JOINT ECONOMIC COMMITTEE DEMOCRATS

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Tax Cuts Benefit the Wealthy, Leave Workers Behind

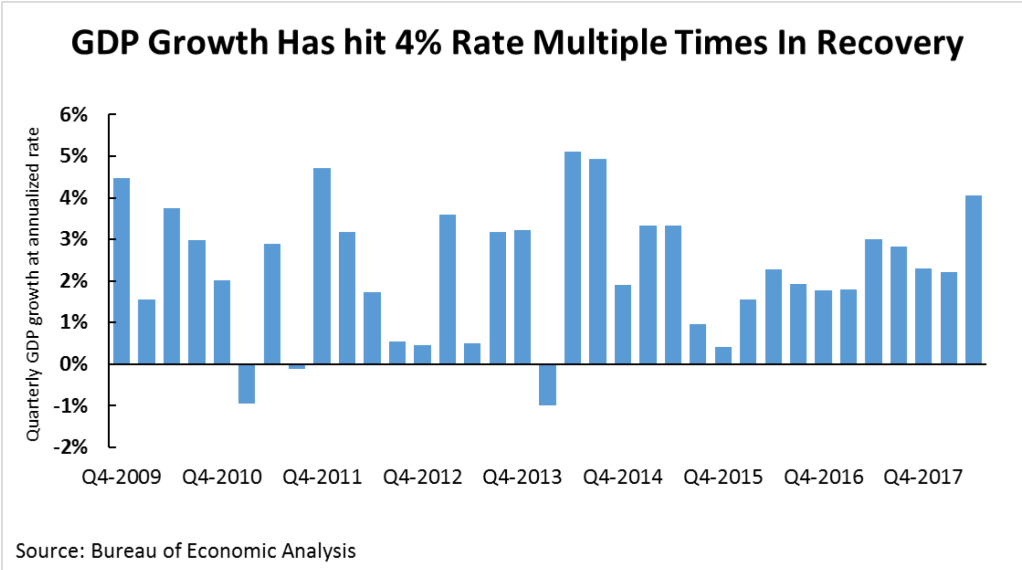
In the wake of today's Gross Domestic Product (GDP) release, it is important to remember that large gains for a small group can keep total income growing, even while many or even most Americans see their incomes stagnate or shrink. Republicans will likely trumpet this as a sign that the tax cuts are working to improve the economy for all Americans. But it is important to think about what it actually does, and doesn't, tell us about the economy. GDP is a measure of the total income generated in a year by the U.S. economy, but the whole doesn't always tell us enough about the parts.

Key takeaways:

- The U.S. economy has hit this level previously in the recovery, and there is no reason to believe that the tax cuts changed the long-term trend.
- Past periods following Republican tax cuts show that high-level GDP numbers can miss increasing income inequality.
- Wages for workers are stagnant while gains for corporations are surging, suggesting that the tax plan is already worsening income inequality.
- Breaking income gains out at different levels of the economic ladder would give us better information on whether the economy is working for everyone.

One Quarter is Not a Trend

The president will use this quarter to make misleading claims about the state of the economy and impact of the tax cuts. But comparisons between one quarter's growth rate and a years-long trend is apples and oranges. This is not a new level: the U.S. economy has surpassed 4 percent growth before in this recovery, as shown in the below chart. The final GDP growth estimate for the second quarter of 2014, in fact, came in above 5 percent.



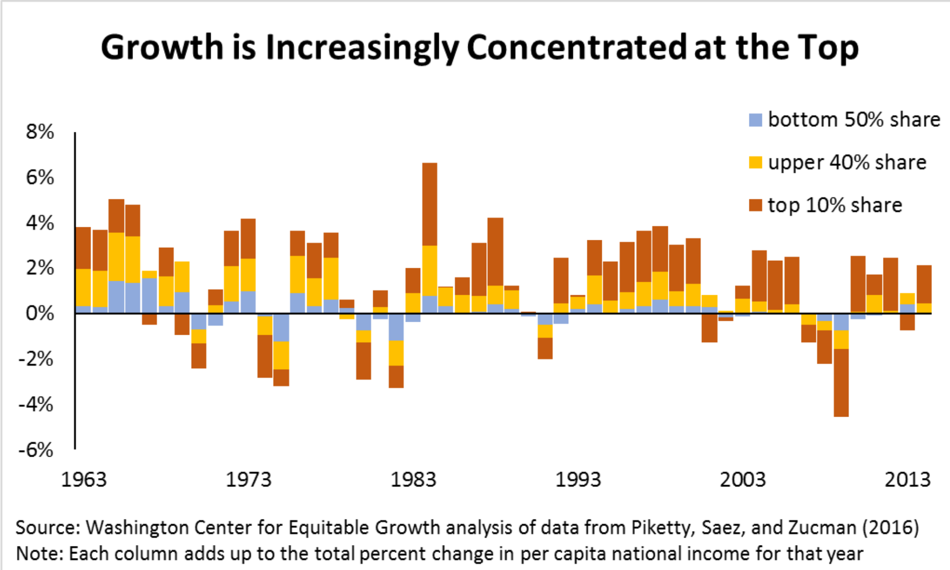
There is little reason to think that this one quarter snapshot represents a new trend. In fact, PNC Financial Services Group's chief economist called it "the luck of the draw," pointing out that there were a lot of factors that happened to come together in a single quarter.[1] The tax cuts may have provided a short-term stimulus (at a time when no economists were calling for a stimulus), but the quarter was also helped as exporters prepared for President Trump's potentially disastrous trade war and seasonal factors as well.

No credible models show the Republican tax cuts as leading to a sustainable 3 or 4 percent growth rate. Most show a small bump in the low tenths of 1 percent, with the effect fading as the stimulus wears off and the debt remains.[2] Nonpartisan economists from the San Francisco Fed even recently said that in the long run, the tax plan will not boost GDP at all.[3]

High-Level GDP Misses Changes in Income Inequality

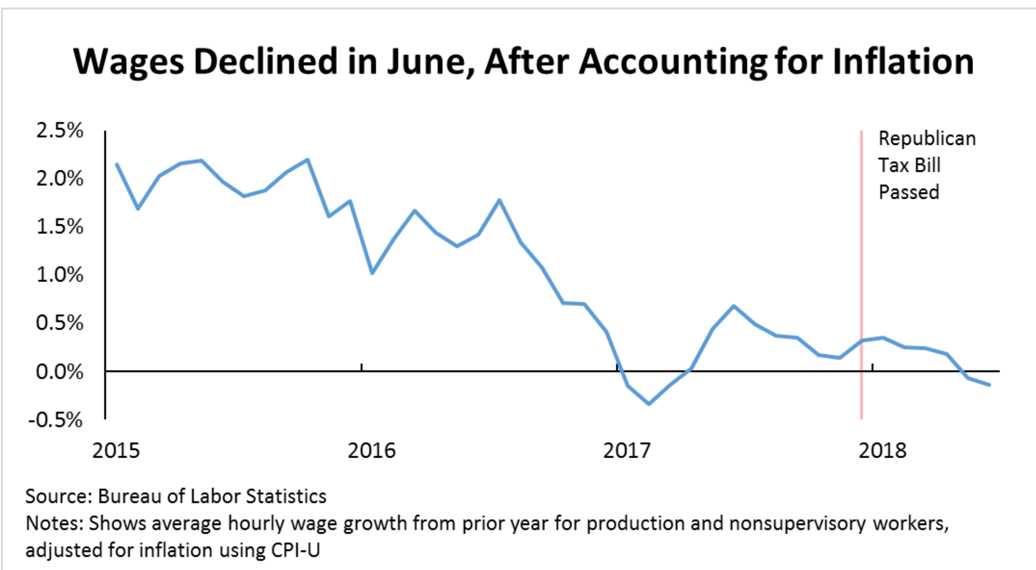
Republicans miss the point if they think that high-level measures, the stock market, and financial sector indicators are the only metrics that matter. While the total size of the economy is important, GDP growth by itself doesn't show how that change affects Americans on different parts of the economic ladder. If policies lead toward large gains for a small subset of Americans and no gains or losses for everyone else, then they are not helping most Americans. And indeed, that is what has historically happened with Republicans' trickle down economic policies.

The below chart displays how annual income gains were shared across income levels. As it shows, the Reagan tax cut and deregulatory agenda of the 1980s kicked off a boom in inequality, during which half of Americans saw little increase in their total income. The Bush tax cuts were more of the same. For example, while real GDP growth was 3.0 percent or greater from 2003 to 2005, average income fell for half of Americans during this time.[4]



The Republican Tax Law is Likely Making Inequality Worse

Metrics that are more reflective of what American families are experiencing show that history is likely repeating itself, and inequality is bound to get worse. Wages for most workers are not rising, despite Republican promises that the tax cuts would be a boon for workers. In June 2018, the average hourly wage was the same as it was in June 2017, after adjusting for inflation. As the below chart depicts, for production and nonsupervisory workers (a proxy for the median worker) wages were actually lower than they were a year prior.[5]



Meanwhile, it is clear that corporate shareholders and executives are the big winners of the tax cuts to date. Public companies in the U.S. set a new record for stock buybacks in the first quarter of the year, with $242 billion in buybacks, and then proceeded to shatter that new record in the second quarter, buying back $437 billion in stocks.[6] And corporate executives are using the opportunity to cash in, setting recent highs for insider stock sales.[7]

After decades of wage stagnation—the median worker's wages have grown by 6.1 percent over the last 38 years—people are hurting.[8] It is clear that the tax cuts are not leading to improved living standards for American families, and are likely to exacerbate already high income inequality.

We Need to Focus on the Health of Family Budgets

We can see in wage data that workers are not doing any better, but new measures are needed to show whether growth is being shared. A proposal from the Washington Center for Equitable Growth would enable us to see which Americans are benefitting from economic growth. They suggest that Congress grant BEA access to administrative tax records in order to produce regular and timely distributional breakouts of GDP growth—which would show how income is changing for people at different levels of income.[9]

It's a small step, but it would make a big difference. It would enable us to see – right away – where the economic growth is going. This would allow us to better evaluate policies like the tax cuts in real time.

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[1] https://www.bloomberg.com/news/articles/2018-07-23/u-s-4-gdp-growth-seen-more-luck-of-the-draw-than-new-reality?utm_source=google&utm_medium=bd&cmpId=google
[2] https://www.cbo.gov/system/files?file=115th-congress-2017-2018/reports/53651-outlook.pdf , page 117
[3] https://www.frbsf.org/economic-research/publications/economic-letter/2018/july/procyclical-fiscal-policy-tax-cuts-jobs-act/
[4] JEC calculations based on data from Equitable Growth
[5] https://www.bls.gov/news.release/realer.nr0.htm
[6] https://money.cnn.com/2018/07/10/investing/stock-buybacks-record-tax-cuts/index.html
[7] https://money.cnn.com/2018/07/17/investing/insider-selling-stock-market-buybacks/index.html
[8] http://www.crs.gov/Reports/R45090?source=search&guid=32aaffbbe1a24b40b07035da401f2830&index=0
[9] http://equitablegrowth.org/report/disaggregating-growth/