Will a corporate tax cut lift worker pay? A union wants it in writing

By Jim Tankersley
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At the heart of the Republican tax plan hurtling through Congress is an implicit promise that cutting corporate taxes will lift the middle class through higher wages and more jobs.

Speaker Paul D. Ryan, for example, said in a recent speech that "fixing the business side of our tax code is really all about helping families and workers," adding that "cutting the corporate tax rate means more jobs here in the United States. It will foster increased competition, which will directly drive up wages for our workers."

Yet few American companies have offered specific plans that support those promises. While many chief executives broadly praise Republicans' efforts to cut taxes, few have detailed how they would deploy the savings from a corporate tax cut or put more money back in workers' pockets.

The lack of pledges to create jobs has not been lost on President Trump's top economic adviser, Gary D. Cohn, who seemed perplexed last week about the lack of corporate enthusiasm for a tax cut.

At a Wall Street Journal conference, Mr. Cohn asked his audience of chief executives how many of them would invest more if the tax cut were passed. When only a few attendees raised their hands, Mr. Cohn asked: "Why aren't the other hands up?"

Labor groups are wondering the same thing — and are seizing on the administration's economic analysis that the tax cut will translate into an extra $4,000 in take-home pay for workers.

This week, the Communications Workers of America asked several companies that employ its members to promise to give workers a pay increase if the cut in the corporate tax rate goes through. The request, while unlikely to be heeded, highlights a critical question over who would benefit the most from the tax bill: shareholders or workers?

"President Trump and the Republican Congress have been trying to sell this corporate tax cut to working families by making big claims about wage increases, investment and job growth that don't seem to be supported by the evidence," said Chris Shelton, the president of the union. "We're going straight to the people who know how corporations plan to spend the billions of dollars being handed over to them — the C.E.O.s — and asking them if they intend to keep the promises that Trump is making on their behalf."

Business leaders and their lobbying groups, including the Business Roundtable and the U.S. Chamber of Commerce, say the tax bill will increase economic growth, profits and worker pay. Four out of five executives in a survey by the round table earlier this year said they would increase capital spending if Congress were to pass a tax package, while three in four said they would increase hiring.

Jamie Dimon, the chairman and chief executive of JPMorgan Chase and chairman of the Business Roundtable, told the Economic Club of Chicago this week that if Congress had already passed a tax overhaul bill, "some companies would have made huge investments."

"We know one thing for sure: Investments drive productivity, drives jobs and wages," he added.

Mr. Trump has put a number on it, saying a typical American would see a $4,000 raise if the corporate rate was reduced to 20 percent from a high of 35 percent today, as both the House-passed bill and the pending Senate version propose. His Council of Economic Advisers says the increase could go as high as $9,000 for the average household.

President Trump's top economist, Kevin Hassett, the chairman of the Council of Economic Advisers, said last week that he expected corporations to invest heavily and raise workers' wages if the tax bill became law. When most developed nations have cut their corporate tax rate, he said, the resulting wage increases were "well north" of $4,000 per year for workers.

But Democrats and liberal economists dispute those claims, citing research that suggests that the bulk of the benefits from corporate cuts will flow to the rich, partly through companies' buying back stock or increasing dividend payments to shareholders.

A prominent survey of top economists from across the ideological spectrum — the IGM Economic Experts Panel — found this week that almost no economists agreed with the notion that the size of the American economy "will be substantially higher a decade from now than under the status quo" if the tax bill passed.

Critics note that wage growth has remained relatively sluggish over the past several years, even as corporate profits hover near all-time highs as a share of the economy, and the unemployment rate continues to fall to levels that economists normally associate with rapid increases in worker pay.

"Perhaps the most intuitive reason we know these cuts will fail to spark wage growth is that corporate profit rates have been historically high since 2007, while business investment has been historically low," Josh Bivens, an economist at the liberal Economic Policy Institute, wrote this week.

In a letter sent this week to the top executives of Verizon, AT&T and six other companies, the communications union asked them to pledge a $4,000 annual pay increase for employees for every year that the corporate rate rests at 20 percent. The union, which has called the tax measure "an outrageous money grab" and urged lawmakers to reject it, also asked the companies to say that they will not take advantage of other changes in the corporate code to send American jobs to other countries.

The companies largely declined to comment or dismissed the letter as a stunt.

Jim Gerace, chief communications officer for Verizon, said that the company would take up the wage issue with the union when contract negotiations begin in 2019, "regardless of the outcome of tax reform legislation," and that "it's just too early to speak to the impacts on our business" from the tax bill.

AT&T — which has promised to invest an additional $1 billion in the United States if the tax bill passes, a rare level of detail for a corporation — issued a statement that noted: "We've said that with the passage of a tax bill that includes a permanent corporate tax rate of 20 percent, we'll increase our investment in the United States. Research tells us that each $1 billion invested in the telecom sector creates about 7,000 jobs, which means 7,000 new wage earners."

It is possible that a tax cut could increase wages even if companies do not intend it to, particularly in the current economic environment, where unemployment is hovering just above 4 percent. Most economists consider that rate to be an indication that the economy is running close to full capacity. As companies compete more to hire individual workers, they should be able to bargain for higher wages.

Administration officials appear to believe that individual companies are reluctant to describe how they would use the proceeds from a tax cut to invest and hire workers, despite their lobbying groups' aggressive promotion of the job-creation benefits of the bill.

"My guess is, if I'm a Fortune 500 C.E.O., I'm not going to tell my competitors, who are sitting in the aisle next to me, what I'm going to do next year," the White House budget director, Mick Mulvaney, told CBS's "Face the Nation" on Sunday morning. "They're going to do what's in their best interest."