"Hearing on Expanding the Success of the 2017 Tax Relief to Help Hardworking Americans"
House Ways and Mean Committee, Thursday, April 11th

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Summary

Policy evaluation and assessment is about cost relative to effectiveness in service of a stated aim. What did the policy intend to do, what did it actually do, and what did it cost. This is the return on investment, the bang for the bunk, or simply a question of whether it was worth it.

The 2017 tax law was a failure. Its clearest effects were increasing the incomes of the richest Americans and the largest year for stock buybacks in history at the time. It did not significantly grow the economy or wages for the bottom 90% of workers. Seven years later researchers cannot agree if it increased corporate investment, though were an effect large, it wouldn't be that hard to find. The cost of this failure was not just the exorbitant price tag but the opportunity cost for other policy and the increased price tag of all future policy, given its contributions to the debt.

There is no policy justification for extending the 2017 tax law, especially not with a 50% higher price tag.

Key Point 1: The 2017 Tax Law Cost $2 Trillion for Little in Return

The Primary Effect of the Law: Decimated Federal Revenue

The Congressional Budget Office (CBO) estimated that the 2017 tax law (P.L. 115-97) cost $1.9 - $2.25 trillion.[i] The cost of the law is the sum of the cost of revenue reduction from lower tax collection and the increased cost of debt servicing, referred to respectively as the revenue and debt costs. Those two components each have estimates based on whether potential economic effects are included. The law was projected to increase the economy's output, which lowers revenue cost, but increase the federal government's debt, which raises debt cost. Table 1 summarizes the four composite estimates.

Table 1. Summary of CBO Projections of the 2017 Tax Law's Ten-year Costs

Source	**Deficit cost** (reduction in revenue due to law)	**Debt cost** (increase in debt servicing due to law)	**Economic feedback projections**
CBO	$1.8 trillion[ii]	$450 billion	Not included
CBO	$1.3 trillion	$600 billion	Includes higher income and higher interest on debt

In the best-case scenario, the law reduced revenues by $1.3 trillion over a ten-year period, an incredible addition to the deficit. And regardless of the revenue loss, there is a high cost to adding so significantly to debt, accounting for 20-30% of the total cost of the bill.

Even at passage, there was no forecasted projection or published analysis of the law's economic effects that claimed it would generate sufficient growth to recoup the revenue lost from reduced tax collection through higher output. Put differently, tax cuts do not pay for themselves, and no one who uses data or analysis to make assessments of policy claimed that they would.

The Congressional Research Service (CRS) estimated that in order for the 2017 tax law to pay for itself, the law would have to had increased GDP by 6.7% in a single year, when in reality, it increased it in 2018 by 0.2%, which was actually below forecast range of 0.3 – 0.8%.

Table 2. Summary of Projected Effects of 2017 Tax Law on Economic Output in 2018, as Reported by Congressional Research Service[iii]

Source	**Estimate**
Congressional Budget Office	0.3%

Joint Committee on Taxation	1.2%
Goldman Sachs	0.3%
International Monetary Fund	0.3%
Moody's Analytics	0.4%
The Tax Foundation	0.4%
Barclays	0.5%
Macroeconomic Advisors	0.1%
Tax Policy Center	0.8%
Actual	0.2%

The output effects relative to the cost of the bill suggest a fractional return on investment. From the federal budget's perspective, this 2017 tax law was an overwhelming loss.

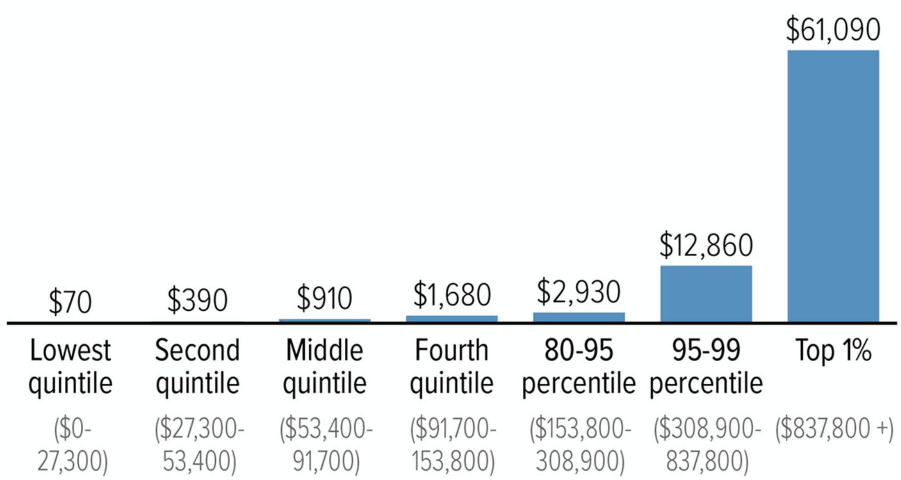
The Primary Beneficiaries of the Law: Highest Income Americans

The 2017 tax law did little for average Americans. Whether examined on an absolute or relative level, the rich got more from the tax cut and while low- and middle-income Americans got nearly nothing. A distributional analysis from the Tax Policy Center of the changes to individual taxes shows the extent of the disparity, and is illustrated in Figures 1 and 2.[iv]

In absolute terms, Americans from the lowest quintile will pay an estimated $70 less in taxes in 2025, the final year the household provisions are in effect. For reference, a worker earning the federal minimum wage of $7.25 working 40 hours a week for 52 weeks earns $15,080. The lowest quintile has less than $27,300 in income, a 40-hour, 52-week wage equivalent of $13.13.

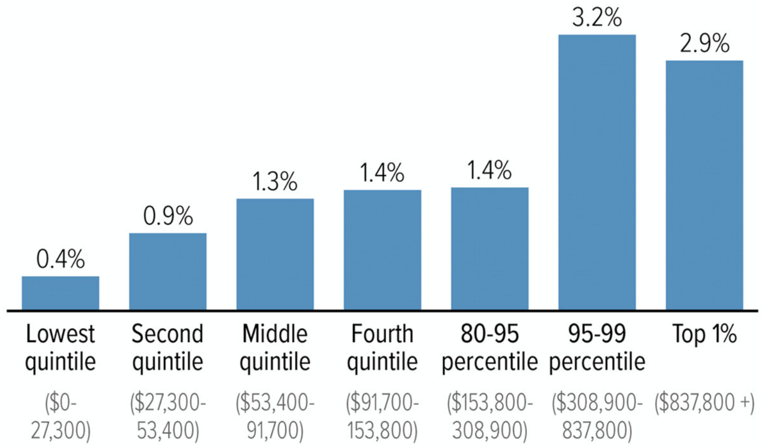
The middle quintile will pay $910 less, compared to top 1%, who will pay $61,090 less. So the richest 1% of Americans gets a 67x larger tax cut than the average American.

Figure 1. Average Federal Tax Change in 2025[v]



An absolute comparison misses that individuals have very different tax bills based on whether they are high or low income. But even when expressed as the percent change in their after tax income, the tax bill still greatly favored the highest income households.

Figure 2. Percent Change in After-Tax Income in 2025[vi]



Note: After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

In 2025, the lowest quintile will see a 0.4% boost to their income from the 2017 tax law, the middle quintile will see a 1.3% increase, and the top five percent will see a 3.2 – 2.9% increase. Increase in income at the top is still more than twice as large as the increase in the middle.

The reason for this severe skew in benefits towards the top is a reflection of design. The 2017 law reduced marginal tax rates for workers at the highest income levels, greatly reduced the estate tax, and created a pass-through deduction for sole proprietor income.

There is no single interpretation of "hardworking Americans," the subject of this hearing, as it does not have a clear income or employment correlate. However, it is likely that many more Americans would identify as hardworking that those benefited by the 2017 tax law.

For example, the corporate side of the 2017 tax cut was initially billed as a boon to workers.[vii] With more money in hand, corporations would be able to give workers a wage increase, with some estimates as high as $4,000 – $9,000 in the long-term.

However, the CRS assessment of the law's effect found no change to wages for the "ordinary worker."[viii] While other researchers have found mixed results of the corporate tax cut on outcomes like the amount of spurred investment, none of have found significant wages increases for the bottom 90% of workers.[ix] Indeed, one research team questioned the gains from cutting corporate taxes, given that they 80% of the total benefit accrues to the top 10% of earners, particularly concentrated among managers and executives.[x]

The 2017 tax law came in at enormous costs with the plain and obvious effect of raising incomes of the richest Americans. If it had greatly benefited "hardworking Americans," it should not be so hard to find or quantify those gains.

The Law's Clear and Obvious Lesson

Unless the intention of the 2017 tax law was to directly transfer income to the richest Americans at incredible expense to ordinary Americans, it was a failure. It was expensive and the economic return was pennies on the dollar. That extending provisions of the tax law are being considered reflects a remarkable unwillingness to consider or listen to policy assessment. There is no justification for repeating this mistake, or rather doubling down on it.

The Committee for a Responsible Federal Budget, using estimates from the CBO, projects that extending the 2017 law would cost $3.3 trillion over ten years.[xi] The Tax Policy Center projects $3.6 trillion.[xii] This decimation of federal budgets has no viable economic justification.

Key Point 2: The Opportunity Cost of Failed Tax Policy is Significant

Even by federal standards, $2 trillion is a lot of money. The direct effects of the policy are lost revenue and higher incomes for the highest income households. But federal resources are not limitless, and prioritizing revenue-reducing tax cuts creates a large opportunity cost for other use of federal funds.

For example, $2 trillion over ten years:
- Is over two-thirds[xiii] of what Congress owes the Social Security trust fund ($2.8 trillion), which has to be paid back over the same period, as trust funds are projected to be depleted by 2034.
- Is more than the estimated ten-year cost ($1.6 trillion) of a fully refundable and expanded child tax credit at American Rescue Plan Act levels, in which the credit goes to all children, is increased to $3,600 for families with children under 6 and $3,000 for older children.[xiv] The one-year extension in effect in 2021 lifted 2.9 million children out of poverty, and resulted in the lowest child poverty rate on record.[xv]
- Is five times the estimated ten-year cost of greatly expanded child care and universal preschool ($381.5 billion).[xvi]
- Is over 8 times the estimated ten-year cost of establishing a new social insurance program to provide universal access to paid family and medical leave ($228 billion).[xvii]
- Is just under six times the combined costs of National School Lunch Program (NSLP), School Breakfast Program (SBP), Summer Food Service Program (SFSP), and the Child and Adult Care Food Program (CACFP) in their highest year of recorded spending ($34 billion), summed for ten years ($340 billion).[xviii]

These policy tradeoffs are summarized in Table 3.

Table 3. Ten-year Cost of 2017 Tax Law ($2 Trillion) and Extension of 2017 Tax Law ($3.5 Trillion) Versus Other Federal Policies

Compared to 2017 Tax Law ($2 Trillion)	**Compared to 2017 Extensions ($3.5 Trillion)**
= 0.7 * Debt owed to the Social Security Trust Fund	= 1.25 * Debt owed to the Social Security Trust Fund
= 1.25 * Fully refundable and extended ARPA CTC	= 2.2 * Fully refundable and extended ARPA CTC
= 5 * Universal preschool and subsidized child care	= 9 * Universal preschool and subsidized child care
= 8 * Federal universal paid family and medical leave	= 15 * Federal universal paid family and medical leave
= 6 * School meals	= 10 * School meals

These are direct "deficit" costs of action and do not include the accumulating costs of growing debt and more expensive borrowing.

Key Point 3: The Accumulating Budgetary Cost of Failed Tax Policy is Significant

Fails to Raise Adequate Revenue

In 2005, the President's Advisory Panel on Federal Tax Reform was tasked with making the tax code simple, fair, and pro-growth. Their first finding[xix] averred:

> *"We have lost sight of the fact that the fundamental purpose of our tax system is to raise revenues to fund government."*

The federal government is not adequately funded, and tax policy cannot avoid blame. It is failing to fulfill its fundamental purpose. Several members of Congress past and future have warned that debt as a percentage of GDP could augur "the end of the Republic" its situation is so dire.[xx]

Yet, the past 25 years have seen a historic decline in federal revenues. The 2017 tax law was preceded by 2010 and 2012 laws that made 2001 and 2003 tax cuts permanent. In the three years before 2001, federal revenue as a share of GDP averaged 19.2%. In the years after the 2017 tax law, revenues are expected to average 16.9%. That works out to an annual difference of $850 billion a year in revenue.[xxi]

Some researchers have argued that the deterioration of America's fiscal trajectory is due almost entirely to tax policy. Comparing revenue and spending projections from the Congressional Budget Office over successive years, they point out that spending projections, especially in the long-term, have varied little and some spending has even come in below projections. But revenue's projections have fallen significantly. They argue that without the 2001, 2003, 2010, 2012, and 2017 tax changes, debt would be falling as a share of GDP.[xxii]

Fails to Learn Lessons

The effects of the 2017 tax law—its enormous cost with benefits limited to the elite—is fresh evidence of a lesson that should have been learned previously. Tax policy is an arrow in the economic policy quiver; it *can* be directed to boost the economy, but it doesn't necessarily.

On the household side, tax cuts increase economic output through increased demand. Give individuals more money, they spend that money, and the economy increases. But this is not a blanket policy that is indiscriminately effective. Individuals are not equally inclined to spend money if they receive it—some would spend any windfall right away, others may wait and save it or invest it. And the need for increased demand varies with economic conditions; it tends to be highest when the economy is weakest.

Hence, for individual tax cuts to increase economic output, they must be both be effectively targeted and appropriately timed—getting money to people who will immediately spend it when the economy needs that spending.

The 2017 tax law is a perfect example of a poorly targeted and poorly timed tax policy. It flowed primarily to highest income households who are the least inclined to spend and it was enacted when the economy was roaring at full employment. Even at passage, the CBO assumed the household provisions of the 2017 tax law would have no effect on demand or boost output for these exact reasons.

On the corporate side, tax cuts have a similar mechanism for boosting output—more money enables more spending—but corporate spending manifests through increased investment or increased wages of employees, rather than through demand directly. However, like individuals, corporations are not equally likely to put money to use that has the highest immediate economic return.

Again, the 2017 tax law sets the standard for policy outcomes contrary to policy aims. The CRS notes that the largest demonstrated effect of the corporate tax cut was a trillion dollars of stock buybacks in 2018, the highest in any years since a corporate tax holiday in 2004.[xxiii]

Conclusion

Unless the goal of Congress is to enrich the richest whilst adding to the debt, there is no benefit to continued tax cuts.

[i] Appendix B, "The Effects of the 2017 Tax Act on CBO's Budget and Economic Projections," from *The Budget and Economic Outlook: 2018-2028*, Congressional Budget Office, 2018. Link.

[ii] That is higher than the Joint Committee on Taxation's estimate of $1.5 trillion in revenue reduction. See Appendix 2 (page 433), "General Explanation of Public Law 115-97." The Joint Committee on Taxation, 2018. Link.

[iii] For a discussion of output estimates see page 2, for enumerated estimates, footnote 9, and for actual output estimates, page 3-4, of "The Economic Effects of the 2017 Tax Revision: Preliminary Observations." R45736 Congressional Research Service, 2019. Link. According to CRS, CBO's estimate was included in the 2018 Economic Outlook Appendix, but JCT's was not explicitly. Their estimate is backed out from the revenue feedback they projected in 2018.

[iv] "Distributional Analysis of the Conference Agreement for the Tax Cut and Jobs Act." Tax Policy Center, 2017. Link.

[v] The source for this table as notes is Table 2, Tax Policy Center, "Distributional Analysis of the Conference Agreement for the Tax Cut and Jobs Act." Tax Policy Center, 2017. The graphics are from the Center on Budget and Policy Priorities, reprinted here with permission. Link.

[vi] The source for this table as notes is the Tax Policy Center, but the graphics are from the Center on Budget and Policy Priorities, reprinted here with permission.

[vii] "The Growth Effects of Corporate Tax Reform and Implications for Wages." Council of Economic Advisors, October 2017. Link. "Corporate Tax Reform and Wages: Theory and Evidence." Council of Economic Advisors, October 2017. Link.

[viii] The Economic Effects of the 2017 Tax Revision: Preliminary Observations." R45736 Congressional Research Service, 2019. Link.

[ix] Researchers at the International Monetary Fund found that the reduced tax rates failed to spur investment, largely because many corporations now have significant market power. See Kopp et al. "U.S. Investment Since the Tax Cuts and Jobs Act of 2017." IMF Working Paper WP/19/120, 2019. Link. A separate group found that investment was higher than initially estimated, though they question whether it was worth the significant cost to revenue. See Chorodow Reich et al. "Tax Policy and Investment in a Global Economy." Working paper, 2024. Link. Another found that the tax cut had broadly positive effects on sales profits, and investments, but that earnings were solely accrued by the very top earners. See Kennedy et al. "The Efficiency-Equity Tradeoff of the Corporate Income Tax: Evidence from the Tax Cut and Jobs Act." Working paper, 2024. Link.

[x] Kennedy et al. "The Efficiency-Equity Tradeoff of the Corporate Income Tax: Evidence from the Tax Cut and Jobs Act." Working paper, 2024. Link.

[xi] "Tax Cut Extensions Cost Over $3.3 Trillion." Committee for a Responsible Federal Budget, August 14, 2023. Link. CRFB references "Budgetary Outcomes Under Alternative Assumptions About Spending and Revenues." Congressional Budget Office, May 2023. Link.

[xii] Model Revenue Tables. "T22-0142 - Make the Individual Income Tax and Estate Tax Provisions in the 2017 Tax Act Permanent, Impact on Tax Revenue (billions of current dollars), 2023-42 Fiscal Years." Tax Policy Center, November 30, 2022. Link.

[xiii] See "Actuarial Status of the Social Security Trust Funds." Social Security Trustees. Link.

[xiv] "Re: Budgetary Effects of Making Specified Policies in the Build Back Better Act Permanent." Letter to Sen. Graham and Rep. Smith, December 10, 2021. Congressional Budget Office. Link. This is the most generous and therefore most

expensive version of the child tax credit, and a discussion of policy options can be found in "Factors Affecting the Cost of the Extending the Child Tax Credit."IN11851 Congressional Research Service, 2022.

[xv] Burns and Fox, "The Impact of the 2021 Expanded Child Tax Credit on Child Poverty." Working Paper SEHSD-WP2022-24, United States Census Bureau, 2023. Link.

[xvi] "Economic Effects of Expanding Subsidized Child Care and Providing Universal Preschool." Congressional Budget Office, 2021. Link.

[xvii] "H.R. 1185 The FAMILY Act." Congressional Budget Office, 2019. Link.

[xviii] "School Meals and Other Child Nutrition Programs: Background and Funding." Congressional Research Service, December 18, 2023. Link.

[xix] Executive Summary of "Simple, Fair, and Pro-Growth: Proposal to Fix America's Tax System." *Report of the President's Advisory Panel on Federal Tax Reform*, 2005. Link.

[xx] "Sounding the Alarm: Examining the Need for a Fiscal Commission." Hearing of the House Budget Committee, October 19, 2023. Link.

[xxi] Marr, "For Tax Day, 7 Charts on the 2017 Trump Tax Law and Why Congress Should Set a New Course." April 8, 2024. Center on Budget and Public Policy Priorities. Link.

[xxii] Kogan, "Tax Cuts are Primarily Responsible for the Increasing Debt Ratio." March 27, 2023. Center for American Progress.

[xxiii] "The Economic Effects of the 2017 Tax Revision: Preliminary Observations." R45736 Congressional Research Service, 2019. Link.