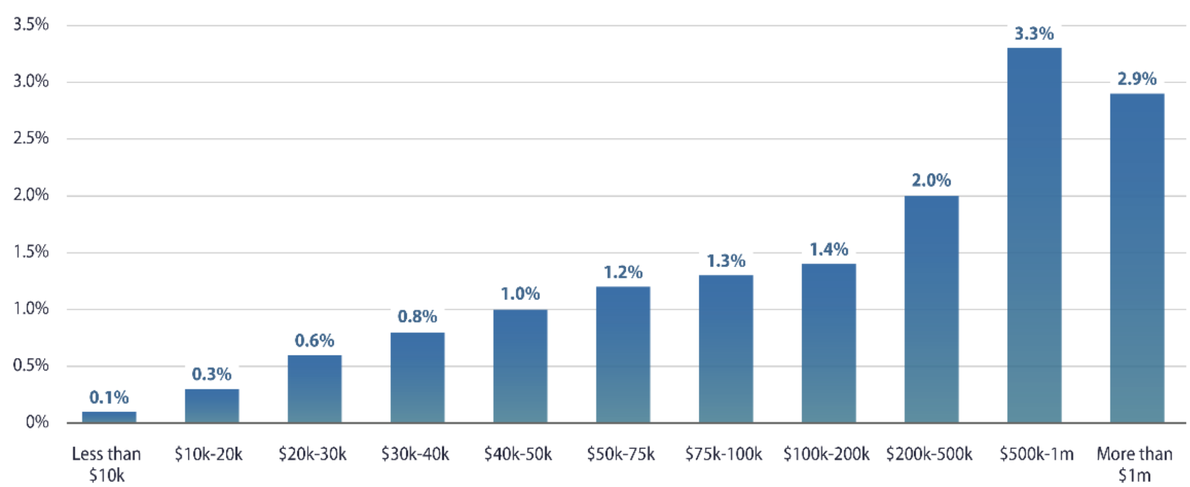
Proponents of the tax law claimed that it is focused on workers, small businesses, and the middle class, but in reality it is badly skewed to large corporations and wealthy Americans.

The highest-income 1 percent of Americans (people with incomes of at least $732,000, averaging $2.25 million) are receiving an average tax cut of $51,140 from the bill this year – more than 50 times the benefit for the average middle-income household.[ii] High-income Americans are even receiving disproportionately large tax cuts *as a percentage of their income*: For example, millionaires are receiving tax cuts that are about three times as large, as a percentage of their very large incomes, as middle-income workers, as a percentage of their much more modest incomes. (**See Figure 1.**) At the same time, 8.5 million households will see a tax increase this year, nearly 8 million of which have incomes of $200,000 or less.[iii]

FIGURE 1

Tax bill's distributional impact is skewed toward higher earners

Percent change in after-tax income by income level under Tax Cuts and Jobs Act, 2025



Source: Tax Policy Center, "T17-0313 - Conference Agreement: The Tax Cuts and Jobs Act; Baseline: Current Law; Distribution of Federal Tax Change by Expanded Cash Income Level, 2025," available at http://www.taxpolicycenter.org/model-estimates/conference-agreement-tax-cuts-and-jobs-act-dec-2017/t17-0313-conference-agreement (last accessed Febuary 2018).

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TCJA is even more skewed to the rich over the long-run, with fully 83 percent of the benefit going to the top 1 percent in 2027.[iv] That is because the bill's authors chose to make the corporate tax cuts permanent, and to pay for those corporate tax cuts over the long-run by undermining the Affordable Care Act (resulting in fewer people with health insurance) and through a broad-based tax increase on individual taxpayers (through a change in how the tax code is indexed for inflation). What's more, even those households that receive modest tax cuts can easily be made much worse off when the tax cuts are ultimately paid for, as they must be one way or another. TCJA is projected to add $1.9 trillion to deficits over the next ten years. We cannot know at this point how that cost will be offset, but under the most likely scenarios for financing the tax cut, the costs for most low- and middle-income Americans will exceed the tax cuts they receive in the short-run.[v]

2. Workers' wages are essentially flat

The White House predicted that the corporate tax cut in the tax bill would boost average household income in the medium term by at least $4,000 relative to what it would be without the tax bill.[vi] That claim was unfounded and widely criticized, since it relied on extremely tenuous connections between corporate profitability and workers' wages and a misreading of the economic evidence.[vii] After-tax corporate profits were at record highs before the tax law, companies were sitting on historically high levels of cash, and the actual taxes that U.S. companies were paying were in line with companies in other major economies.[viii] The more fundamental problem was, and still is, that the link between corporate profits and workers' wages has been broken. In this environment, Congress would have better served American workers by focusing on policies to increase their wages and bargaining power or directly supplement their wages through expansions of pro-work tax credits like the Earned Income Tax Credit (EITC).

Instead, TCJA gave massive tax cuts to corporations, wealthy business owners, and high-income people generally on the false premise that the benefits would trickle down to workers.

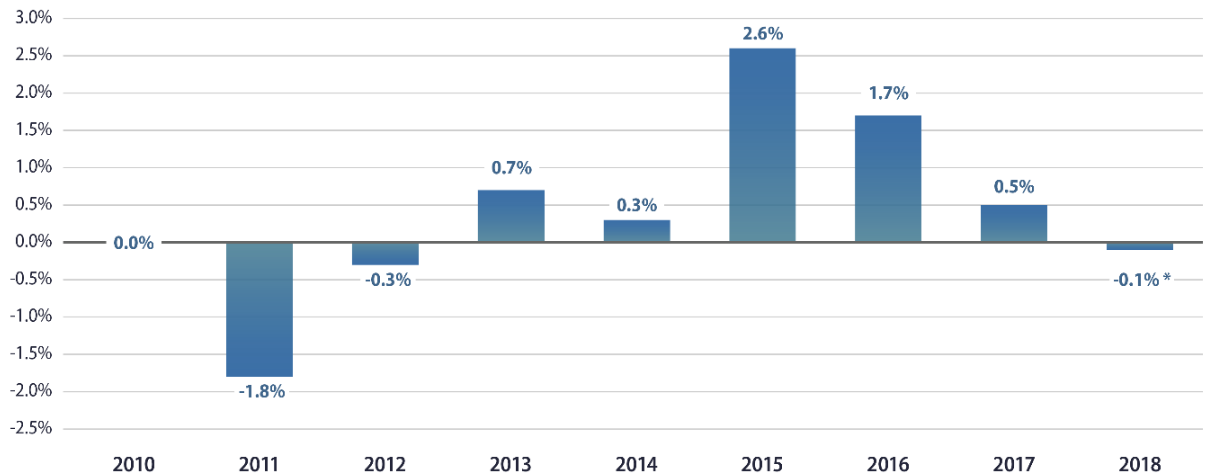
Meanwhile, the Trump Administration has taken numerous actions to undercut workers' ability to secure better pay and benefits.[ix]

Six months is not nearly enough time for a full accounting of TCJA. But the reality so far is that wages for American workers are essentially flat, in real terms. In other words, when taking into account the rise of prices, average workers are just treading water. According to the Bureau of Labor Statistics, average hourly earnings for production and nonsupervisory workers – a category that includes roughly 80 percent of American workers[x] – were $22.59 last month, compared to $22.62 (in inflation-adjusted terms) in May 2017. Average hourly earnings for all workers were similarly unchanged.[xi] (**See Figure 2**.)

FIGURE 2

Typical workers have seen no real wage growth over the past year

Growth in inflation-adjusted average hourly earnings, production, and nonsupervisory employees, from May to May

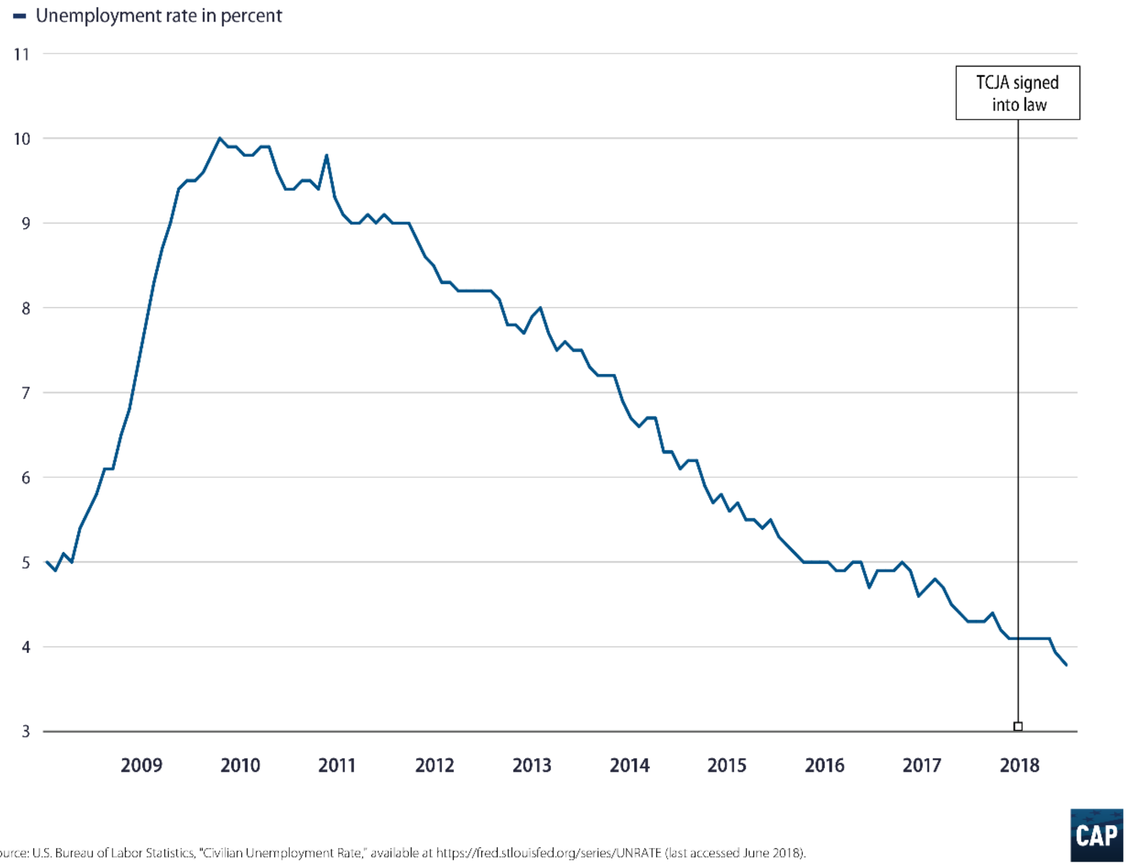


* Note: Wages fell 3 cents in today's dollars when adjusted for inflation.
Source: Author's calculations using U.S. Bureau of Labor Statistics, "Databases, Tables and Calculators by Subject: Average hourly earnings of production and nonsupervisory employees, 1982–84 dollars, total private, seasonally adjusted," available at https://data.bls.gov/timeseries/CES0500000032 (last accessed June 2018).

This is especially concerning given that the unemployment rate has been falling steadily for almost a decade. (**See Figure 3.**)

FIGURE 3

Unemployment rate has been falling steadily since 2009



Source: U.S. Bureau of Labor Statistics, "Civilian Unemployment Rate," available at https://fred.stlouisfed.org/series/UNRATE (last accessed June 2018).

Despite much hoopla over the one-time bonus payments that some companies attributed to the tax bill soon after its passage, there is scant evidence that overall bonus payments for workers were that much higher than they are in a typical year. Every year, nearly 40 percent of workers receive some kind of bonus.[xii] The corporate bonus announcements that garnered much fanfare involved less than five percent of workers.[xiii] And to the extent that one-time bonuses are substituting for annual raises, workers will see their pay fall behind over time.[xiv]

The bottom line: American workers are still overdue for a real raise, and haven't gotten it yet.

3. Deficits are spiking

TCJA's proponents repeatedly claimed that the bill would pay for itself – something that no credible economist believed. In the face of all evidence, proponents dismissed the warnings that the tax bill would add massively to deficits. During consideration of TCJA, the Joint Committee on Taxation projected that it would add $1.5 trillion to deficits – and more than $1 trillion with macroeconomic effects (i.e. "dynamic" revenue feedback). The Congressional Budget Office's more recent estimate is for an even larger deficit impact – $1.9 trillion over the next decade.

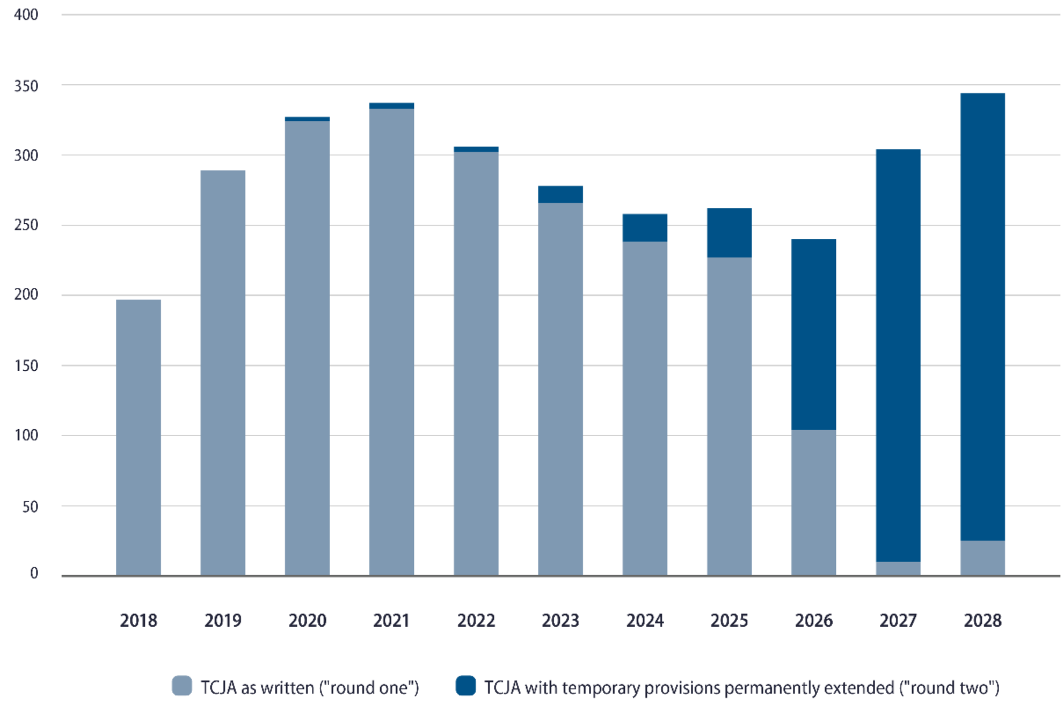
These are not just projections: The tax law is already worsening federal deficits by draining revenue. In large part as a result of TCJA, the federal budget deficit for the first five months of 2018 has topped $300 billion – up 38 percent compared to the same period last year. The monthly budget deficit for this past month, May 2018, was $147 billion – an increase of 66 percent over last May.[xv] Revenue from corporate taxes is on pace to decline by about $110 billion this year.[xvi] The House majority is now reportedly considering making the temporary provisions of TCJA permanent, which would compound the damage to the federal budget and lock in flawed and unfair changes to the tax code.[xvii] (**See Figure 4**.)

Why does this matter? Because the proponents of the tax bill promised that the tax cuts wouldn't need to be paid for with cuts to Social Security, Medicare, Medicaid, or other essential services.

FIGURE 4

The Tax Cuts and Jobs Act (TCJA) significantly increases federal deficits

Impact on federal budget deficit, in billions of dollars, by fiscal year



Source: Authors calculations of data from Congressional Budget Office, "The Budget and Economic Outlook: 2018 to 2028" (2018), available at https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/53651-outlook.pdf. Data reflect CBO estimates of permanently extending individual and estate tax provisions and 100 percent business expensing, with authors' estimates of debt service costs—not incorporating macroeconomic feedback.

4. Corporations are using the tax cut to reward shareholders, with little evidence of substantial new investment

Before TCJA was enacted, many economists predicted that corporations would simply pass along their tax cuts to shareholders through stock buybacks and dividends instead of investing them or raising worker pay. Sure enough, the passage of TCJA has prompted a huge surge in stock buybacks: Companies have announced nearly half a trillion dollars in stock buybacks in the six months since the bill passed – a record pace.[xviii] To the extent companies are taking their tax windfalls and paying them out to shareholders through buybacks or otherwise, it means they are not investing in equipment, R&D, or their workforce. Since fewer than half of Americans own any corporate stock (including indirect ownership through 401(k) plans and other investment vehicles), and the wealthiest 10 percent of Americans own 84 percent of stocks, the wave of stock buybacks is only further enriching those at the top.[xix] There are even signs that corporate insiders are manipulating stock buybacks to line their own pockets by cashing out their own stock.[xx]

Furthermore, despite anecdotal claims, there is no economy-wide evidence of a surge of business investment as a result of the tax bill.[xxi] As noted by economist Dean Baker, manufacturers' new orders of nondefense capital goods excluding aircraft have yet to reach levels hit in 2014.[xxii] The most recent GDP report showed that business investment actually grew slightly more slowly during the first quarter of 2018 than it did in last year's first quarter.[xxiii] A national survey of business executives conducted by the Atlanta Federal Reserve Bank and economists from the University of Chicago and Stanford in February found that about three-quarters of firms were not planning to change their capital investment plans for 2018 or 2019 as a result of TCJA.[xxiv]

There is also no reason at all to think that corporations will pass on their tax cut to consumers through lower prices. To be sure, some regulated utilities are required *by law* to pass on their higher profits resulting from the corporate tax cut to consumers. But in that respect, regulated utilities are the exception that proves the rule, since no other companies that receive tax cuts are required to pass their tax savings on – and there is no reason to think that they will. The pharmaceutical industry, for example, was one of the major beneficiaries of the tax law – but by all evidence, none of the big drug companies are using their tax savings to lower prices for consumers, even as they distribute cash to shareholders through buybacks.[xxv]

5. Health care sabotage is taking a toll

The tax law is also undermining Americans' access to health care. TCJA repealed the Affordable Care Act's individual mandate, which helped keep premiums affordable by encouraging healthier people to obtain health insurance coverage. Over time, about 9 million fewer people will have health insurance coverage as a result, CBO projects.[xxvi] Because fewer people will have health insurance, the government is projected to spend less on Medicaid and on tax credits that help people afford insurance. In the tax law, those budget "savings" were dedicated to paying for a permanent tax cut for corporations.

Because of this health care sabotage, health insurance premiums in the individual market will be 10 percent higher than they otherwise would be in 2019, according to CBO.[xxvii] That means that the average benchmark plan for a family of four would be $1,990 higher next year, and even higher in states with more expensive health care markets.[xxviii] To be clear, that is just the effect of the tax law – and would be on top of any change in premiums due to other factors, including other actions by the Trump Administration intended to sabotage health care markets. In several states, large premium increases have already been announced preliminarily, with some insurance carriers specifically citing the individual mandate repeal as a reason for the premium hike.[xxix]

The tax law's health care sabotage is also already harming Medicare. As the Medicare trustees concluded in their annual report, TCJA is one of the reasons that Medicare's projected finances are worse this year compared to last year, with exhaustion of the Medicare trust fund now projected to arrive three years earlier.[xxx] Specifically, because of the increase in uninsured, TCJA will increase Medicare payments to hospitals for uncompensated care; the tax law also lowers the amount of revenue going into the Medicare Trust Fund.[xxxi]

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In sum, the 2017 tax law is failing to fulfill the promises made by its proponents. There is no sign that the massive giveaways to the wealthy and corporations are trickling down to workers. Instead, TCJA is increasing health care costs while inflating federal deficits, and thus putting essential priorities like Social Security, Medicare, Medicaid, and education at greater risk.

[i] Thanks to Chye-Ching Huang, Greg Leiserson, and my colleagues at American Progress including Alex Rowell, Alex Thornton, and Safia Sayed for helpful feedback and assistance.

[ii] William G. Gale, Hilary Gelfond, Aaron Krupkin, Mark J. Mazur, and Eric Toder, "Effects of the Tax Cuts and Jobs Act: A Preliminary Analysis" (Washington: Tax Policy Center, 2018), Table 4, available at https://www.taxpolicycenter.org/sites/default/files/publication/155349/2018.06.08_tcja_summary_paper_final.pdf."

[iii] Tax Policy Center, "T17-0317- Major Provisions in Conference Agreement: The Tax Cuts and Jobs Act; Tax Units with a Tax Increase or Tax Cut, by Expanded Cash Income Level, 2018; Baseline: Current Law" (2017), available at https://www.taxpolicycenter.org/model-estimates/conference-agreement-tax-cuts-and-jobs-act-dec-2017/t17-0317-major-provisions.

[iv] Tax Policy Center, "T17-0316- Conference Agreement: The Tax Cuts and Jobs Act; Baseline: Current Law; Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2027" (2017), available at https://www.taxpolicycenter.org/model-estimates/conference-agreement-tax-cuts-and-jobs-act-dec-2017/t17-0316-conference-agreement.

[v] Gale and others, "Effects of the Tax Cuts and Job Act," Table 8. TPC finds that households in the bottom three quintiles are on average worse off if TCJA is financed equally per capita among all Americans, or in proportion to income. The budget proposals from the Congressional majority and Trump Administration would produce worse results for low- and middle-income Americans.

[vi] Press Secretary Sarah Sanders, "3:08 a.m., October 23, 2017," Twitter, available at https://twitter.com/PressSec/status/922404459438845953; Council of Economic Advisers, *Corporate Tax Reform and Wages: Theory and Evidence*, (Executive Office of the President of the United States, 2018) p. 1.

[vii] Kimberly Clausing and Edward Kleinbard, "Trump's economists say a corporate tax cut will raise wages by $4,000. It doesn't add up.," *Vox*, October 20, 2017, available at https://www.vox.com/the-big-idea/2017/10/20/16506256/cea-report-corporate-taxes-wages-boost-job-growth.

[viii] See, for example, Josh Bivens and Hunter Blair, "'Competitive' distractions" (Washington: Economic Policy Institute, 2017), available at https://www.epi.org/publication/competitive-distractions-cutting-corporate-tax-rates-will-not-create-jobs-or-boost-incomes-for-the-vast-majority-of-american-families/; Kimberly A. Clausing, "False promises about corporate taxes and American workers" (Washington: Washington Center for Equitable Growth, 2017), available at https://equitablegrowth.org/false-promises-about-corporate-taxes-and-american-workers/; Alexandra Thornton and Seth Hanlon, "Giving Away Corporate Tax Cuts Is Not How to Make the United States More Competitive" (Washington: Center for American Progress, 2017), available at https://www.americanprogress.org/issues/economy/reports/2017/08/24/437602/giving-away-corporate-tax-cuts-not-make-united-states-competitive/.

[ix] See Karla Walter and Alex Rowell, "President Trump's Policies Are Hurting American Workers" (Washington: Center for American Progress, 2018), available at https://www.americanprogressaction.org/issues/economy/reports/2018/01/26/168366/president-trumps-policies-hurting-american-workers/.

[x] Bureau of Labor Statistics, *Table B-6. Employment of production and nonsupervisory employees on private nonfarm payrolls by industry sector, seasonally adjusted(1)* (U.S. Department of Labor, 2018).

[xi] Bureau of Labor Statistics, "Real Earnings-May 2018," Press release, June 12, 2018, available at https://www.bls.gov/news.release/pdf/realer.pdf.

[xii] Josh Bivens and Hunter Blair, "The likely economic effects of the Tax Cuts and Jobs Acts (TCJA)" (Washington: Economic Policy Institute, 2018), available at https://www.epi.org/publication/the-likely-economic-effects-of-the-tax-cuts-and-jobs-act-tcja-higher-incomes-for-the-top-no-discernible-effect-on-wage-growth-for-typical-american-workers/.

[xiii] Americans For Tax Fairness, "Key Facts: How Corporations are Spending their Trump Tax Cuts" (2018), available at https://americansfortaxfairness.org/key-facts-american-corporations-really-trump-tax-cuts/.

[xiv] Patricia Cohen, "Where Did Your Pay Raise Go? It May Have Become a Bonus," *The New York Times*, February 10, 2018, available at https://www.nytimes.com/2018/02/10/business/economy/bonus-pay.html.

[xv] Bureau of the Fiscal Service, *Monthly Treasury Statement of Receipts and Outlays of the United States Government For Fiscal Year 2018 Through May 31, 2018, and Other Periods* (U.S. Department of the Treasury, 2018).

[xvi] Paul Krugman, "Tax Cuts and Leprechauns (Wonkish)," *The New York Times*, June 15, 2018, available at https://www.nytimes.com/2018/06/15/opinion/tax-cuts-and-leprechauns-wonkish.html.

[xvii] Seth Hanlon and Galen Hendricks, "Congress Should Not Give a Second Helping of Tax Cuts to the Rich" (Washington: Center for American Progress, 2018), available at https://www.americanprogress.org/issues/economy/news/2018/06/14/452195/congress-not-give-second-helping-tax-cuts-rich/.

[xviii] Americans For Tax Fairness, "Stock Buybacks" (2018), available at https://americansfortaxfairness.org/stock-buybacks/; Lu Wang, "Record Buybacks Put Shareholder Payouts on Pace for $1 Trillion," *Bloomberg*, May 17, 2018, available at https://www.bloomberg.com/news/articles/2018-05-17/record-buybacks-put-shareholder-payouts-on-1-trillion-pace.

[xix] Edward N. Wolff, "Household Wealth Trends in the United States, 1962 to 2016: Has Middle Class Wealth Recovered?" NBER Working Paper No. 24085 (The National Bureau of Economic Research, 2017), available at http://www.nber.org/papers/w24085.

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[xxi] Bivens and Blair, "The likely economic effects of the Tax Cuts and Jobs Acts (TCJA)"; Dean Baker, "The Tax Cut and the Pay Increase: Halfway there" (Washington: Center for Economic and Policy Research, 2018), available at http://cepr.net/publications/op-eds-columns/the-tax-cut-and-the-pay-increase-halfway-there; Federal Reserve Bank of St. Louis, "Manufacturers' New Orders: Nondefense Capital Goods Excluding Aircraft," June 19, 2018, available at https://fred.stlouisfed.org/series/NEWORDER. Note that new orders of nondefense capital goods still have not surpassed 2012-2014 levels.

[xxii] Baker, "The Tax Cut and the Pay Increase: Halfway there"; Federal Reserve Bank of St. Louis, "Manufacturers' New Orders: Nondefense Capital Goods Excluding Aircraft."

[xxiii] Matt Phillips and Jim Tankersley, "Investment Boom From Trump's Tax Cut Has Yet to Appear," *The New York Times*, April 30, 2018, available at https://www.nytimes.com/2018/04/30/business/the-tax-cut-buybacks-business-investment.html.

[xxiv] Dave Altig, Nick Parker, Brent Meyer, Steve Davis, Nick Bloom, and Jose Barrero, "What Are Businesses Saying about Tax Reform Now?," Atlanta Fed Macroblog, March 23, 2018, available at http://macroblog.typepad.com/macroblog/2018/03/what-are-businesses-saying-about-tax-reform-now.html.

[xxv] Andy Slavitt, "Drug companies get tax windfall, but they're not reducing prescription prices," *USA Today*, April 11, 2018, available at https://www.usatoday.com/story/opinion/2018/04/11/drug-companies-arent-using-tax-windfall-cut-prescription-prices-column/499230002/;Office of Senator Cory A. Booker, "With New Tax Savings, Drug Companies Start by Rewarding Shareholders, Not Patients Struggling with Skyrocketing Prices" (2018); William Rice, Frank Clemente, and Kayla Kitson, "Bad Medicine: How GOP Tax Cuts Are Enriching Drug Companies, Leaving Workers & Patients Behind" (Washington: Americans For Tax Fairness, 2018), available at https://americansfortaxfairness.org/gop-tax-cuts-enriching-drug-companies-leaving-workers-patients-behind/.

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[xxviii] Alex Rowell and Seth Hanlon, "Costs of Corruption: Tax Bill Leads to Higher Health Premiums and Big Tax Cuts for the Rich" (Washington: Center for American Progress, 2018), available at https://www.americanprogressaction.org/issues/healthcare/news/2018/06/19/170519/costs-corruption-tax-bill-leads-higher-health-premiums-big-tax-cuts-rich/.

[xxix] See, for example, Charles Gaba, "How much MORE will #ACASabotage cost unsubsidized enrollees NEXT year ON TOP OF what it added THIS year?," Charles Gaba's Blog, June 18, 2018, available at http://acasignups.net/18/06/18/how-much-more-will-acasabotage-cost-unsubsidized-enrollees-next-year-top-what-it-added-year; Jessie Hellmann, "Insurance experts: ObamaCare mandate repeal driving premium increases," *The Hill*, June 13, 2018, available at http://thehill.com/policy/healthcare/392096-insurance-experts-say-obamacare-mandate-repeal-driving-premium-increases; Shelby Livingston, "Health insurers seek big rate hikes for 2019," *Modern Healthcare*, May 7, 2018, available at http://www.modernhealthcare.com/article/20180507/NEWS/180509931;

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[xxx] The Medicare Trust Fund is projected to be depleted in 2026. Last year's trustees report projected it to be depleted in 2029.

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