SENATE BUDGET COMMITTEE MINORITY STAFF RESPONSE TO ECONOMIC REPORT OF THE PRESIDENT

The White House Council of Economic Advisers (CEA) releases the Economic Report of the President each February. The document reviews the impact of the previous year's economic policies and activities, outlines the upcoming year's economic goals based on the President's current policies, and makes projections of future economic performance. An archive of these reports dating back to 1995 can be found here. This year's Economic Report of the President, led by current CEA Chairman Kevin Hassett, was released on February 21 and can be found here.

The following are some major claims from this year's report and facts debunking those claims.

Claim: The CEA projects that President Trump's corporate tax reform will lead to a $4,000 annual wage increase for American workers.

Throughout the debate over the Republicans' tax cut bill signed into law in December, the CEA claimed that the GOP tax cut plan would add $4,000 to the average household's wages. However, CEA's rationale for this number has changed over time. Originally, this number seemed to derive from the benefits associated with allowing corporations to repatriate their foreign profits tax-free. But in the Report, this same $4,000 is derived from "two salient corporate tax reforms—reducing the top marginal Federal corporate tax rate from 35 to 21 percent, and allowing firms to fully expense investments in nonstructure capital." In fact, the CEA has said that the increase in average household wages could be as high as $9,000.

This claim has been debunked across the ideological spectrum.

- Jared Bernstein, Center on Budget and Policy Priorities: "CEA's new report on the wage-boosting effects of the proposed cut in the corporate rate from 35 to 20 percent [revised to 21 percent in the final legislation] looks fatally flawed to me. It is a literature review that picks only the ripest of cherries, ignoring the large body of literature that goes hard in the other direction."
- Howard Gleckman, Tax Policy Center: "It implies that workers would receive more than $3 for every $1 in tax cuts… the magnitude of the wage hikes the CEA paper promises is simply not supported by either the facts on the ground or the academic research."
- Right-leaning Harvard economist Mihir Desai, whom Dr. Hassett cites: The CEA Report "misinterprets results of our (Desai Foley Hines) paper on corporate tax incidence… Cutting corporate taxes will help wages but exaggeration only serves to undercut the reasonableness of the core argument."
    - In September, the Congressional Research Service issued a report stating that papers that argue a corporate tax cut would increase wages – including Desai's – were flawed and overly optimistic.
- Michael Strain, Dr. Hassett's former American Enterprise Institute colleague: "This estimate is considerably higher than I would expect."

The reality is that very few Americans are benefitting from the corporate tax cut. Last year, the average worker in America saw a real wage increase of about 2.5 cents an hour over the previous year. Meanwhile, over the last quarter, average workers saw their real earnings actually go down, not up, by $8 a week. But not everyone is hurting. Median CEO pay reached a record-high $12 million last year, up about 10 percent from 2016. The CEO of Broadcom alone saw his compensation quadruple to $103 million last year.

In a recent Gallup poll, 79 percent of Americans said that Trump's tax plan has not helped their financial situation, 15 percent said it has helped a little, and only 6 percent said it has helped a lot.

Further, many of the corporations that have given out bonuses, such as Walmart, AT&T, General Electric, and Pfizer, are also simultaneously laying off tens of thousands of their employees. Kimberly-Clark, the maker of Kleenex and Huggies, have said they are using money from the tax cut to "restructure" – laying off more than 5,000 workers and closing ten plants. After receiving a $3.4 billion tax break, Wells Fargo announced it will be closing 900 bank branches throughout the country.

Claim: The Tax Cuts and Jobs Act's (TCJA) reforms and cuts to the individual tax code will raise gross domestic product (GDP) by an estimated 1.3 to 1.6 percent over the next three years.

According to the Joint Committee on Taxation, these changes "…would increase the level of GDP relative to the baseline forecast, by 0.7 percent on average throughout the ten-year budget window… the increase in output reported above is expected to be in the range of 0.8 to 0.9 percent over most of the ten-year budget window, and fall to 0.1 to 0.2 percent by the end of the budget window."

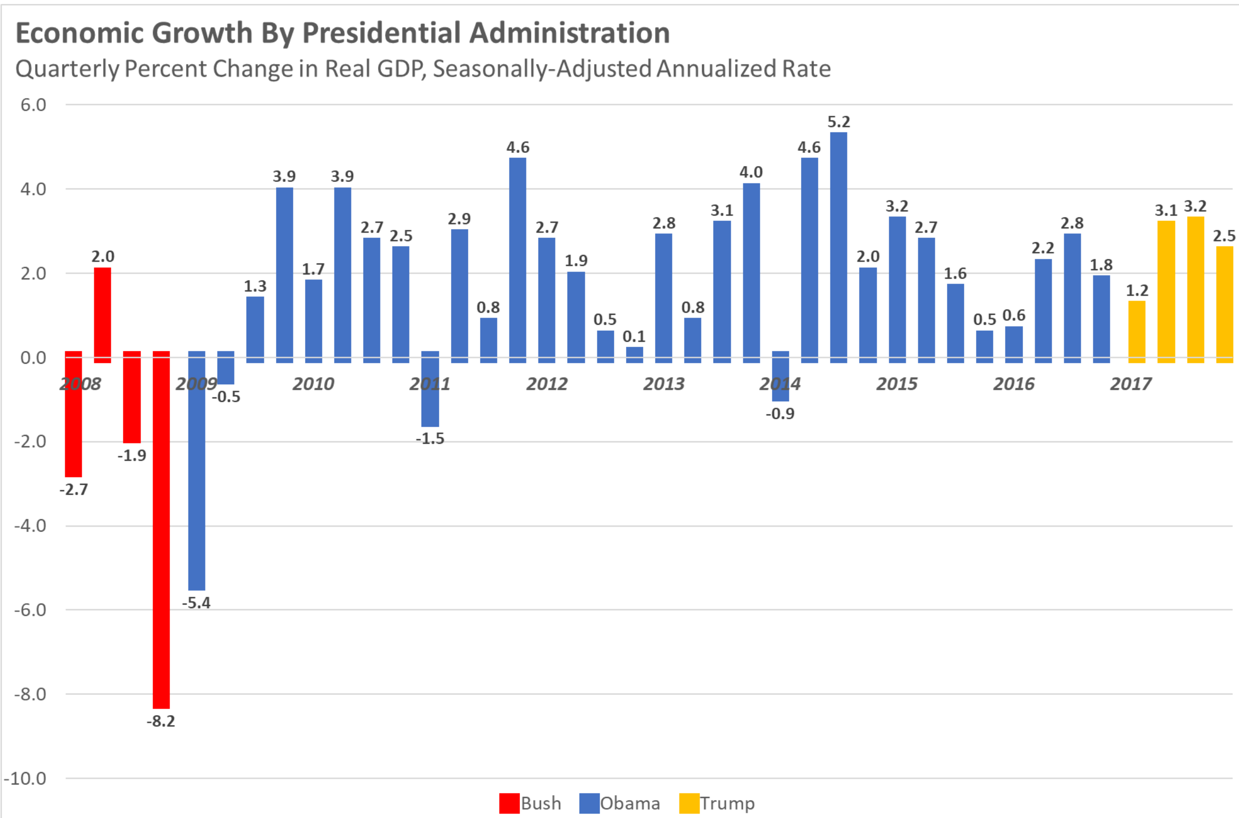
As a reminder, JCT is writing about the *level* of GDP, not the growth *rate* of GDP. If the level of GDP were 0.2 percent higher ten years from now than would otherwise be the case, that implies growth in a given year would only be about 0.002 percent higher than a world in which the tax cut bill did not become law.

Claim: To date, over 370 companies have announced new investments, raises, bonuses, or other benefits as a result of tax reform that will positively affect 4.1 million workers. Through January, the CEA tallied $190 billion in new investment projects that were related to the passage of the TCJA.

The reality is that according to an ongoing Senate Democratic tally, since the GOP tax cut bill passed, corporations have announced $227 billion in share buybacks, while corporations have announced just $5 billion in one-time bonuses for the employees. (Senate Democrats have also compiled a list of press accounts documenting this trend.)

Claim: In 2017, the United States economy saw 2.5 percent growth in real gross domestic product (GDP), up from 1.8 percent in 2016.

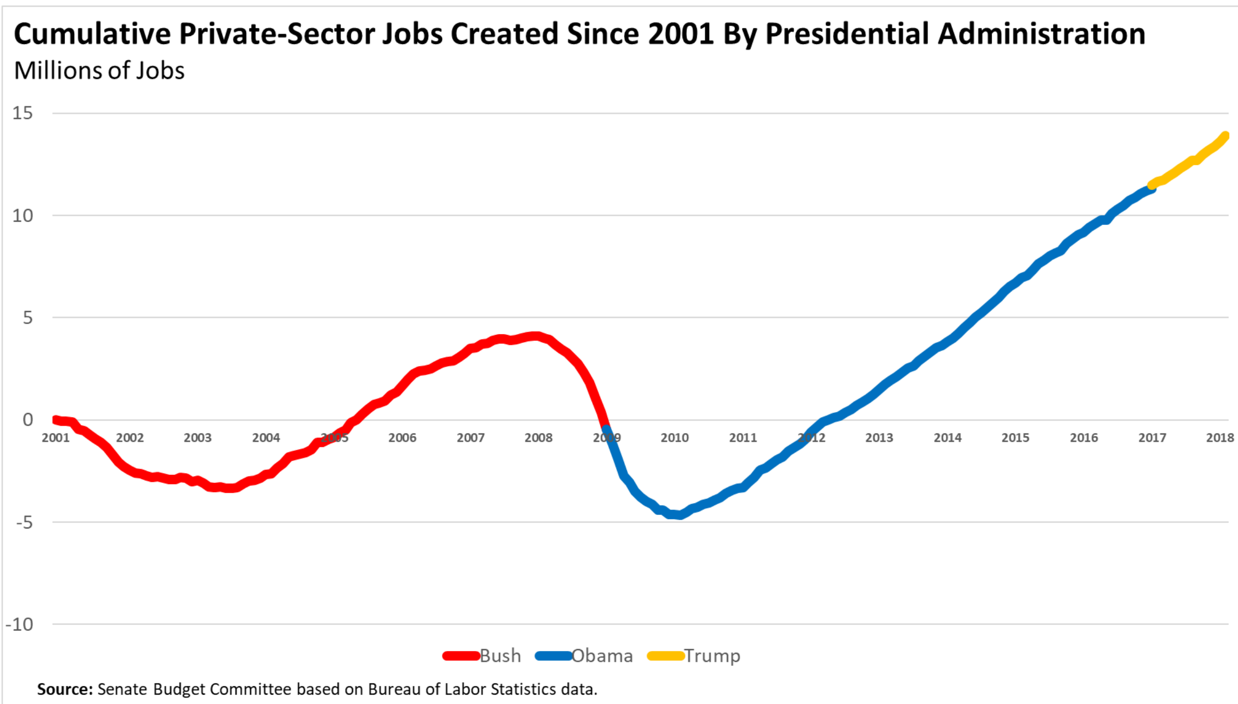
The Bureau of Economic Analysis has subsequently revised down 2017's real GDP growth to 2.3 percent, lower than in 2014 (2.9 percent) or 2015 (2.6 percent). Below is the data broken down by quarter showing a lack of change in the trend.



Source: Senate Budget Committee based on Bureau of Economic Analysis data.
Note: Beginning of chart corresponds to onset of Great Recession in December 2007.

Claim: Growth helped the United States economy add 2.2 million nonfarm jobs in 2017, as American workers saw the lowest unemployment rate since 2000 at 4.1 percent.

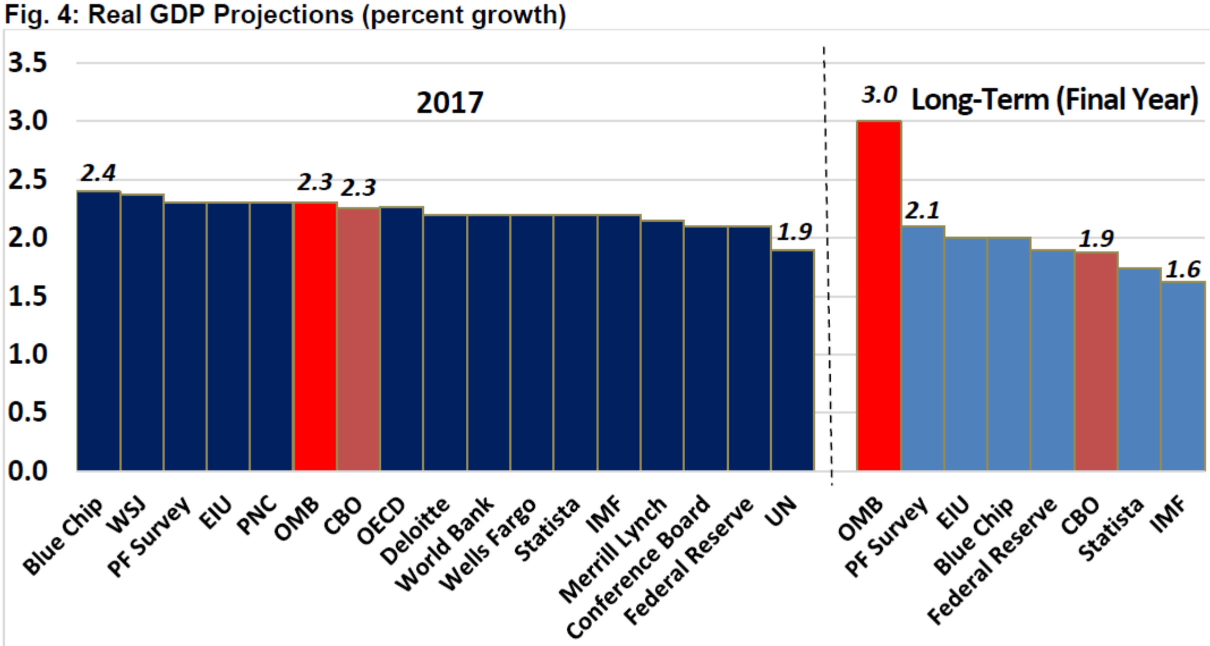
This was the lowest total of new jobs created since 2012. According to the Bureau of Labor Statistics, fewer than 2.2 million jobs were created last year, while over 2.3 million jobs were created in 2016, over 2.7 million were created in 2015, over 3 million were created in 2014, and over 2.3 million jobs were created in 2013.



Claim: Economic growth will increase to 3.1 percent in 2018, remaining above 3 percent through 2020 and adding a cumulative $1.1 trillion to the economy. If fully implemented, President Trump's economic agenda would lead to 3 percent annual GDP growth on average throughout the next decade.

Last week, the Federal Reserve Bank of Atlanta revised downward its projection of first quarter GDP growth to an annualized 1.9 percent. Its original forecast of 4.2 percent growth, released in January 2018, received a lot of attention from conservative commentators. The most recent CBO Outlook, published in June 2017, projected long-term GDP growth at a steady state of 1.9 percent, which is in line with most forecasters; 3 percent is completely out of the mainstream (per the Committee for a Responsible Federal Budget).

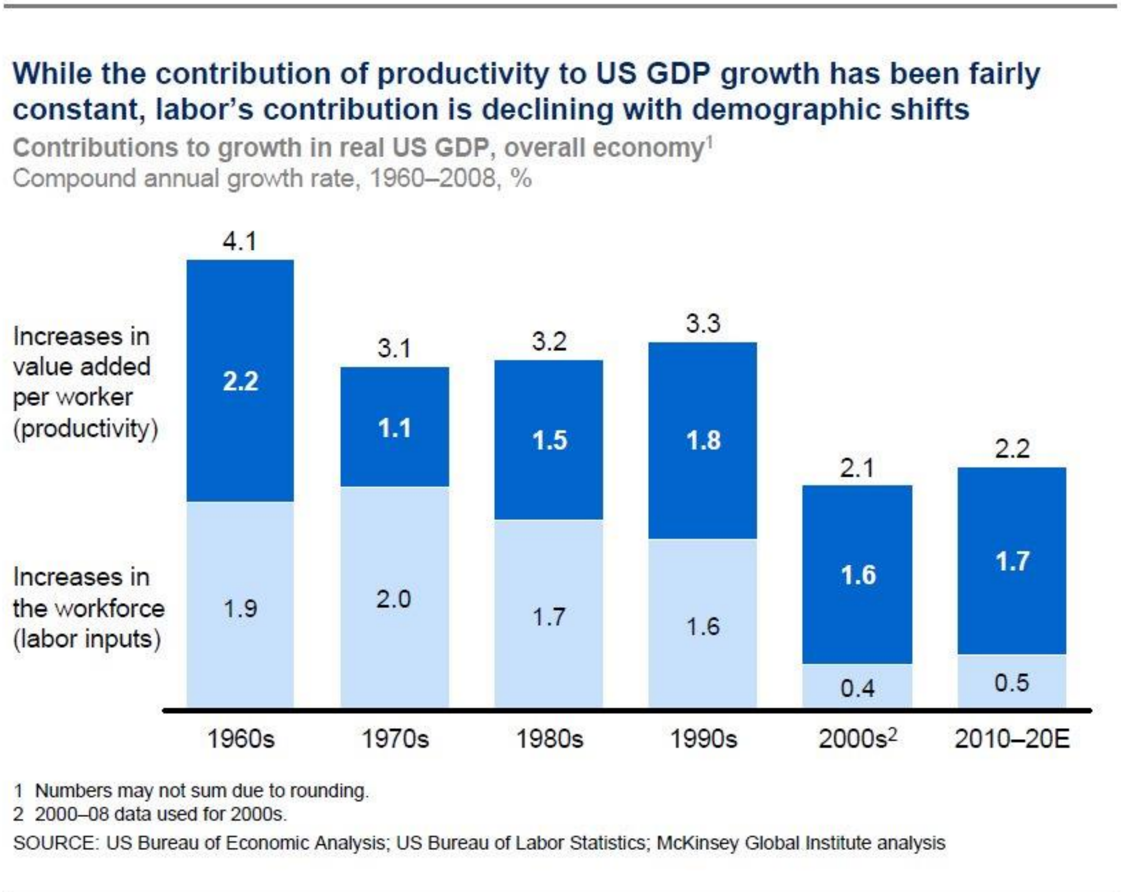
Fig. 4: Real GDP Projections (percent growth)



WSJ = a survey compiled by the Wall Street Journal; Professional Forecasters Survey (PF Survey) = compiled by the Federal Reserve Bank of Philadelphia; EIU = The Economist Intelligence Unit; OMB = Office of Management & Budget (President's Budget); CBO = Congressional Budget Office; OECD = Organisation for Economic Co-operation and Development; IMF = International Monetary Fund; UN = United Nations

What's more, a historical breakdown of the components of economic growth – a growing workforce and increases in productivity – show in stark contrast just how unrealistic CEA's assumptions are. Indeed, the GOP tax cut bill promises to increase productivity, but productivity clearly isn't the driver of slow growth – productivity has grown by more in the current decade than in the 1980s, the heyday of trickle-down economics. Instead, what has been slowing growth is a workforce that has been growing more sluggishly than in past decades – a trend that will be exacerbated under the current Administration's restrictive immigration policies.

The below chart is from CEA Chairman Hassett's former employer, the right-leaning American Enterprise Institute, though CBO has compiled an unpublished version that is very similar:



Claim: The Trump Administration is focusing on policies that will promote competition, improve health outcomes, and lower healthcare costs for Americans.

According to CNBC: "The number of Americans without health insurance increased by about 3.2 million during President Donald Trump's first year in office. The 1.3 percentage point increase in the uninsured rate was the highest increase seen since 2008, two years before Obamacare became law. The effective repeal of the Affordable Care Act's individual mandate, starting in 2019, is expected to lead to more people lacking health coverage."

What the Economic Report of the President Leaves Out

As usual with Republican economists, Dr. Hassett's Report focuses solely on the level of economic growth without regards for its distribution, either in terms of income brackets or the racial income and wealth gap.

Income Inequality

- The Republican tax cut bill would, by 2027, give the top 1 percent 83 percent of the benefits. Meanwhile, 92 million households making less than $200,000 would experience a tax increase in 2027.

- If the distribution of wealth had remained constant between 1978 and 2014 – and if total national net worth had grown just as it had – the top 1 percent would have $13.5 trillion less in wealth than they do today, and the bottom 99 percent would have $13.5 trillion more. (Via Piketty and the Federal Reserve)

    - The middle 40 percent had 35.1 percent of the nation's wealth in 1978 but just 27.2 percent in 2014.

    - The bottom 50 percent saw its wealth decline from 0.8 percent of the national total in 1978 to -0.1 percent in 2014.

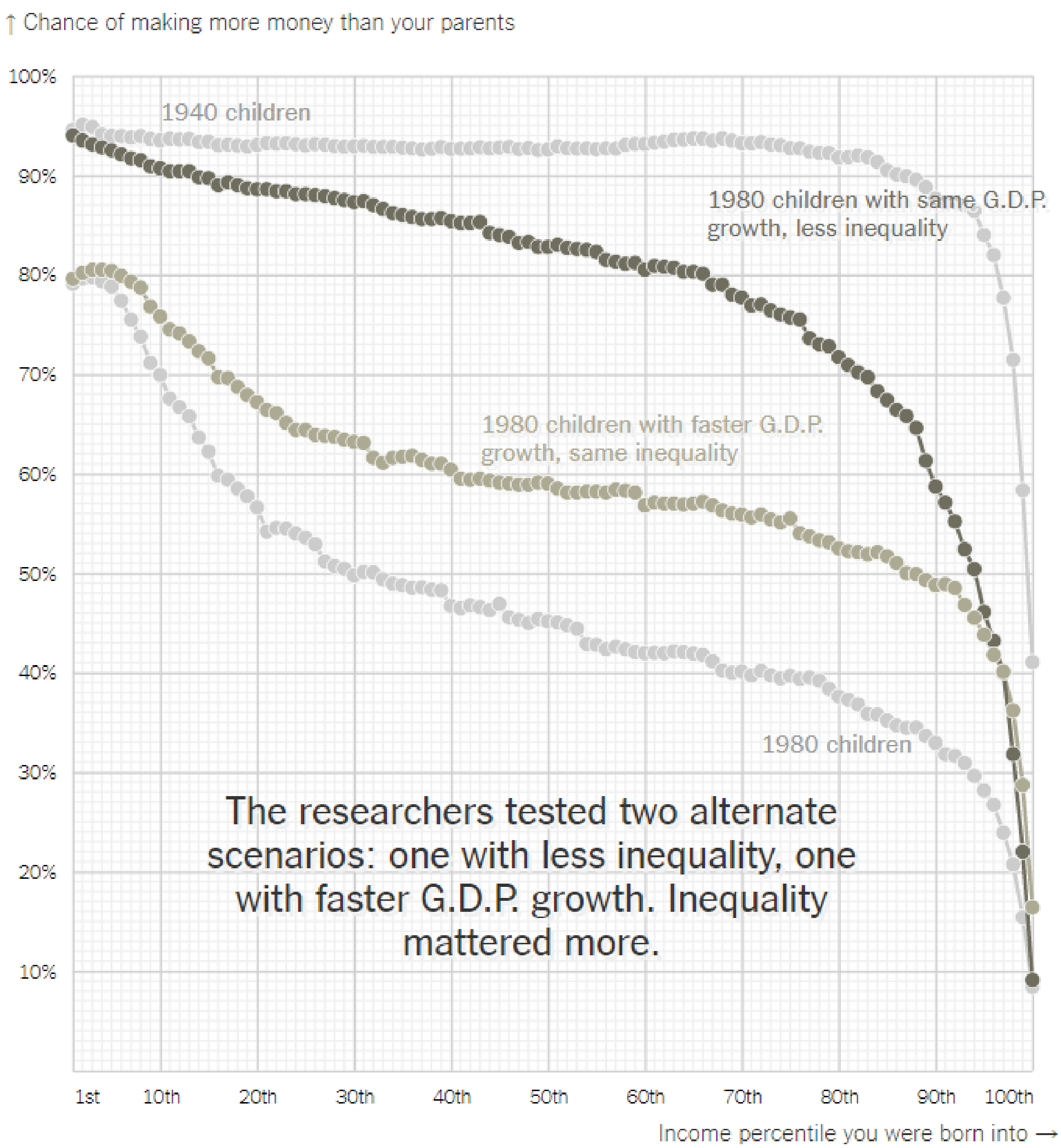
- Via the Washington Post: "In 2014 the OECD found that rising inequality in the United States from 1990 to 2010 knocked about five percentage points off cumulative GDP per capita over that period."

- From the same article: "A 2016 London School of Economics study, for instance, found that greater income gaps between neighboring U.S. neighborhoods led to more property crime in the richer neighborhoods. 'Income differences create an incentive for those relatively poor to steal from richer households,' the authors explain."

- A brand new CBO analysis concludes, "In 2014, average household income before accounting for means-tested transfers and federal taxes was $19,000 for the lowest quintile and $281,000 for the highest quintile. After transfers and taxes, those averages were $31,000 and $207,000."

In fact, distribution of income is a more important determinant than is economic growth for whether a child will earn more than his or her parents. From a New York Times write-up of a project undertaken by Stanford economist Raj Chetty:

> The researchers ran a clever simulation recreating the last several decades with the same G.D.P. growth but without the post-1970 rise in inequality. When they did, the share of 1980 babies who grew up to out-earn their parents jumped to 80 percent, from 50 percent. The rise was considerably smaller (to 62 percent) in the simulation that kept inequality constant but imagined that growth returned to its old, faster path.

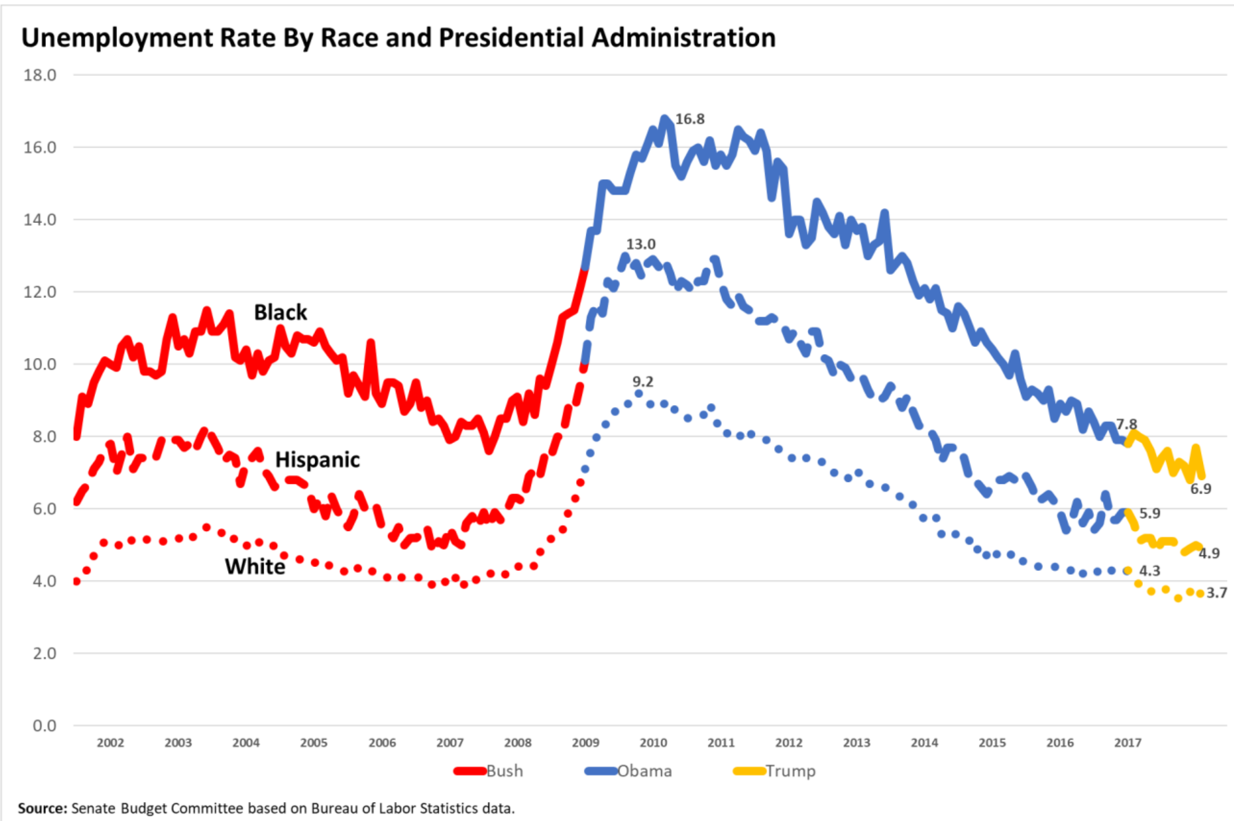


Source: "The Fading American Dream: Trends in Absolute Income Mobility Since 1940" by Raj Chetty, David Grusky, Maximilian Hell, Nathaniel Hendren, Robert Manduca and Jimmy Narang

Racial Inequality

Similarly, CEA's focus on growth-above-all-else ignores the persistence of the racial gap in the labor market and other economic metrics.

For instance, despite President Trump's incessant bragging about the African-American unemployment rate, the current 6.9 percent rate would be seen as dismal if it were the white unemployment rate. In fact, the white unemployment rate has not been that high since January 2013. (Moreover, of course, the downward movement of these lines is merely a continuation of long-term trends.)



Finally, a New York Times write-up, from March 19, of another paper by Raj Chetty reports:

> Black boys raised in America, even in the wealthiest families and living in some of the most well-to-do neighborhoods, still earn less in adulthood than white boys with similar backgrounds, according to a sweeping new study that traced the lives of millions of children.
>
> White boys who grow up rich are likely to remain that way. Black boys raised at the top, however, are more likely to become poor than to stay wealthy in their own adult households.