

BUDGET PROCESS REFORM  
MEMBER DAY HEARING

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HEARING  
BEFORE THE  
COMMITTEE ON THE BUDGET  
HOUSE OF REPRESENTATIVES  
ONE HUNDRED EIGHTEENTH CONGRESS  
FIRST SESSION

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HEARING HELD IN WASHINGTON, D.C., DECEMBER 6, 2023

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**Serial No. 118-8**

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## **BUDGET PROCESS REFORM MEMBER DAY**

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**WEDNESDAY, DECEMBER 6, 2023**

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON THE BUDGET,  
*Washington, DC.*

The Committee met, pursuant to call, at 9:04 a.m., in Room 210, Cannon Building, Hon. Jodey Arrington [Chairman of the Committee] presiding.

Present: Representatives Arrington, Norman, Smucker, Good, Estes, Fischbach, Yakym, and Boyle.

Chairman ARRINGTON. The Committee will come to order.

I want to thank the audience for coming. It is a sign of strength and tremendous support for this budget reform process, which is part and parcel to restoring fiscal responsibility in our Nation's capital.

To me, that is the overarching goal for all of us, is to rein in the deficit spending that is driving the unsustainable national debt, to reverse the curse that James Madison talked about. A public debt is a public curse and the worst of its kind, he said, in a Republican form of government. We have to reverse the curse, but we can't do that with the current culture and the current process, and to my friend from Miami, I would just say—who is a businessman, a local leader—people are more important than process, and ultimately, as Tom McClintock has articulated, the people of this institution have to have the political will to do the necessary and now extremely painful things, politically and otherwise, to right this ship and put our Nation on sound financial footing, but process matters, and if you have a broken process, you will get bad outcomes most of the time. Process is nothing more in my mind than a set of incentives, and incentives drive behavior, and what we need, to my Ranking Member from Pennsylvania, the Keystone State, is to encourage Members to conduct themselves in a responsible way when it comes to this process so that we can get the right and responsible outcomes for the taxpayers.

For 50 years—this week actually—this week, 50 years ago, the Budget Committee passed what would become the Congressional Budget and Impoundment Control Act of 1974. For the first 25 years it worked, budgets were passed on time, there were joint resolutions signed by the President, and things were rocking along. The last 25 years I would argue, it almost never worked. In fact, here are just a few list of grievances, and by the way, these are bipartisan grievances. No party, when they had power and control of either chamber, has lived up to the responsibility of administering the process as it was intended. We rarely pass budgets and

when we do, we almost never do it on time. Too often we waive spending caps and sequestration, pay-fors, and other offset measures, and when we do, we often use gimmicky pay-fors that aren't real, and quite frankly, some of the gimmicks we use, Carlos, would land our citizens in the private sector in prison on account of accounting fraud. Half the time we don't reauthorize programs before we appropriate money to them. Not exactly a best practice in responsible budgeting. Reconciliation, which is a tool to reconcile the gap between revenues and spending, a gap that today is \$2 trillion in one year. More than all of discretionary spending, and in ten years, according to CBO, it will be double that and we will accumulate \$20 trillion in ten years, half of which is interest payments alone.

Well, reconciliation was a tool by which this Committee and Congress could close that gap. Well, guess what? Congress has used reconciliation a number of times. When Republicans had total control, when I got here as a freshman, and just recently when Democrats had total control, both of them used reconciliation to jam partisan bills through that only made the deficit worse. So they didn't use it for its intended purposes, but for its self-serving purpose.

We hyper focus on 30 percent of the budget, discretionary spending, and we rarely, Mr. Gimenez, give even ten percent of our time to the 70 percent of the budget that is on auto spend. We call it mandatory spending and that spending may be 70 percent of the budget today, it is 90 percent of the growth over ten years.

Okay. I think, suffice it to say, as some of my folks back in West Texas will say, it ain't working. So let's figure out how we can put those incentives in place, and let's get to a point where the American people can have confidence that we are running the People's house and the People's business the way they run their businesses, their families, their local and state governments. It is just that simple.

I want to thank Rudy Yakym. He is a rising star, a new Member of Congress from Indiana's Second, and he has put a lot of thought into this. The first time I met him on the floor of the United States House he informed me of his intention to do something about this broken budgeting process and about our spending problem and the national debt that is being driven by that spending problem, and we were able to recruit him to the Budget Committee and I have asked him to be the Task Force Chair on the Republican side to lead the efforts to reform this process and to work with Members in other Committees of jurisdiction and across the aisle to identify the best ideas so that we can bring a package to our respective caucuses, and hopefully we can pass it out of both chambers and take a 50 year old process that isn't working and make it work better again for the American people, the people we serve. I would say there is low approval and low confidence—the bar has been low, sadly—by the American people. I want to prove to them that we can rise to their expectations and be responsible stewards.

So, Rudy, thank you for your willingness to lead the efforts on our side. I am grateful for you and I am grateful for Carlos Gimenez and for the many Members who will come today to present their ideas.

With that, I yield as much time as my Ranking Member may need for opening remarks.

[The prepared statement of Chairman Arrington follows:]



CHAIR JODEY ARRINGTON

# HOUSE BUDGET COMMITTEE

## Chairman Arrington Opening Statement at “Budget Process Reform Member Day Hearing”

November 29, 2023

*As prepared for delivery*

“I want to thank the audience for coming.

It's a sign of strength and tremendous support for this budget reform process, which is part and parcel to restoring fiscal responsibility in our Nation's capital.

To me, that is the overarching goal for all of this: to rein in the deficit spending that's driving the unsustainable National debt, to reverse the curse that James Madison talked about—a public debt is a public curse, and the worst of its kind, he said, in a republican form of government.

We have to reverse the curse, but we can't do that with the current culture and the current process.

People are more important than process, and ultimately, as Tom McClintock has articulated, the people of this institution have to have the political will to do the necessary and now extremely painful things, politically and otherwise, to right this ship and put our Nation on sound financial footing.

But process matters, and if you have a broken process, you will get bad outcomes most of the time. Process is nothing more, in my mind, than a set of incentives, and incentives drive behavior.

What we need is to encourage Members to conduct themselves in a responsible way when it comes to this process, so that we can get the right and responsible outcomes for the taxpayers.

Fifty years ago this week, the Budget Committee passed what would become the Congressional Budget and Impoundment Control Act of 1974.

For the first 25 years, it worked. Budgets were passed on time, there were joint resolutions signed by the President, and things were rocking along. The last 25 years, I would argue, it almost never worked. In fact, here is a list of grievances—and, by the way, these are bipartisan grievances. No party, when they had power and control of either chamber, has lived up to the responsibility of administering the process as it was intended.

We rarely pass budgets. When we do, we almost never do it on time.

Too often, we waive spending caps and sequestration, pay-fors, and other offset measures. And when we do, we often use gimmicky pay-fors that aren't real, and quite frankly, some of the gimmicks we use would land our citizens in the private sector in prison on account of accounting fraud.

Half the time we don't reauthorize programs before we appropriate money to them—not exactly a best practice in responsible budgeting.

Reconciliation, which is a tool to reconcile the gap between revenues and spending—that gap today is \$2 trillion. One year, more than all of discretionary spending. In ten years, according to CBO, it will be double that.

We will accumulate \$20 trillion in ten years, half of which is interest payments alone.

Well, reconciliation was a tool by which this Committee and Congress could close that gap. Well, guess what?

Congress has used reconciliation a number of times—when Republicans had total control when I got here as a freshman, and then recently when Democrats had total control—both of them used reconciliation to jam partisan bills through that only made the deficit worse.

So they didn't use it for its intended purposes, but for its self-serving purpose.

We hyper focus on 30 percent of the budget, discretionary spending, and we rarely give even ten percent of our time to the 70 percent of the budget that is on auto spend. We call it mandatory spending.

That spending, maybe it's 70 percent of the budget today, it's 90 percent of the growth over ten years.

Okay. I think, as some of my folks back in West Texas would say, it ain't working.

So, let's figure out how we can put those incentives in place, and let's get to a point where the American people can have confidence that we are running the People's house, and the

People's business, the way they run their businesses, their families, their local and state governments. It's just that simple.

I want to thank Rudy Yakym, he's a rising star, a new Member of Congress from Indiana's second district.

He's put a lot of thought into this—the first time I met him on the floor of the United States House, he informed me of his intention to do something about this broken budgeting process, and about our spending problem, and the National debt that is being driven by that spending problem, and we were able to recruit him to the Budget Committee.

I've asked him to be the Task Force Chair on the Republican side to lead the efforts to reform this process, and to work with Members and other Committees of jurisdiction and across the aisle to identify the best ideas so that we can bring a package to our respective caucuses and, hopefully, we can pass it out of both chambers and take a 50 year old process that isn't working and make it work better again for the American people, the people we serve.

I would say there's low approval and low confidence, the bar has been set low, sadly, for the American people—I want to prove to them that we can rise to their expectations and be responsible stewards.

So Rudy, thank you for your willingness to lead the efforts on our side. And I'm grateful for you and for the many Members who will come today to present their ideas."

Mr. BOYLE. Well, thank you, Mr. Chairman. Just a few thoughts.

First, as you know, while there are a number of things obviously we are going to disagree on, as we have talked about a lot in hearings and then outside of hearings, we both fully agree that the budget process is completely broken. It has existed for a half century, and we are so far beyond the way it was originally designed to work that it is at the point where there is widespread bipartisan agreement—not unanimity, I would point out—but widespread bipartisan agreement both inside the Capitol as well as outside, that we need real budget process reform.

And look, I am a pragmatist. The reality is there is a Republican House and a Democratic Senate. If we are really going to achieve and make our mark to last not just a year or two, but many years to come, and fix this and have a permanent solution, it is not going to be a partisan Republican bill, even though I know that would be the instinct for any majority to pass. It is just not going to fly in the Senate and not going to become law. If we really want to fix this process, it needs to be truly bipartisan.

Now, I know that we have had recently several hearings about a debt commission, and I appreciate, Mr. Chairman, your genuine passion for that, but I think it is great that we are getting into budget process reform. I think there is a whole host—even though I have talked before about skepticism I have about commissions, I have to say the one area where commissions I think have done good work—although they ultimately didn't get their ideas over the goal line—the one area where they have done good work is in budget process reform. You served on the most recent commission, the one in 2018. My predecessor, Chairman Yarmuth, served on that as well. There are a number of good ideas here that I know had bipartisan support in that commission five, six years ago that I am very interested in. We have talked about some of them before—biennial budgeting to look at—several other things that I think are very much worth exploring. There is some help from the outside, some academics—again, both from the right and the left, and also nonpartisan—who I think can offer real value to us and focus on that.

I also will say again, just as the Chair has a great passion for a debt commission, I have a real passion when it comes to reforming our debt ceiling. We are playing with dynamite. We can survive and have survived government shutdowns, even though they are costly, they hurt our GDP, they lead to lower job growth. CBO has documented every single one has led to an increase in the deficit, but we have been able to survive government shutdowns. We are not able to survive a debt default. So making sure as part of our budget reform exploration and work, making sure that debt ceiling reform is part of that is absolutely critical. Because while—and this has been the pattern over the last dozen years—while at the moment the debt ceiling isn't front and center, it will be back in front of us in almost exactly a year, about 13 months from now.

So hopefully, and I would urge this Committee that really over the next—well, of course, we are going to have the Christmas break and holiday break, but once we get back in January, I do think the work of this Committee should really be dedicated toward wide-

spread bipartisan budget reform, and I look forward to working with you in that effort, Mr. Chairman.

[The prepared statement of Ranking Member Boyle follows:]

**Ranking Member Brendan F. Boyle**  
**Budget Process Reform Member Day Hearing**  
**Opening Remarks**  
**Wednesday, December 6, 2023**

Thank you, Mr. Chairman. Just a few thoughts. First, as you know, while there are a number of things that obviously we're going to disagree on, as we've talked about a lot in hearings and then outside of hearings, we both fully agree that the budget process is completely broken.

It has existed for a half century and we are so far beyond the way it was originally designed to work, that it's at the point where there is widespread bipartisan agreement — not unanimity, I'd point out — but widespread bipartisan agreement, both inside the Capitol, as well as outside, that we need real budget process reform.

And look, I'm a pragmatist. The reality is there is a Republican House and a Democratic Senate. If we're really going to achieve and make our mark to last not just a year or two, but many years to come, and fix this, and have a permanent solution, it is not going to be a partisan Republican bill, even though I know that would be the instinct for any majority to pass.

It's just not going to fly in the Senate and not going to become law. If we really want to fix this process, it needs to be truly bipartisan. Now, I know that we've had recently several hearings about a debt commission, and I appreciate Mr. Chairman, your genuine passion for that. But I think it's great that we're getting into budget process reform.

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So making sure, as part of our budget reform exploration and work, making sure that debt ceiling reform is part of that is absolutely critical because while, and this has been the pattern over the last dozen years, while at the moment the debt ceiling isn't front and center, it will be back in front of us, in almost exactly a year, about 13 months from now.

So hopefully, and I would urge this committee that really over the next, well, of course we're going to have the Christmas break and holiday break, but once we get back in January, I do think the work of this committee should really be dedicated toward widespread bipartisan budget reform and I look forward to working with you in that effort, Mr. Chairman.

Chairman ARRINGTON. Well, I want to thank my Ranking Member again for his leadership and the bipartisan sentiments and his rightful understanding that we have to do this together if it is going to be lasting, and I know you are sincerely committed to that, and I appreciate the thoughts that you have had on the debt ceiling and other areas.

By the way, Derek Kilmer and the former Chairman from Kentucky, both Democrats, were committed with Steve Womack, who was one of the chairs of that super committee, and you are right, there were several things that we agreed to, and the Senate pulled the plug on it in the eleventh hour, just like Simpson-Bowles had the plug pulled on it in the eleventh hour. Timing is everything. I think we have got a great opportunity.

Now from Indiana's second, and our Task Force Chairman, the great Rudy Yakym.

Mr. YAKYM. Well, thank you, Mr. Chairman. I am grateful for this opportunity to chair the Task Force and for your leadership on this Committee, as well as our Ranking Member, Brendan Boyle.

Additionally, thank you to all of my colleagues for being here today to share your valuable thoughts and insights on this critical issue.

Nearly 50 years ago, Congress passed the Congressional Budget Act of 1974, which established our current process for funding Federal agencies and programs. Fifty years later, our country looks much different. In 1976, our total budgetary authority was \$420 billion. In 2022, our total budgetary authority was \$6.5 trillion. Congress itself looks much different today as well. We operate more often in divided government with much smaller majorities than we have historically, and all of these factors illustrate why it is important that we evaluate our budget process and determine what is serving the American people well and what is not.

It has been over 25 years since Congress enacted all appropriations bills before the beginning of the fiscal year. This leads me to believe that changes need to be made to our process. The inability to pass appropriations bills on time has led Congress to passing continuing resolutions days, if not sometimes hours, before funding runs out. This continual funding chaos contributes to constant overspending, high inflation, and the recent downgrades of the United States credit rating. This does not serve the Hoosiers I represent or the American people well.

I am a businessman by background and have seen firsthand how process design and adherence to such processes sets a business up for success or for failure. The budget process in Congress is no different. We need to thoughtfully and carefully evaluate our budget process' success and its shortcomings and update it to create the best results for the American people. Committee Member Days are an important opportunity for our colleagues not on the Budget Committee to share their ideas and help determine the best possible solutions and how to address them.

I look forward to hearing testimony today from my colleagues on both sides of the aisle and working together to determine the appropriate reforms to the budget process and set it up for success, as well as working together to restore fiscal responsibility to our Nation's capital.

With that, Mr. Chairman, thank you, and I yield back.

Chairman ARRINGTON. I thank the gentleman from Indiana, and now we are going to move to the most important part of this hearing. It is a Member hearing, and we are grateful, as we know, that our colleagues have other responsibilities and serve on a number of Committees with jurisdiction separate and apart from budgeting, but I have talked to you, Carlos Gimenez, on the floor a number of times, and you are as passionate as anybody I know about righting the ship and fixing this broken process.

With that, I yield to you three minutes, but I am going to be pretty generous because—I don't know why we don't do five, but I will give you three, and if you are on a roll, I might just let you keep going.

**STATEMENT OF HON. CARLOS GIMENEZ, A REPRESENTATIVE  
IN CONGRESS FROM THE STATE OF FLORIDA**

Mr. GIMENEZ. Thank you, Mr. Chairman, and Mr. Ranking Member. Thank you for allowing me to give some of my ideas.

I am not a businessman. Actually, I was former mayor of Miami-Dade County, the fifth largest county in the United States. I had about \$10 billion in revenue, 28,000 employees, and I was a strong mayor of Miami-Dade County, so I was a CEO.

Budgeting is not hard. It isn't. Budgeting is how much money do you have, and that is how much money you spend. The hard part is how you prioritize that, and unfortunately, I don't believe since I have been here that I have seen us really prioritize the money that we have.

And so there is no silver bullet to the budgeting process that we have. The structural deficits that we have, there are no silver bullets. We need to look at a number of things, and I am just going to give you some of the things that I did when I was the mayor of Miami-Dade County, I walked in on a \$2 billion operating budget—and I say it is a \$10 billion budget because it is more than that, it is a CIP, et cetera, but actually, the actual operating budget was somewhere around \$2 to \$3 billion, and I walked in about 20 percent deficit my first year. So what are the things that we did? One of the things that we did is we looked at the bureaucracy, and I don't think we have looked at the bureaucracy here throughout the entire Federal Government to see if we need all the people that we have and we have employed, and I am sure a lot of people here are not really happy for me to say that, but that is just the facts. Most bureaucracies have more employees than they actually need, most bureaucracies have employees that actually create more jobs, more work for other employees, not really doing the work of what is in the benefit of the people, and so I think we need to establish some kind of a panel that looks across the board at the Federal bureaucracy and see where we can save money there.

When contracts are approved by the Administration, are they overly generous? All the pay raises, et cetera, et cetera, all that costs money. So that is another piece.

In terms of revenue, we have \$3 trillion in regulations that we have piled on year after year, decade after decade. We should be looking at a regulation reduction panel. What will that do? Well, if we can reduce  $\frac{1}{3}$  of the regulations that we piled on over the last

ten decades or so, maybe that is \$1 trillion dollars back in the pockets of American businesses and American citizens. That will also spur growth and unleash American entrepreneurship. That will help us grow the economy, grow more revenue, and so that is another way to tackle this problem.

And at the end of the day, we are going to have to make some hard choices. If you really want to balance the budget, we have to be frank with the American people and say we are going to make every effort to reduce the bureaucracy to the level that we think we need in order to run government, we are going to reduce regulation so that we can unleash American entrepreneurship and grow the economy at a faster rate than we project now, and then really look at how we can prioritize the things that this government should be doing, and maybe we are doing some things we shouldn't be doing, that we have taken on some tasks that really belong to the states or belong to counties, to cities, or governments shouldn't be doing at all.

And so those are going to be the tough choices that we have to make if we are going to be serious about reducing the deficit here.

[The information follows:]

**The Honorable Carlos Gimenez**

## Budget Process Reform Member Day Hearing

## Gimenez Testimony

Thank you, Mr. Chairman and Mr. Ranking Member, for allowing me to give some of my ideas. I am not a businessman. I was former mayor of Miami-Dade County, it's the 5<sup>th</sup> largest county in the United States at about \$10 billion in revenue, 28,000 employees and I served as strong mayor of Miami-Dade County. In essence I was the CEO.

Budgeting is not hard. Budgeting is how much money do you have and that's how much money you spend. The hard part is how you prioritize that. Unfortunately, I don't believe that since I've been here that we have prioritized the money that we have. There is no silver bullet to the budgeting process that we have. The structural deficits that we have, there are no silver bullets. I want to talk about some of the things that I did when I was the Mayor of Miami-Dade County. I walked in on a \$2 billion operating budget and about a 20% deficit my first year.

So, what are the things that we did? One of things that we did was we looked at the bureaucracy, something that I believe we have not looked at is the bureaucracy here for the entire federal government. We must look at all the workers we have employed across the entire federal government. Most bureaucracies have more employees than they need. Most bureaucracies have employees that create more jobs, more work for other employees but that are not really doing the work of what's in the benefit of the people. I believe we need to establish a panel that looks across the board at the federal bureaucracy to see where we can save money. When overly generous contracts are approved by the administration that grant overly generous pay raises, all that costs money.

In terms of revenue, we have \$3 trillion in regulations that we have piled on year after year and decade after decade. We should be looking at establishing a regulation reduction panel.

What will that do? Well, if we can reduce 1/3 of the regulations that we piled on over the decades, we can return a trillion dollars back in the pockets of American businesses and American citizens that will also spur growth and unleash American entrepreneurship. That will help us grow the economy, grow more revenue.

At the end of the day we're going to have to make some hard choices. If you really want to balance the budget, we must be frank with the American people. We have to say we are going to make every effort to reduce the bureaucracy to the level we think we need to run government. We are going to reduce regulation so that we can unleash American entrepreneurship and grow the economy at a faster rate than we project now. We need to look at how we can prioritize the things that this government should be doing and the things we shouldn't be doing. We've taken on some tasks that really belong to the states or belong to counties to cities or government shouldn't be doing at all. These are going to be the tough choices that we must make if we're going to be serious about reducing the deficit here.

Thank you for allowing me to give my testimony and welcome any questions that you may have.

Chairman ARRINGTON. Representative Gimenez I have taken note of the bureaucracy challenges, the regulatory costs that affect growth, and just prioritizing, which is something we rarely do. We just plus up the last year's spending in a four corners omnibus spending deal. I mean, this is the first time I know in recent history where we have actually done effectively zero based budgeting because we have put a lot of pressure.

We have had folks in our caucus expect that. We are not supposed to ask questions to you all, but I am going to do it. I am just going to ask you one quick question. That is a lot of work. That is a lot of work—

Mr. GIMENEZ. Yeah.

Chairman ARRINGTON [continuing]. That we tend to avoid in Congress.

Mr. GIMENEZ. Yeah.

Chairman ARRINGTON. What kind of results did you yield, in your last comments, in terms of digging into the bureaucracy, prioritizing—I am talking about as CEO—

Mr. GIMENEZ. Yeah.

Chairman ARRINGTON [continuing]. Of the local government, Miami-Dade, what was the outcome of all that?

Mr. GIMENEZ. The outcome was that we reduced the workforce by ten percent and didn't skip a beat, we also got concessions from our unions, labor unions. So we had a ten percent cut, and by the way, when we got that ten percent cut, I cut my own salary 50 percent. So I led by example, and so I didn't ask anybody to do something I wasn't willing to do myself.

And then there were some things that we were doing that we didn't do anymore, and so we cut some services that weren't that vital, but for the most part, the services stayed the same or actually increased. Fire, police, those things that are important, the things that we have to do, garbage pickup, parks, et cetera, all those were untouched, but we were able to balance because we have to balance. See, that is where also I find is incredible here, you don't have to balance here. Well, all state governments have to balance, and all city governments have to balance and all county governments have to balance. I don't have a choice. The problem is we have a choice here, and if we didn't have that choice, then we would be forced to make a lot of these decisions.

One further question before I go, and thank you for indulging me. The CBO scores. Have we done analysis of CBO scores in the past and have they been accurate or have they missed the mark? Because I will bet you that CBO scores miss the mark every single time, and they don't miss the mark by being, gee, we overestimated the cost of this. They always seem to miss the mark by underestimating the cost of things, and so am I wrong with that? Or is that something that you see over and over and over again?

Mr. BOYLE. I can answer that. First, it is nice to meet you. Good opportunity to do this, I think. Newer Member, I assume, and haven't had the opportunity to work.

I am sure you support—I always say every year around this time, my idea is that Miami should be the Nation's capital for three months a year, January through March. But—

Mr. GIMENEZ. We can set that up for you, don't worry.

Mr. BOYLE [continuing]. The other nine months, I would like it back in my hometown of Philadelphia, representing Independence Hall, as I do, but in terms of CBO, I mean, the famous physicist Niels Bohr once said, predictions are hard to make, especially about the future. So the professionals, the nonpartisan professionals of CBO do a wonderful job, but we should recognize just how challenging their job is. They have missed the mark on a number of occasions, but I have not, sincerely not noticed a pattern to them missing it.

For example, in the 1990s, when you look at CBO projections that were made in the early to mid 1990s, they badly understated what the growth of the economy would be. In 1993, 1994 they projected deficits and debts. They completely underestimated just the growth of the economy and the growth of tax revenue that would come with that, and at the same time, if you looked at CBO projections from 2006, 2007, they completely missed, as everyone did, the Great Recession, and their projections were that the economy would be much stronger in 2009 and 2010, than it ended up being.

So I would say they have missed on both sides.

Mr. GIMENEZ. My question really wasn't so much about a particular year, it was about a program. So major programs like Medicare, et cetera, Social Security, the programs that really put us in this bind.

Chairman ARRINGTON. Yes.

Mr. GIMENEZ. Were they underestimated at the time? I know Social Security was back in the 1930s, but Medicare was like in the 1960s and all. Did they drastically underestimate the cost in the future for America?

Chairman ARRINGTON. It is a good question. I think they are limited in their tools. We should look at as part of this process, CBO's methodology, the tools they have, and transparency, quite frankly. Not saying it is not a difficult job, but I think I am a continuous improvement kind of guy. So I think it is a great question on those major entitlement programs that are driving the spending side, and we will look at that for sure.

Mr. GIMENEZ. It is water under the bridge, but it is something to take a look at so that if we were considering any kind of major project, we would say, hey, maybe we ought to add a factor to this because it is always somewhat underestimated.

And again, thank you for indulging me past the three minutes. I really appreciate it.

Chairman ARRINGTON. Yes, it is the way I like to do it, but I am getting all kinds of pressure and pulls and mean stares, but I love it Carlos, and you taking time to do this. I appreciate it. Thank you, and the next colleague of ours is from Wilmington, North Carolina. If we can understand him with this thick accent, then he is going to, I know, contribute to this process.

I am going to ask Rudy Yakym to make his way up here to the captain's chair, and I know Ralph Norman had a comment. I would like Mr. Norman to make a quick comment as we set up for Mr. Rouzer's testimony.

Mr. NORMAN. Thank you, Mr. Chairman.

No, I would just say that there is nothing more important than getting prioritization, like Carlos said, and every dollar up here has

got an advocate and it is tough to get weaned from things that shouldn't have been.

So, David, thank you for your comments to be and appreciate your involvement.

I yield back.

Chairman ARRINGTON. Thank you, Mr. Norman.

With that, Mr. Rouzer, welcome and thank you for your ideas and comments. The floor is yours.

**STATEMENT OF HON. DAVID ROUZER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA**

Mr. ROUZER. Well, thank you, Mr. Chairman, and Ranking Member Boyle for holding today's hearing on how Congress can create a better budget process to help address the current state of spending in this country, including holding this institution better accountable for its actions that increase the deficit and the debt.

So I would like to suggest three ideas for the Committee's consideration, and I will be candid and say that these are just top of the head ideas, but I do think they will help lend to a constructed debate.

Number one, a change to the country's fiscal calendar, number two, holding CBO more accountable, and, number three, an accountability mechanism for lawmakers on votes of major spending that increases our deficit and national debt.

So, first, I believe we should consider modifying our fiscal calendar to February 1 to January 31. According to the Federal Times, starting in 1842, the fiscal calendar was July 1 to June 30. It was later changed to the current October 1 to September 30 fiscal year in 1977. Ironically, from what I have read, both changes to the calendar were intended to provide Congress with more time to pass appropriations legislation to avoid continuing resolutions. Our current fiscal calendar and the Executive Branch's inability to effectively deliver the President's budget proposal to Congress on time are not conducive to the current fiscal year structure. Often, the President's budget is not delivered until March or April, the House and Senate then have three to four months to agree on top line spending, pass their respective bills through each chamber, and begin the conference process just shortly thereafter. It is a system, quite frankly, set up for failure.

Consequently, we often come back from the August recess and have to pass a CR, many times multiple CRs, which then lead to a bloated end of the year omnibus, or several bloated "minibuses", as we call them. It can also lead to a very long and damaging long-term CR.

So I recommend a February 1 to January 31 fiscal year. It allows the President to deliver a budget on the current schedule, gives the House and Senate the calendar year to pass their own bills with a conference report to be voted on following the holidays.

My second suggestion would shift Congress from complete reliance upon the CBO in order to better establish a better projection of what legislation will or will not cost the U.S. Treasury. How many times have we seen projections that proved to be way off the mark once the law was in place? And, let me put it this way: if we each had a GPS that more often than not provided incorrect direc-

tions, we would toss it immediately, but let me be clear, the intention of this idea is not to dismantle the CBO, but the intention is to state that perhaps we need other instruments for which we can evaluate the CBO and improve it.

For the sake of time, I am going to slip down here to the third suggestion, which I think is probably the most important. I suggest we have a mechanism of accountability for votes we cast that increase the deficit and debt. For every vote that scores an increase in annual spending over \$20 billion, \$200 billion over a 10-year window, and/or converts discretionary spending to mandatory spending should require a subsequent vote of acknowledgement that by enacting such legislation, spending will add to the debt requiring that the debt limit will have to increase. If a subsequent vote of acknowledgement is required by the House following the passage of bills that add to the deficit and debt, which by the way, could be conducted the same as approving the Congressional Journal, Members would further establish a more transparent public record of our acknowledgement that a bill will result in additional deficits and debt, or conversely, the Member could vote no and explain in the record why such Member either believes the scoring is wrong or the increase to the deficit and debt is necessary, such as in the case of war or other national emergency.

So those are just a few suggestions.

I yield back. I appreciate the opportunity to share.

[The information follows:]

**The Honorable David Rouzer**

**Testimony of Congressman David Rouzer**  
**House Budget Committee Hearing, "Budget Process Reform Member Day Hearing"**  
**Wednesday, December 6, 2023**

Thank you, Chairman Arrington and Ranking Member Boyle, for holding today's hearing on how Congress can create a better budget process to help address the current state of spending in this country, including holding this institution better accountable for its actions that increase the deficit and debt.

I would like to suggest three ideas for the Committee's consideration:

1. A change to the country's fiscal calendar;
2. Holding CBO more accountable; and
3. An accountability mechanism for lawmakers on votes of major spending that increases our deficit and national debt.

First, I believe we should consider modifying our fiscal calendar to February 1 to January 31. According to the Federal Times, starting in 1842, the fiscal calendar was July 1 to June 30. It was later changed to the current October 1 to September 30 fiscal calendar in 1977. Ironically, from what I've read, both changes to the calendar were intended to provide Congress with more time to pass appropriations legislation to avoid continuing resolutions.

Our current fiscal calendar and the Executive branch's inability to effectively deliver the President's budget proposal to Congress on time are not conducive to the current fiscal year structure. Often, the President's budget is not delivered until March or April. The House and Senate then have 3 to 4 months to agree on top-line spending, pass their respective bills through each chamber, and begin the conference process in just a few short months. It is a system set up for failure. Consequently, we often come back from the August recess and have to pass a CR — often times multiple CRs — which then lead to a bloated, end of year omnibus bill or several bloated mini-buses as we call them. It can also easily lead to a long-term CR.

A February 1 to January 31 fiscal year allows the President to deliver a budget on the current schedule and gives the House and Senate the calendar year to pass their own bills with a conference report to be voted on following the holidays.

My second suggestion would shift Congress from complete reliance upon the CBO in order to establish a better projection of what legislation will or will not cost the U.S. Treasury. How many times have we seen projections that prove to be way off the mark once the law is in place? Former Speaker of the House Newt Gingrich has written a number of editorials on this, one of which I will insert for the record.

If we each had a GPS that more often than not provided incorrect directions, we would toss it immediately. The intention of this idea is not to dismantle the CBO, but it is my intention to state that perhaps we need other instruments for which we can evaluate the CBO and improve it. One idea is to better utilize outside groups or in-house scores from the Joint Committee on Taxation, or perhaps also utilize the budget experience of our own committees. Congress could also utilize outside groups to better analyze the full economic impact of legislation beyond the black and white of revenue and spending. Think tanks, financial groups, accounting firms, and non-profits often analyze legislation internally for their own business decisions as well as for public consumption. It is imperative Congress has a good cross-section of analysis to get a more accurate understanding of the big-picture impact of spending and tax policies.

Third, I suggest we have a mechanism of accountability for votes we cast that increase the deficit and the debt. For every vote that scores an increase in annual spending over \$20 billion (\$200 billion over a 10-year period, the current scoring window) and/or converts discretionary spending to mandatory spending, should require

a subsequent vote of acknowledgement that by enacting such legislation, spending will add to the debt requiring that the debt limit will have to increase.

If a subsequent “vote of acknowledgment” is required by the House following the passage of bills that add to the deficit and debt (which could be conducted the same as approving the Congressional Journal), members would further establish a more transparent public record of acknowledgement that a bill will result in additional deficits and debt. Or, conversely, the member could vote “no” and explain in the Record why such member either believes the score is wrong or the increase to the deficit and debt is necessary, such as in the case of war or some other national emergency.

Thank you again for holding today’s hearing to solicit input on budget reforms that would better serve our great country. I look forward to any questions you may have.

## Newt Gingrich: Abolish the Congressional Budget Office Now | Opinion

May 12, 2019 at 12:00 PM EDT

By [Newt Gingrich](#)

Imagine there is a group of people in Congress with more influence over whether laws are passed and rules are changed, than any official committee or subcommittee in the House and Senate.

Now, imagine the members of this powerful group are not even members of Congress — in fact, they're not elected officials at all.

Finally, imagine this group operates in secret, refuses to explain its decisions in detail to anyone, and has shown a consistent bias against free market principles.

Unfortunately, you don't have to imagine this scenario. It's part of the sad reality of trying to govern in Washington under the influence of the Congressional Budget Office (CBO).

The CBO is tasked with providing budgetary and economic analysis about the impact of proposed legislation or rules issued by executive branch agencies. It is technically a nonpartisan agency, but it has historically shown a bias toward a left-wing economic worldview through its use of static scoring. This method assumes little to no behavior changes from market players due to changes in law.

Here's a look at the CBO's recent track record with scoring major legislation.

In 2003, the CBO released a wildly inaccurate analysis of the new, market-oriented Medicare Part D program. The office projected total costs from 2004-2013 to be almost double what bore out in reality. This \$349 billion mistake was the result of CBO's inability, or unwillingness, to anticipate the premium-lowering impact of robust competition between private sector plans.

In 2005, the CBO had to issue a \$63 billion correction to its forecasts because it anticipated lost revenue from the 2003 Bush tax cut. The losses never materialized. The CBO ignored the growth the tax cuts generated in its analysis.

In 2010, the CBO was critical to the passage of Obamacare. It gave credence to White House claims that the law would lower the deficit and boost the economy. Then, in 2014, after the law was implemented, the CBO had to update its projections. The new analysis claimed the law would result in 2.5 million *fewer* jobs by 2024. Using these updated projections, Republican staff on the Senate Budget Committee estimated Obamacare would increase the deficit by \$131 billion. (It later came out that CBO's original projections were based on the same models that Obamacare's chief architect [Jonathan Gruber](#) used to design the bill.)

Notice a pattern? The CBO consistently underestimates the positive impact from supply-side, market-oriented reforms while giving Keynesian, big government policies the benefit of the doubt.

Despite claims of reform and an attempt to incorporate more dynamic scoring, which anticipates the impact of policies in the marketplace, CBO projections are still sabotaging free market reforms.

The CBO arguably killed the Republicans attempt to replace Obamacare with better reforms of the individual marketplace. It estimated that the American Health Care Act would lead to 24 million fewer Americans with insurance coverage. This is totally at odds with what we have seen since the individual mandate was subsequently repealed in the Tax Cuts and Jobs Act — and many states have utilized

section 1332 waivers to lower premiums with reinsurance systems similar to what would have been created in the Republican health care law.

And just last week, the CBO delivered another absurd estimate of a common-sense, market-oriented reform in health care. This time it was the Trump administration's proposed rule to ban drug manufacturers from giving secret rebates to pharmacy benefit managers. Instead rebates would be passed to patients at the pharmacy counter.

I have [written](#) about this important reform before. In short, the rule would save patients money on out-of-pocket costs and remove a huge perverse incentive in the drug marketplace which incentivizes manufacturers to keep increasing the list price of drugs to offer bigger discounts to the middle men in the supply chain.

When Health and Human Services released the proposed rule, it included an impact study of the change by Milliman, an actuarial and consulting firm which conducts analyses for players in the private health care sector.

Contrasting the reports by Milliman and the CBO is instructive.

The Milliman report notes that "it is critical to consider possible behavioral impacts" from the rule changes because "all stakeholders would likely change behavior as a result." Then, instead of arrogantly trying to predict the exact combination of behavioral changes by each element of the drug supply chain, Milliman opted to present a range of scenarios which lawmakers could use to inform their decisions.

The CBO report, by contrast, posits almost no behavior changes from Part D plans or pharmacy benefit managers. It also assumes — without explaining its reasoning — that correcting the perverse incentives in Medicare Part D would not have spillover benefits to other markets. In other words, the CBO report assumes the least changes in behavior possible. This is static scoring in a nutshell.

The stark difference between the ideologically rigid and monopolistic approach of CBO and the professional private firm Milliman shows why its [time for CBO to go](#).

I have long called for the [elimination of the CBO](#) and its replacement with three to five outside firms that would provide competing analyses. Over time, it would become apparent which firms are the best at projecting economic impact. The firms that perform the best would keep getting business while the worst performers would get replaced.

This vigorous competition between outside firms being held accountable for their accuracy would produce better information and projections for lawmakers than the current CBO monopoly.

The bureaucrats at the CBO and the defenders of the status quo will no doubt disagree, but that makes sense. They've already shown they don't understand market-oriented reforms.

*Former Speaker of the U.S. House of Representatives Newt Gingrich is the host of the "[Newt's World](#)" podcast and author of the new national bestseller "[Collusion](#)."*

<https://www.newsweek.com/newt-gingrich-abolish-congressional-budget-office-now-opinion-cbo-1422146>

Mr. YAKYM [presiding]. Thank you Mr. Rouzer. We appreciate your time today and thank you for coming.

The Chair will now recognize Mr. Schweikert.

Mr. Schweikert.

Mr. SCHWEIKERT. Mr. Chairman.

Mr. YAKYM. Mr. Schweikert, thank you. Let me begin by saying thank you for coming. You have been a great champion of these budgetary issues and I know you have got a chart there.

**STATEMENT OF HON. DAVID SCHWEIKERT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARIZONA**

Mr. SCHWEIKERT. Yes, it needs to be a chart.

Look, I will do this actually fairly quickly because I am a bit of a heretic here.

Yes, the budget process, the mechanisms, the complexities don't work. Fine, but that is not the primary driver of U.S. sovereign debt. Every dime, every dime of U.S. sovereign debt from today through the next 30 years comes from two places. Health care cost is number one, and this slide is already a year out of date. If you factor in the new interest rates, that top line could be as high as \$130 trillion of borrowing over the next 30 years. Now that is not inflation adjusted, but just understand today Social Security is number one, gross interest is now over \$1 trillion dollars, so it is number two, Medicare now is number three, defense is now number four. On the chart here is in eight and a half years, nine years, Social Security has about a \$600 billion shortfall. Even if you do what the left has suggested of raise the caps, a couple of other things, at our best, we are working on modeling the math, it is still short. It still does not cover the shortfall, but even if you did what the left suggests of just raise all these taxes, you have now just taken away—functionally you are now maximizing out your tax rates to anyone. It is the concepts of the Laffer curve. You have maximized tax rates, you have no more capacity, and, once again, health care is three quarters of the borrowing over the next three decades. So almost everything people like me will come to this microphone and talk about of changing this in the process, doing a better job of this or that, over the next couple of decades, it is a rounding error, and that is really hard and really uncomfortable because the scale of the math is so difficult.

A few months ago the Joint Economic Committee Republicans, we decided we would step on the landmine and talk about something we can do. I have tagged it. I am going to give this to you, ask you to put it in the record and, who knows, maybe you will have a staffer that will actually look at it. Chapter 3 of the Joint Economic Report talked about obesity in America. Turns out it is a few trillion, and if you add in some of the economic effects, could be \$7 trillion over ten years in savings and economic vitality and second degree, third degree, fourth degree effects, and it is also moral. If you take a look at some of the data right now, we may be about to enter into the fifth year of life expectancy in the United States becoming shorter. There is some data in there that shows one of the most powerful things you could do for income inequality for my Tribal populations, rural populations, urban populations, actually, is not transfers of money, it turns out it wasn't even edu-

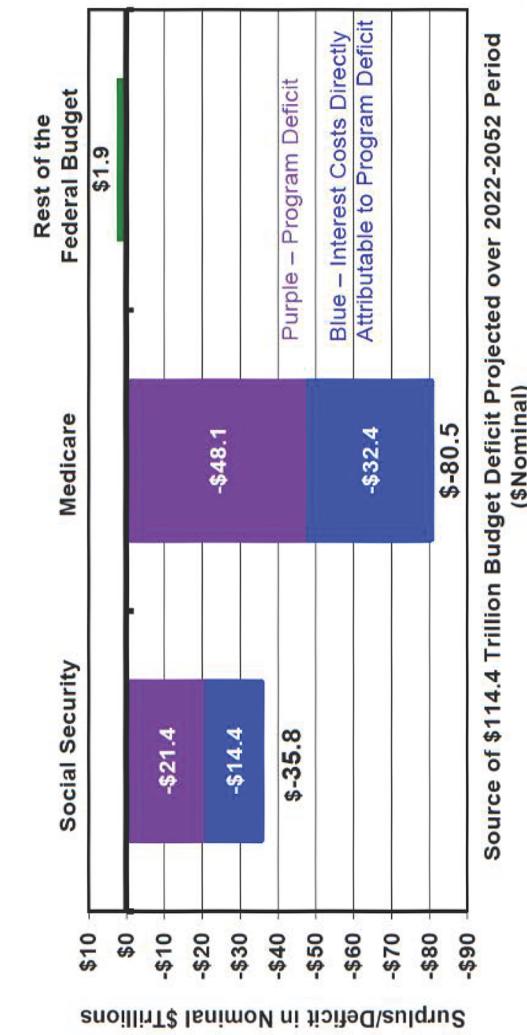
cation, though education was way up there, it was health. We are financing, and this is where I become a heretic, and I am sorry, it is uncomfortable, we finance through nutrition support programs, the way we do them, or the way we do agricultural policy, the way we do these things, you got to look at the base numbers. We are making ourselves sicker, and it is the driver of the debt.

And with that, I yield back.  
[The information follows:]

# What is Causing \$114 Trillion 2022-2052 Deficit?

Social Security & Medicare: \$116 Trillion Deficit

The Rest of the Budget: \$2 Trillion Surplus



Note: Social Security & Medicare deficits are the benefits that must be paid from general revenues because payroll taxes, premiums, and other non-interest trust fund revenues are insufficient. CBO assumes full benefits will continue even after trust fund insolvency.

Source: Calculations from CBO 2022 Long-Term Budget Outlook. To inflation adjust, trim amounts by one-third.



118TH CONGRESS	}	SENATE	{	REPORT
<i>1st Session</i>				118-86

THE 2023 JOINT ECONOMIC REPORT

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R E P O R T

OF THE

JOINT ECONOMIC COMMITTEE  
CONGRESS OF THE UNITED STATES

ON THE

2023 ECONOMIC REPORT  
OF THE PRESIDENT



JULY 27, 2023.—Ordered to be printed



118TH CONGRESS <i>1st Session</i>	SENATE	REPORT 118-86
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U.S. GOVERNMENT PUBLISHING OFFICE  
WASHINGTON : 2023

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[Created pursuant to Sec. 5 (a) of Public Law 304, 79<sup>th</sup> Congress]

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**LETTER OF TRANSMITTAL**

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July 27, 2023

HON. CHARLES E. SCHUMER  
*Majority Leader, U.S. Senate*  
*Washington, DC*

DEAR MR. LEADER:

Pursuant to the requirements of the *Employment Act of 1946*, as amended, I hereby transmit the 2023 Joint Economic Report. The analyses and conclusions of this Report are to assist the several Committees of the Congress and its Members as they deal with economic issues and legislation pertaining thereto.

Sincerely,

Martin Heinrich  
Chairman



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118th CONGRESS      }  
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## THE 2023 JOINT ECONOMIC REPORT

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JULY 27, 2023 – Ordered to be printed

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MR. HEINRICH, from the Joint Economic Committee,  
submitted the following

### REPORT

Report of the Joint Economic Committee on the  
2023 Economic Report of the President

### CHAIRMAN'S VIEWS

I am pleased to share the Joint Economic Committee (JEC) Democratic response to the 2023 Economic Report of the President. The JEC is required by law to submit findings and recommendations in response to the Economic Report of the President (the Report), which is prepared and released each year by the Council of Economic Advisers (CEA). This year's Economic Report was published by the Biden administration in March 2023.

This report focuses primarily on forward-looking policies that will continue our economic growth and bolster our economic resilience while helping to build a sustainable and equitable economy that works for all Americans. Despite the economic headwinds we have faced in recent years, there are clear signs that we are headed in the right direction. The right set of policies will help us build upon these successes.

We are making progress in our ongoing efforts to bring down inflation. Compared to this time last year, when prices were spiking in the wake of Russia's invasion of Ukraine, the United States is seeing lower prices at the pump and at the grocery store. This is helping to relieve some financial pressure for American families, workers, and small businesses. While we still have work to do to bring down prices across the economy, these are promising signals of our continued economic recovery.

As our economy recovers, more Americans are returning to work and our labor market continues to grow. Under President Biden, our economy has added more than 13.2 million jobs and seen 29 consecutive months of job growth. Unemployment for Black and Hispanic workers has fallen significantly. Lower-income workers have seen significant wage gains and better career possibilities. We strive for an economy that creates opportunity and good-paying jobs for every American, and we are continuing our work towards that goal.

Investments from the Inflation Reduction Act, the Bipartisan Infrastructure Law, and the bipartisan CHIPS and Science Act are creating new jobs in infrastructure, clean energy, and manufacturing—and will continue to do so into the future. We should build on this by strengthening job training and apprenticeship programs and investing in children's education and

health care. Investing in children and young adults helps raise incomes, improve workforce skills and job retention, and reduce poverty—opening new doors to economic opportunity.

We are building an equitable economy for future generations. That requires adjusting to rapid changes in our economy, technology, and climate. We must conserve our threatened water resources and transition to cleaner energy sources, being careful to do so in a way that benefits rather than harms the communities that currently rely on fossil-fuel energy for jobs and revenues. And as we work to mitigate the effects of climate change, we must also preserve our public lands, which help fuel local economies and create much needed jobs in many rural communities.

Continued public investment is necessary in order to maintain our strong economic recovery, and those investments will create returns that will help maintain the United States' leadership in innovation, productivity, and national security. It will also position us to build a more sustainable, equitable future.

We can and should make investments in a fiscally responsible way. In the midst of debates on government spending, we should acknowledge that where and how we spend money speaks to the values we hold. Under the previous administration, a Republican-led Congress passed a nearly \$2 trillion tax law that primarily benefitted the wealthiest Americans and big corporations. Under President Biden and the Democratic majorities in the 117<sup>th</sup> Congress, the federal budget deficit came down \$1.4 trillion in FY 2022. The Inflation Reduction Act passed in August 2022 is expected to reduce the deficit even further—by nearly \$240 billion over the next decade—while codifying policies that will help bring down costs and invest in the future of American families and businesses.

A successful economy is one in which parents can afford to provide opportunities for their children to thrive, entrepreneurs can start new businesses, and workers can pursue jobs that will support their families and allow them to retire with peace of mind. We have the opportunity—and the responsibility—to pass smart economic policy that invests in American families, workers, and businesses. We must seize that opportunity.

MARTIN HEINRICH  
CHAIRMAN

## CHAPTER 1: ECONOMIC OUTLOOK

### *Principal economic indicators show continued economic strength*

Today, our economy has recovered more than 13.2 million jobs since President Biden took office, and states like New Mexico are seeing their unemployment rates at the lowest levels in decades. But we continue to face challenges from the global disruptions caused by Russia's invasion of Ukraine, instability in financial markets, higher interest rates, and the rising threat of climate change.

Even as the United States faced global economic headwinds in 2022, businesses added jobs, the economy grew, and inflationary pressures decreased in the second half of the year. In 2022, real Gross Domestic Product (GDP) grew 2.1% and the country gained 4.8 million jobs.<sup>12</sup> In June 2023 alone, the United States added 209,000 jobs and the unemployment rate stood at 3.6%, near its 50-year low. Inflation, which is still affecting family budgets, has dropped significantly since last summer. May's Consumer Price Index (CPI) figures showed annual inflation dropping to 4.0%, well below the recent peak of 9.1% in June 2022.<sup>3</sup>

The budget deficit has come down significantly under President Biden, and the Inflation Reduction Act will continue progress on decreasing the deficit. Under President Biden and Democratic majorities in the 117th Congress, the federal budget deficit came down \$1.4 trillion in FY 2022. This stands in stark contrast to Republican majorities under the previous administration, which passed an almost \$2 trillion tax law that handed out massive tax cuts to the wealthy and big corporations.<sup>4,5</sup> The Inflation

Reduction Act passed in August last year is expected to reduce the deficit by \$240 billion over the next 10 years.<sup>6</sup>

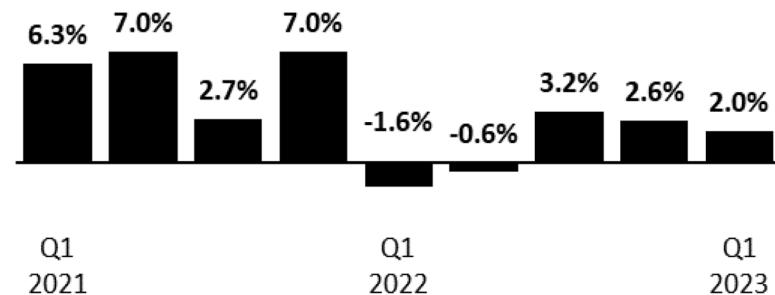
Continued public investment is needed to maintain the strong economic recovery and ensure that workers in every community have access to high-paying, high-quality jobs. Investments from the Inflation Reduction Act, the Bipartisan Infrastructure Law, and the bipartisan CHIPS and Science Act will add jobs in infrastructure, clean energy, and manufacturing. These crucial bills will help continue and build on the existing manufacturing jobs boom, with nearly 800,000 manufacturing jobs added since President Biden was sworn into office.<sup>7</sup>

*GDP growth has remained positive throughout the Biden administration.*

Despite repeated warnings to the contrary, the United States is not in recession. Although real GDP growth dipped below zero in the first two quarters of 2022, the business cycle dating committee of the National Bureau of Economic Research did not declare that the United States was in a recession given the lack of a widespread economic downturn across multiple indicators.<sup>8,9</sup> Major contributors to the measured negative growth rates included declines in highly volatile GDP components such as inventories and net exports, which are influenced by factors other than the current health of the domestic economy.<sup>10,11,12</sup>

## Despite Fears, a Recession was Averted and the Economy Continues to Grow

Quarterly growth in real GDP, Q1 2021 to Q1 2023



Source: Bureau of Economic Analysis

Note: Data are seasonally adjusted

*Multiple measures of inflation continue to trend downward.*

Since the headline inflation rate peaked around 9% last summer, it has come down steadily to around 4% today. Rapid declines in food and energy prices have contributed a great deal to the easing of cost pressures facing American families. Prices of goods and services apart from food and energy have also come down dramatically from their peak, in a slowing of what is known as “core inflation”. However, the core inflation rate has proved to be more stubborn in recent months, hovering around 5.5%.

Within core inflation, growth in the price of goods has come down steadily. This reflects a slow but steady normalization of cost pressures in the goods market, as supply chains return to normal and the last echoes of pandemic-era disruptions in industries such as microprocessors and new and used cars fade into the past. Growth in the price of services, however, has remained elevated, due largely to a spike in residential rents last year. Because of the length of rental contracts, the subsequent normalization in rent prices will take some time to be fully reflected in the CPI, and

would be expected to drive measured core services inflation lower for the next few months.

The non-housing portion of core services inflation, sometimes referred to as “super-core” services inflation, remained around 0.23% in May, and 4.53% year-on-year, buoyed by the continuing strength of the American consumer and the post-pandemic rotation from goods to services consumption.<sup>13</sup> The Federal Reserve’s decision to hold interest rates steady in June reflected a recognition that the lagged effects of the last year’s rate hikes are working their way through the economy, and will continue to push core inflation back towards the Fed’s 2% goal.

*Bipartisan infrastructure and CHIPS deals, as well as IRA, are dramatically boosting factory construction.*

Public investments have been essential to ensuring a strong and equitable economy over the past three years. From historic relief packages like the American Rescue Plan to the landmark climate provisions of the Inflation Reduction Act, we have seen how bold federal investments can respond to some of our biggest challenges. During this same period, Americans have also seen the benefits and harms of technology, grappled with the stark realities of finding adequate care for their families, and seen the job market shift with unease. Throughout it, we have shown resilience in a time of immense change.

The historic commitments that are being made to reshoring and building a prosperous, sustainable, and resilient future are beginning to bear fruit in a renaissance of American manufacturing. In the latest statistics, investment in domestic construction by American manufacturers has shown an unprecedented increase. Across the country, businesses are

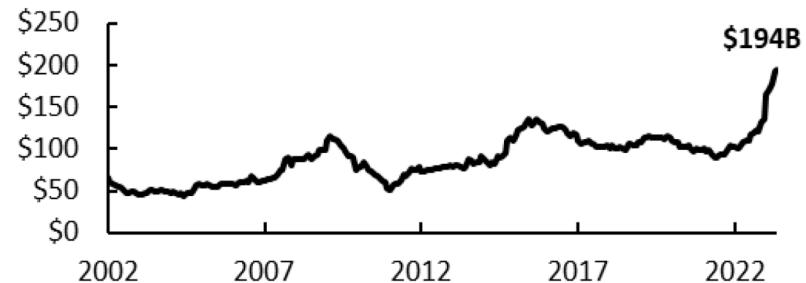
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breaking ground to construct factories that will provide jobs and grow our manufacturing base.

## Total Manufacturing Construction Has Boomed Since Last Summer

Total construction spending in manufacturing, billions of 2023 dollars, January 2002 to May 2023



Source: US Census Bureau and Bureau of Labor Statistics

*Recent evidence shows that investments in the IRS will more than pay for themselves through higher tax compliance by the very wealthy.*

Despite calls from Republicans to defund the Internal Revenue Service that would have made it easier for the wealthy to cheat on their taxes, Congressional Democrats maintained the bulk of the funding directed towards modernizing the Internal Revenue Services' (IRS) systems and enforcement. Aside from the dramatic contribution that better IRS enforcement can bring to deficit reduction, the capacity-building and reforms enabled by this investment will allow more equitable enforcement of the provisions of the tax code. Recent estimates suggest that every dollar invested in auditing the highest-income taxpayers yields \$12 in recovered revenue—a “win-win” proposition for the vast majority of Americans who pay their taxes on time and in full.<sup>14</sup>

*The costs of GOP debt limit brinksmanship have yet to be fully counted.*

Although the compromise bill averted a catastrophic default, the long-term damage caused by the GOP's threats to the full faith and credit of the United States will not be apparent for some time. The Government Accountability Office estimated that the previous round of debt-ceiling threats in 2011 had raised borrowing costs by 70 basis points, which translates to an additional nearly \$160 on homeowner's monthly mortgage payments, adding up to an extra \$58,000 over the life of their loan. It also translates to approximately an additional \$2,500 and \$800 for small business and car loans, respectively.<sup>15,16</sup>

In addition to any effect on interest rates, the extended battle over the debt ceiling has interfered with the smooth execution of debt issuance by the Treasury. Forcing the Treasury to concentrate debt issuance in the next few months fits poorly with the needs of capital markets and will provide unwelcome pressure on the world's most important financial market, at a time when irresponsible balance sheet management at several regional banks has highlighted the importance of financial system stability and the complexity of maintaining it.<sup>17</sup>

***Continued strength of the labor market promotes equity and resiliency, but we need more***

*Job gains keep beating expectations, and overall unemployment remains near historic lows.*

This far along in a recovery, the labor market would ordinarily be expected to show some signs of sluggishness, but multiple indicators are pointing to its continued strength. The economy continues to add jobs at an elevated rate, and overall unemployment remains near historic lows.<sup>18</sup> Despite widely

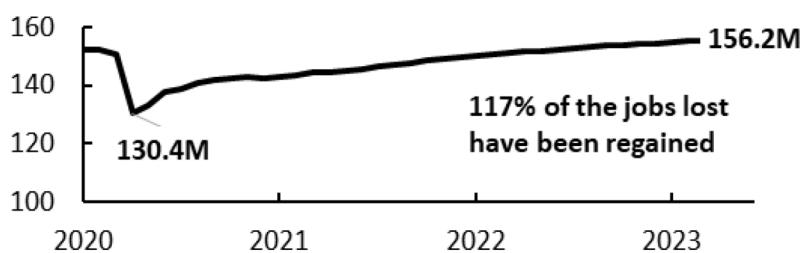
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publicized layoffs at high-profile technology firms and Wall Street banks, new unemployment claims have moved up slightly but remained relatively stable. Continuing claims have recently fallen.<sup>19</sup>

## **The United States Has Added Over 13 Million Jobs Since President Biden Took Office**

U.S. total nonfarm payrolls, in millions, January 2020 to June 2023



Source: Bureau of Labor Statistics

Note: Data are seasonally adjusted.

However, low overall unemployment rates mask less-encouraging trends for certain groups of Americans. For example, while the June 2023 unemployment rate for all women ages 16 and older was 3.4%, the equivalent rate for Black women was 6.1%. Furthermore, Black women's unemployment rate was still above its pre-pandemic February 2020 level (5.3%). Other groups, such as Black men and young Americans, similarly face higher rates of unemployment. We need to continue prioritizing equity in the recovery of our economy.

While the pandemic may have had a lasting effect on the labor force participation of Americans over 55, participation rates among younger Americans have recovered rapidly to pre-pandemic levels. Although they have begun to subside, vacancies

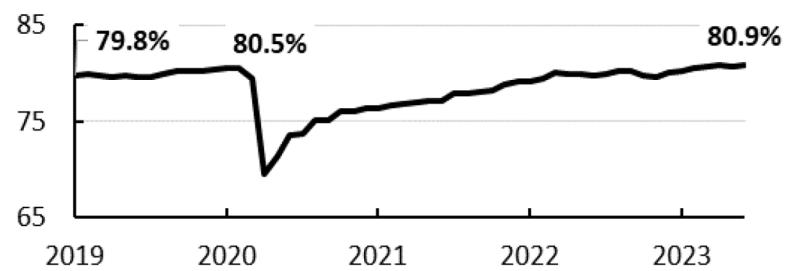
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remain elevated, particularly relative to unemployed workers. Continued strength of labor demand indicates the potential gains from ensuring continued labor force growth, such as by addressing pandemic-era shortfalls in immigration and barriers to child care.

## **U.S. Employment Rate Exceeds Pre-Pandemic Level**

Monthly prime-age U.S. employment-population ratio, January 2019 to June 2023



Source: Bureau of Labor Statistics

Note: Data are seasonally adjusted and for people ages 25-54.

*Labor force participation rates have reached new milestones for many groups that are often left behind by the economy*

Although discrimination and persistent unequal norms continue to create headwinds for the employment of many American workers, tight labor markets during a strong recovery have begun to pull many Americans into the labor market. Women and Black Americans have overcome some of the barriers which were made brutally clear during the pandemic to achieve new milestones in the American labor force.

The labor force participation rate of American women has recently reached, and remains near, an all-time high. Coming so soon after the pandemic-era disruptions resulted in additional caregiving responsibilities and overwhelming job losses for women, this

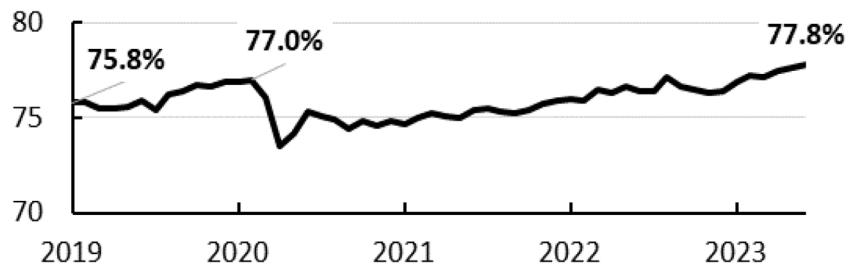
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milestone suggests that changing norms and increased equality remain a powerful force in sustaining women's historic contributions to the growth of the American labor force and economy.

## **Women's Labor Force Participation Rate Has Fully Recovered From the Pandemic**

U.S. prime-age women's labor force participation rate,  
January 2019 to June 2023



Source: Bureau of Labor Statistics

Note: Data are seasonally adjusted and for women ages 25-54.

Black Americans have made important contributions to the recovery as well, with Black labor force participation reaching parity with the equivalent rate for white Americans in August 2021 and January 2022, and the gap in employment rates reaching its narrowest point ever.<sup>20</sup> This milestone coincides with the lowest-ever Black unemployment rates.<sup>21</sup> The wage gap between Black and Hispanic workers and their white non-Hispanic counterparts has begun to fall steadily for the first time in decades.<sup>22</sup>

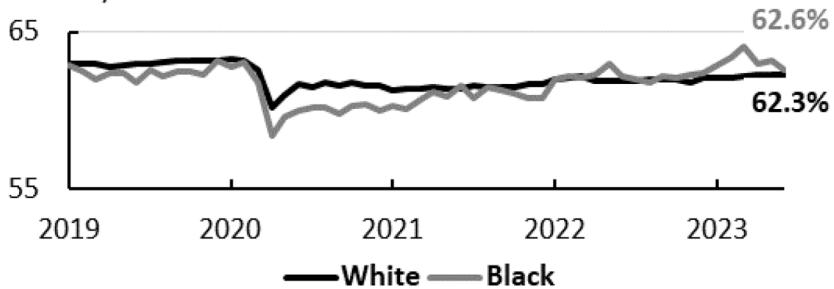
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## Labor Force Participation Rates for Black and White Americans See Strong Recoveries

U.S. labor force participation rate for Black and white people,

January 2019 to June 2023



Source: Bureau of Labor Statistics

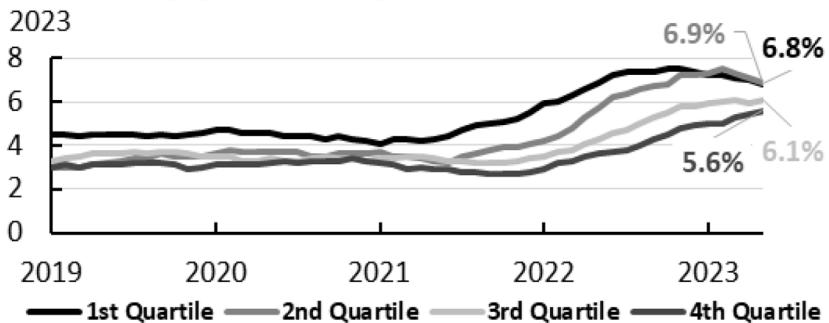
Note: Data are seasonally adjusted and for people ages 16 and older.

*Wage gains during the recovery have been concentrated among lower-wage workers, starting to chip away at the accumulated inequality and wage stagnation since 1980*

In fact, the progress towards shrinking racial wage gaps is part of a more general trend towards undoing the wage inequality which has surged over the last four decades. In the current recovery, wages have grown much faster for lower wage workers than for higher wage workers, and for high school graduates than for college graduates. Wages have grown faster in Manufacturing and in Leisure and Hospitality than in other industries, and for lower and middle-skilled occupations more than for high-skilled occupations.<sup>23</sup>

## Recent Wage Growth Has Been Concentrated Among Lower-Wage Workers

Monthly wage growth by wage quartile, January 2019 to May 2023



Source: Federal Reserve Bank of Atlanta

Note: Series plots 12 month moving average of median hourly wages.

Wages have grown fastest for job-switchers, and dramatically faster for younger workers than for others. Wages of non-white workers grew faster than those of white workers until recently, and are now growing at roughly the same rate.<sup>24</sup> All of these patterns have been helping to narrow pre-existing gaps and reverse long-run trends of rising inequality.

*Relief programs and a strong labor market enable resilient middle-class households to drive the recovery*

Bold and timely interventions during the pandemic recession shielded household balance sheets, enabling a rapid and sustained consumer-led recovery.<sup>25</sup> Mortgage delinquencies on single-family homes have rapidly regained their pre-pandemic levels, in distinct contrast to the slow recovery from the Great Recession.<sup>26</sup> The share of American families who could meet an unplanned \$400 expense using cash or equivalent went up during the pandemic, before returning to its 2019 level of 63% in 2022.<sup>27</sup>

## Unlike the Global Financial Crisis, Foreclosure Starts Stayed Low Despite the Pandemic

Forclosure starts, in thousands, January 2008 to March 2023



Source: Federal Housing Finance Agency

The health of American consumers' balance sheets stands in stark contrast to the generational damage done by the wave of foreclosures during the Global Financial Crisis in 2008, in which 3.8 million Americans faced foreclosure.<sup>28</sup> Consumer sentiment and employment failed to fully recover for years.

Unfortunately, auto loan delinquency rates among younger and lower income borrowers have risen in recent months, indicating a high level of financial strain on some households.<sup>29</sup> This is particularly concerning because of the crossover between this population and the holders of student loan debt, who have been subject to financial uncertainty over the legal challenges to the President Biden's debt forgiveness program. The end of pandemic-era loan forbearance will present a challenge for these households finances, particularly those who carry student loan debt without also having completed a degree. Only 3 out of 10 such households report considering the financial benefits of their education to outweigh the costs.<sup>30</sup>

## CHAPTER 2: IMPROVING CHILDHOOD WELL-BEING

Investments in kids are good for families and for the economy as a whole. Recent expansions of nutrition assistance programs and the Child Tax Credit, among other programs, improved child well-being, but more investments are needed to build upon this progress. Expanding access to these programs and removing barriers will enable more eligible kids to benefit, improving their health and financial well-being and producing returns for the economy.

*Child poverty fell to a record low recently, but more investments are needed to keep it low*

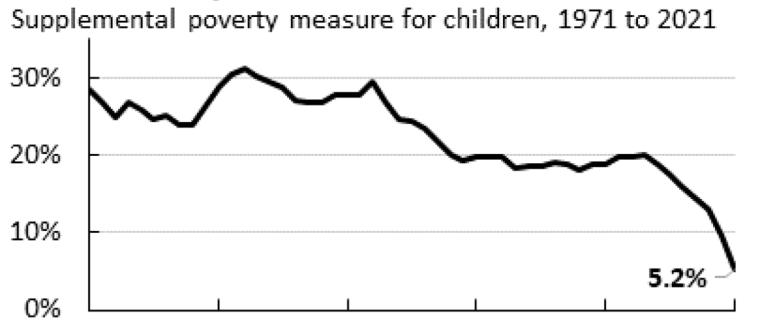
Pandemic-era policies successfully reduced child poverty to a record low in 2021, bringing the United States temporarily in line with peer countries for the first time. In 2022, however, child poverty increased with the expiration of these policies—meaning that the United States will once again lag peer countries in measures of child poverty. Expansions of and additional funding for programs like Medicaid; the Child Tax Credit (CTC); the Supplemental Nutrition Assistance Program (SNAP); the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC); Head Start; the Housing Choice Voucher program; paid parental leave; and affordable child care would help support families and children.

*Child poverty fell to a record low in 2021, largely due to the expansion of the Child Tax Credit*

Child poverty in 2021 fell to 5.2%, the lowest rate on record according to U.S. Census Bureau measures.<sup>31,32,33</sup> The child poverty rate was cut almost in half from the previous year's rate

of 9.7%. This drop was the largest single-year decline in child poverty on record and was driven primarily by the expanded Child Tax Credit (CTC) included in the American Rescue Plan.

### Public Investments Have Successfully Lowered Child Poverty



Source: Center on Budget and Policy Priorities

Note: Data are anchored to 2021 poverty thresholds.

Overall, the CTC lifted 5.3 million people—including 2.9 million children—out of poverty in 2021.<sup>34</sup> Just the expansion of the CTC alone lifted 2.1 million children out of poverty, and were the tax credit not expanded, the child poverty rate would have only fallen to 8.1% and these 2.1 million children would have remained in poverty.<sup>35</sup> The CTC also helped reduce the percentage of children living in near-poverty by one-third.<sup>36</sup>

*Congress expanded the Child Tax Credit as part of the American Rescue Plan*

The expansion of the CTC as part of the American Rescue Plan made the credit fully refundable, which enabled previously ineligible low-income families to receive the full credit.<sup>37</sup> Full refundability was the main driver of the expanded CTC’s child poverty reduction and helped 19 million more children become

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eligible for the full credit.<sup>38</sup> These children previously could not receive the full credit or received no credit at all because their families' incomes were too low.

The American Rescue Plan also dramatically increased the value of the CTC from \$2,000 per child to up to \$3,600 per child under age 6 and to \$3,000 per child between age 6 and 17 in 2021. This increase put significantly more money in the pockets of low- and middle-income families to pay for household expenses.<sup>39</sup>

*Pre-pandemic, the United States lagged far behind peer countries in measures of child poverty*

Despite being the richest country in the world, the United States has consistently had a higher share of children living in poverty than that of peer countries. In 2019, the Organisation for Economic Co-operation and Development (OECD) reported that 21% of U.S. children lived in poverty.<sup>40,41</sup>

Using the OECD measure, the share of U.S. children living in poverty in 2019 was 21%, which was well above the pre-pandemic average of 13% in other OECD countries and higher than the child poverty rate in all but four OECD countries. This is in part because countries like Finland, Norway, Sweden, Germany, and France have implemented a range of family-friendly policies that the United States lacks, such as universal child care, child savings accounts, and child allowances.<sup>42,43,44,45,46,47</sup> Meanwhile, policy choices left more than one in five children in the United States living in poverty.

Children who grow up in poverty are more likely than their more affluent peers to continue to face barriers in education, employment, health, and productivity throughout their adulthood.<sup>48</sup> As income inequality continues to rise in the United

States, marginalized communities are disproportionately left behind.<sup>49</sup> In particular, children of color, those in Tribal communities, and children in rural areas are even more likely to live in poverty.

*Cash transfers like the expanded Child Tax Credit brought the United States more in line with peer countries for the first time*

Despite the economic chaos caused by the COVID-19 pandemic, the United States was able to cut the share of children living in poverty from 21% in 2019 to 14% in 2021, according to the OECD.<sup>50</sup> This feat was made possible by pandemic-era cash transfers that provided immediate relief to families when they needed it most.<sup>51</sup> This expanded social safety net brought the United States' child poverty rate in line with the peer country average of 13% for the first time in history.<sup>52</sup>

The success of the expanded CTC and stimulus payments can also be seen in the Supplemental Poverty Measure (SPM) published by the U.S. Census Bureau.<sup>53</sup> While the OECD compares families' income to the country's median income, the SPM calculates whether their income is above or below a set threshold based on the local cost of living for a family in their area. Under this measure, only 5.2% of children in the United States lived in poverty in 2021, a record low and a drastic decrease from the 13.1% living in poverty in 2019.

*More investments are needed to sustain the gains of 2021*

Although progress has been made, the United States needs to protect and expand effective policies that address child poverty. Many of the policies that reduced poverty in 2021 have expired, once again bringing the United States out of line with peer countries.<sup>54</sup> Data released in September 2023 by the U.S. Census Bureau will show a steep rise in child poverty for 2022, mainly

due to the expiration of the expanded Child Tax Credit.<sup>55,56</sup> Analysis from the Center on Poverty and Social Policy at Columbia University showed that 3.7 million children fell back into poverty after the monthly CTC payments ended.<sup>57</sup>

Instead of adding more barriers for benefit recipients, as House Republicans have insisted on doing, the United States should continue to invest in programs like the Supplemental Nutrition Assistance Program (SNAP), which has a proven track record of increasing food security for low-income families.<sup>58</sup> In total, 14.4 million children received SNAP benefits in 2019.<sup>59</sup> Republican lawmakers' radical budget plans would also drastically cut funding for other essential programs that support families, including Head Start, the Housing Choice Voucher program, the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), child care support, and the Low-Income Home Energy Assistance Program.

Democrats in Congress, by contrast, have reintroduced legislation in the 118<sup>th</sup> Congress to make the 2021 expansion of the Child Tax Credit permanent, which would benefit more than 60 million children with three-quarters of the benefit going to families in the bottom three quintiles.<sup>60,61</sup> A total of 209 House Democrats have signed onto a bill that would expand the CTC with an emphasis on refundability while also providing a \$2,000 payment for newborn babies.<sup>62,63</sup> In addition, family-friendly policies such as paid parental leave, universal child care, and broader investments through the Two-Generation Economic Empowerment Act would increase economic opportunities for families living in poverty.<sup>64</sup> These investments would help every American reach their full potential by reducing the number of children growing up in poverty.

*Public investments in children yield economy-wide benefits*

Policies like the expanded CTC are an investment in children's well-being over the long term. Research has found that an extra \$3,000 in a family's annual income when a child is younger than age 5 leads to 19% higher earnings when they grow up.<sup>65</sup> Other research on investments in early childhood finds that increasing family incomes has tangible outcomes for children, including higher test scores, higher high school and college graduation rates, improved health outcomes, lower rates of incarceration, and reduced need for future income support.<sup>66,67,68,69</sup>

One study found that reciprocity of the Earned Income Tax Credit when children are in their teens increases the likelihood of completing high school and college, being employed as a young adult, and having higher earnings.<sup>70</sup> Another study by Hilary Hoynes and others found that SNAP reciprocity before age 5 leads to greater economic self-sufficiency, reduced need for future income support, and reduced likelihood of incarceration.<sup>71</sup> And yet another study showed that the recent monthly CTC payments improved the ability of households—particularly low-income households and Black and Hispanic families—to invest in their children's education and long-term development.<sup>72,73</sup> By increasing families' ability to pay for items like tutoring and extracurricular activities, the expanded CTC helped improve future mobility and lifetime success, which creates economy-wide benefits that last for generations.

Overall, a growing body of academic research finds that public investments in children yield significant long-term returns with economy-wide benefits, as healthier, more educated kids grow up to be more productive workers with higher earnings.<sup>74</sup> This, in turn, also generates greater productivity and higher future revenues.

***Investments in child care and early childhood education are important for childhood development and the economy***

High-quality, accessible child care fosters a number of economic and socioeconomic benefits for both individuals and the country. Underinvestment in child care and the resulting high prices have prevented the United States from fully realizing those benefits, constraining future economic growth. Proposals to address these issues include universal pre-kindergarten and capping out-of-pocket child care costs for parents. These investments will drive economic growth in both the near- and long-term by making it easier for parents to participate in the labor market and increasing the human capital of future workers.

***Child care in America is not affordable for most working families***

The current child care system suffers from inadequate public investment, leaving parents and caregivers to foot the bill for the rising cost of child care. Recent national estimates find that child care costs for a single child average just over \$10,000 per year.<sup>75</sup> These costs can be significantly elevated depending on the state and are usually higher for younger children. For a family with two young children—an infant and a four-year-old—average child care costs exceed the median cost of rent in every reporting state and the District of Columbia.<sup>76</sup>

The high cost of child care takes up a significant portion of family income. The Department of Health and Human Services (HHS) has determined that child care is unaffordable if it exceeds 7% of family income.<sup>77</sup> However, in 36 states and the District of Columbia, a typical married couple with an infant and a four-year-old spends on average more than 20% of their income on child care. These affordability issues are found nationwide, with all reporting states and the District of Columbia exceeding the 7% cap.

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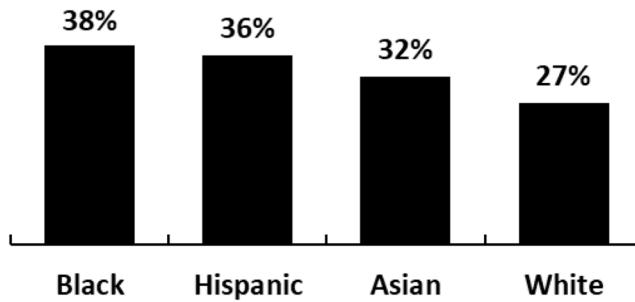
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This high cost of child care disproportionately burdens lower-income households and those with mothers who are Black, American Indian or Alaska Native, Hispanic, Native Hawaiian or other Pacific Islander, or Asian.<sup>78</sup> Ability to access suitable care also differs based on the mother's race and ethnicity. While 6% of families with a white mother reported ultimately being unable to access a care program that meets their needs, this number was double for families with an American Indian or Alaska Native (12%) or Hispanic (13%) mother. Families with Black, Asian, and Native Hawaiian or other Pacific Islander mothers also report elevated rates at 8%, 7%, and 7%, respectively. For these families, prohibitive costs remain the largest factor preventing them from accessing child care programs that fit their needs.

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### **The High Cost of Child Care Disproportionately Burdens Mothers of Color**

Percent of mothers that say cost is a barrier to finding child care, by race/ethnicity, 2016



Source: Center for American Progress

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*Public investments in children by America lag that of other OECD countries*

Data from the OECD show that the United States invests less in early childhood education and care as a percentage of Gross Domestic Product (GDP) than all but three other OECD countries.<sup>79</sup> This chronic underfunding of the child care system has shifted the burden of rising costs onto families, leaving many unable to afford the care that they need and depriving them of the benefits of high-quality child care.

*Limiting out-of-pocket child care costs will increase families' incomes and support the early development of children*

The high and rising cost of child care comes with significant economic consequences. For many families, child care is either entirely unaffordable or so expensive that parents—especially mothers—drop out of the labor force to provide child care themselves, which negatively affects parents' and caregivers' ability to fully participate in the economy.<sup>80</sup> Over two million parents, particularly women, are estimated to have made career sacrifices such as quitting a job or not taking a job due to child care issues in 2016 alone.<sup>81</sup>

Mothers' labor force participation is consistently lower than labor force participation among fathers.<sup>82</sup> While child age does not greatly affect fathers' labor force participation, mothers of younger children experience a much larger participation gap.<sup>83</sup> Of all mothers, Hispanic mothers experience the lowest levels of labor force participation. Across race and ethnicity, participation gaps have been linked directly to a lack of structural support for women's full economic participation, and a lack of affordable, accessible child care is a major factor.<sup>84</sup>

Even for women who remain employed, issues with child care can cause them to miss work. Recent data show that in May 2023, 40,000 employed women reported not being at work due to child care problems, five times the number of men who reported child care-related absences. These disparate absences show how child care issues are disproportionately harming women’s labor force participation—a key input into economic growth.<sup>85</sup> This time away from the labor market can also create long-term scarring effects, decreasing lifetime earnings and negatively impacting families’ economic security as well as overall economic growth and resilience.<sup>86</sup>

In order to boost labor force participation, it is essential that high-quality child care is made affordable and accessible. Limiting the amount that families have to pay for child care as a percentage of their household income allows families to keep more money in their pockets. Each year, labor force exits due to child care needs are estimated to cost parents and caregivers \$30-35 billion in lost income.<sup>87</sup> When lost productivity and revenue due to decreased labor force participation are included, the economic cost may be as high as \$57 billion per year.<sup>88</sup>

Studies have found that capping the cost of early childhood education at 10% could generate significant positive economic effects, increasing GDP by 1.2% annually—\$210.2 billion each year—by facilitating parents’ reentry into the workforce.<sup>89</sup> For mothers and female caregivers in particular, every 1% reduction in out-of-pocket child care costs is associated with a 0.25% increase in labor force participation.<sup>90</sup> The recommendation for affordability calculated by HHS would put the cap on child care cost even lower, at 7% of household income. By setting the cap under 10%, the benefits to families and the economy would be even greater.

*Each \$1 invested in high-quality child care today could yield nearly \$9 in future returns*

Research has found that investment in early childhood education has long-lasting positive effects for the children who receive it and the broader economy. Research conducted by Nobel Prize-winning economist James Heckman into past early childhood education programs found that these programs generated \$7 to \$12 dollars in returns for every dollar invested.<sup>91</sup> People who participate in high-quality early childhood education grow up to be better educated and have higher earnings, and they are less likely to access income support programs or be involved in criminal activities. Benefits that accrue to individuals directly, as well as to the economy as a whole, include: better educated workers are more productive, higher earnings translate into higher tax revenues, reduced use of income support programs lowers government expenditures, and reduced crime translates to lower government spending on the criminal justice system. Altogether, every dollar invested in early childhood education today generates up to \$8.60 in economic benefits. In other words, investments in early childhood education pay for themselves almost nine times over the long-term.

Not only are there long-term economy-wide benefits from the children who attend early childhood education, but there are spillover benefits from improved outcomes of the children of the children who attended preschool including decreased suspension rates, improvements in adult health, increased likelihood of employment, and lower rates of divorce.<sup>92</sup>

Given the extensive body of research finding positive returns for the entire economy from investment in early childhood education, focusing on the upfront costs of investments in early childhood education is misguided.<sup>93,94,95</sup> There are immediate short-term

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benefits that balance out the cost of the investment, such as improved parental labor force participation. And in addition to the short-term benefits, the evidence is overwhelming that the long-term, broader economic returns greatly outweigh the initial cost of investing in early childhood education.

***Nutrition assistance programs support working families with children and improve overall health and economic mobility***

Nutrition assistance programs like the Supplemental Nutrition Assistance Program (SNAP); Special Supplemental Nutrition Program for Women, Infants, and Children (WIC); permanent summer grocery benefits; and universal school lunches are important tools for helping low-income families afford an adequate diet. Additionally, they protect families from hunger and financial hardship, reduce poverty, improve health, and support the overall economy.

***Nutrition assistance programs prevented food insecurity from spiking during the COVID-19 pandemic***

Overall, 10.2% of households were food insecure in 2021 and 10.5% were food insecure in 2020—essentially unchanged from the 10.5% in 2019.<sup>96,97,98</sup> These households were uncertain of having or unable to acquire enough food. Policy interventions ensured that food insecurity did not surge the way it did during the Great Recession.<sup>99</sup> During that period, the share of households that were food insecure rose from 11.1% in 2007 to 14.7% in 2009.<sup>100</sup> In the wake of the pandemic recession, the value of SNAP and WIC benefits were increased to help families afford food.

Congress increased SNAP benefits beginning in 2020 by providing authority for the U.S. Department of Agriculture (USDA) to approve state waiver requests for SNAP emergency allotments (EAs) while federal and state emergency declarations

were in effect during the pandemic.<sup>101</sup> This raised each household's benefits to the level of the SNAP maximum allotment. USDA subsequently revised the EA calculations in 2021 to include the lowest-income households so that they would also receive additional SNAP benefits each month. These households originally did not benefit from the emergency allotments as much, as they already received the maximum allotment or close to the maximum allotment. There was also a 15% increase to SNAP maximum allotments for much of 2021 until the USDA's update of the Thrifty Food Plan went into effect in October 2021, leading to a permanent 21% increase in maximum SNAP benefit levels.<sup>102</sup> Additionally, the American Rescue Plan increased the value of WIC's cash value benefits for the purchase of fruits and vegetables.<sup>103</sup>

*Nutrition assistance programs support adequate diets for families and protect them from increased financial hardship*

Programs like SNAP and WIC provide important nutritional support for working families with children. SNAP—the country's most important anti-hunger program—helped more than 41 million low-income people in the United States afford a nutritionally adequate diet on average each month in 2021.<sup>104</sup> Children are one of the groups who benefit most from this support with about two-thirds of SNAP participants consisting of families with children.<sup>105</sup> SNAP participation reduces food insecurity by as much as 30%, with an even more pronounced decline among children and those facing severe food insecurity.<sup>106,107</sup>

Recent changes to SNAP benefits allow families to better afford a healthy diet. In August 2021, the USDA updated the Thrifty Food Plan, which is a diet plan that is designed to be nutritionally adequate at a very low cost and is used as the basis for calculating SNAP's maximum benefit allotment.<sup>108</sup> This review, mandated by

the bipartisan 2018 Farm Bill, led to a permanent 21% increase in maximum SNAP benefit levels that began in October 2021. The review, the first since 2006, evaluated current food prices and dietary habits in a rigorous, data-driven process and marks the first time in its history that the Thrifty Food Plan has been adjusted to accurately reflect the realities of healthy eating today. The Thrifty Food Plan had become increasingly inadequate over the last 50 years as it only increased with inflation but did not factor in changes in dietary guidelines, consumption patterns, or constraints on working families.<sup>109</sup>

Similarly, WIC provides nutrition support to six million low-income pregnant, postpartum, and breastfeeding individuals, infants, and children who are deemed to be at nutritional risk.<sup>110</sup> It accomplishes this by providing specific types of foods that tend to be lacking in the diets of low-income women and young children, support for breastfeeding individuals or infant formula, and cash value benefits for the purchase of fruits and vegetables. These cash value benefits were increased in 2021 as part of the American Rescue Plan to provide participants with more fruits and vegetables.<sup>111</sup>

Additionally, Congress included permanent summer grocery benefits, an Electronic Benefit Transfer (EBT) program, in the government spending bill passed at the end of 2022, marking the creation of “the first new permanent federal food assistance program of this magnitude in nearly 50 years.”<sup>112,113</sup> This means that low-income families including more than 30 million school-age children can receive grocery benefits during the summer.<sup>114</sup> Child hunger tends to rise during the summer as children who are eligible for free or reduced-price school meals struggle to access nutritional food.<sup>115</sup>

*Nutrition assistance programs keep millions of people, particularly children, out of poverty*

Food assistance programs are incredibly effective at targeting support to those who need it the most and are powerful anti-poverty tools. SNAP, for example, focuses on households with the fewest resources: about 92% of SNAP benefits go to households with incomes at or below the poverty line.<sup>116</sup> Additionally, the SNAP benefit formula provides larger benefits to households with the lowest incomes than those closer to the poverty line. An Analysis from the Center on Budget and Policy Priorities found that SNAP kept nearly eight million people—including 3.6 million children—above the poverty line each year before the pandemic.<sup>117</sup> A separate analysis from the Center on Budget and Policy Priorities found that SNAP produces one of the strongest anti-poverty effects of any federal program.<sup>118</sup>

SNAP is also an effective form of economic stimulus because it gets money into the economy quickly during a downturn as enrollment expands when the economy weakens. Low-income families are more likely to spend every last dollar on needs like food and shelter, meaning each dollar that goes to a SNAP recipient translates into an additional dollar spent. Data from 2017 show that nearly 78% of SNAP benefits are redeemed within two weeks of receipt and 96% are spent within a month.<sup>119</sup>

*Nutrition assistance programs improve health outcomes, support childhood development, and ensure children fare better years later*

Food insecurity and inadequate nutrition leads to health problems throughout one's life. Food insecurity is linked to a poorer diet, chronic health conditions such as high blood pressure and diabetes, and overall poorer health.<sup>120</sup> Food assistance enables low-income families to afford healthier food, which can lead to

more positive health outcomes and reduce health care costs in childhood and adulthood.

Receiving food assistance such as SNAP early in life can lead to improved health outcomes years later. Research found that pregnant mothers who received food assistance in the 1960s and 1970s saw positive effects on infant birth weight.<sup>121</sup> Another study showed that adults who received SNAP as young children had lower risks of obesity and other conditions related to heart disease and diabetes as adults.<sup>122</sup> Children who receive SNAP benefits tend to report better health status than those who are not SNAP participants, and their families are less likely to forgo health care to meet other household needs.<sup>123</sup> Similarly, research has shown that WIC participation is associated with more nutritious diets, healthier births, lower infant mortality rates, and increased access to preventative health care.<sup>124,125</sup>

Receiving food assistance also leads to reduced health care spending. One study found that adults who participate in SNAP have annual health care costs that are nearly 25%, or about \$1,400, less on average than those who don't participate in SNAP.<sup>126</sup> Two other studies also found an association between SNAP participation and a reduction in health care costs by as much as \$5,000 per person per year.<sup>127</sup> SNAP is also linked to greater medication adherence as those who are experiencing food insecurity are more likely to skip doses, take less medication than prescribed, or forgo medication altogether due to cost.<sup>128</sup> SNAP can reduce household spending on food and free up resources for things like medication.

Some nutrition assistance programs also include educational components. For example, all 50 states operate SNAP nutrition education programs to better equip SNAP participants to make

healthy food choices.<sup>129</sup> WIC also provides participants with counseling on healthy eating as well as breastfeeding support and health care referrals.<sup>130</sup>

*Congress should expand SNAP as part of the Farm Bill reauthorization and increase WIC funding as part of the appropriations process*

Congress should expand SNAP—the most important nutrition assistance program America has—when it reauthorizes the Farm Bill this fall. There are multiple ways to expand the program, including: raising benefit levels, reinstating emergency allotments that ended in early 2023, using the Low-Cost Food Plan instead of the Thrifty Food Plan to determine maximum benefit allotments, eliminating time limits on benefits for people struggling to find work, and extending benefits to all college students who meet SNAP income and eligibility requirements.

SNAP’s emergency allotments ensured that food insecurity did not rise during the pandemic and provided economic stimulus, but they ended after February 2023.<sup>131</sup> Reinstating these allotments would ensure less food hardship and more nutritious diets, and would also enable households to spend resources on other needs. The USDA uses four different food plans to estimate the cost of a healthy diet across various price points.<sup>132</sup> The Thrifty Food Plan—which is what USDA currently uses to calculate SNAP’s maximum benefit allotment—has the lowest cost of the four food plans. The Low-Cost Food Plan is the next one above that and would provide households with even more adequate nutrition.

Congress should also ensure that it provides sufficient funding through the appropriations process for WIC to maintain benefit levels for all eligible families and prevent the need for waiting lists. It should also maintain increased benefits for fruits and

vegetables in line with the recommendations of the National Academies of Sciences, Engineering, and Medicine (NAS), as it did beginning with the American Rescue Plan and in subsequent appropriations bills.<sup>133</sup>

The House Appropriations Subcommittee on Agriculture, Rural Development, Food and Drug Administration has advanced a bill that funds WIC at \$800 million below what President Biden requested for fiscal year 2024—which would not be enough to ensure that benefit levels are maintained and waiting lists are avoided, especially as WIC participation is expected to continue growing.<sup>134</sup> It would also make cuts to the fruits and vegetables benefits for an estimated 1.5 million pregnant, postpartum, and breastfeeding individuals and 3.5 million children, which would go against the NAS recommendations.<sup>135</sup> The goal of WIC should be to serve all eligible families and provide support at a key point in development for pregnant, postpartum, and breastfeeding individuals, infants, and children.

*Congress should remove barriers to accessing the safety net and modernize the application for these benefits*

Congress should streamline applications for and the administration of proven safety-net programs and apply lessons learned from pandemic-era policies. People who are eligible for more than one type of benefit should be able to apply for them at one time, services should be provided online or by phone when possible, and benefits should be transferred electronically. The administration of WIC during the pandemic serves as a useful case study.

Pregnant individuals and parents of young children are often referred to WIC when they apply for Medicaid or SNAP, as it is assumed they are likely eligible for it as well. Eligible individuals

can also apply for WIC benefits at one of WIC's 10,000 local clinics, and state are increasingly making applications for WIC benefits available online.<sup>136</sup> This enables eligible individuals to apply for benefits in a way that works best for them. WIC applicants are generally required to attend certification appointments that determine eligibility and nutrition assessments to identify nutritional risks in person, with some exceptions.<sup>137</sup> However, during the pandemic, WIC agencies conducted these appointments by phone or videoconference under federal waivers to prevent the spread of COVID-19.<sup>138</sup> This also had a byproduct of removing barriers around work, child care, and transportation that may have otherwise prevented an applicant from attending an in-person appointment. WIC agencies also set up more methods for applicants and participants to submit documents electronically, which still allows for identity and income verification and a high level of program integrity.<sup>139</sup> Other modernization efforts like switching from paper vouchers to electronic benefit cards allow for a better user experience. Additionally, cards that can have benefits loaded onto them remotely offer participants a better user experience than ones that have information loaded onto a chip. The latter presented a challenge during the pandemic as WIC participants had to bring their cards to a WIC clinic to have their benefits added.<sup>140</sup> Expanding practices that make it easier for eligible individuals to access benefits like WIC will enable these programs to have a greater impact and reach a broader population.

Pandemic-era policies or expansions of existing policies that have proven successful can serve as a model for permanent extensions of these policies. For example, permanent summer grocery benefits (or Summer EBT) builds on the earlier success of Pandemic-EBT, which provided grocery benefits to low-income families with children during the summers of 2021 and 2022 and has proven to reduce food hardship.<sup>141,142</sup> As a permanent

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program, Summer EBT will provide important food assistance to 30 million low-income children every summer.<sup>143</sup> Additionally, SNAP benefits were temporarily increased early in the pandemic through emergency allotments and other means. The USDA's update to the Thrifty Food Plan led to a permanent 21% increase in maximum SNAP benefit levels that began in October 2021.<sup>144</sup>

## CHAPTER 3: BUILDING ON THE JOBS RECOVERY TO STRENGTHEN THE U.S. LABOR MARKET

As described in Chapter 1, the labor market in the United States has made incredible strides in the last two and a half years. The economy has routinely outperformed the labor force predictions of both private-sector forecasters and the non-partisan Congressional Budget Office. This strong recovery has pulled millions of people into the labor force, but policymakers must do more to make sure that more Americans benefit from stable and safe career opportunities.

Achieving this goal will involve both avoiding the policy mistakes of the past while also taking important proactive steps to grow the American workforce. That will mean investing in both the social safety net and in proven job training models while turning away from the ineffective work reporting requirements that fail to grow the labor force. It will also involve proactive regulations and government policies aimed at adapting to technological change driven by advances in artificial intelligence. Throughout this process, it is imperative that more workers can join a union and gain the significant economic benefits that come with collective action and worker representation.

This holistic approach to growing the labor market can build off the recent jobs boom that has already delivered measurable progress for American workers.

### *Strategies to further increase labor force participation*

Since its peak in the early 2000s, the overall labor force participation rate in the United States has generally fallen.<sup>145</sup> The

Great Recession reduced labor supply considerably, and it took years to recover the jobs that were lost. Some groups, such as women and Hispanic people, were more severely affected than others.<sup>146</sup> The U.S. labor force participation rate also dropped precipitously at the beginning of the COVID-19 pandemic from 63.3% in February 2020 to 60.1% in April 2020.<sup>147</sup> Under the Biden administration, prime-age workers (or those aged 25-54) are participating in the labor force at higher rates than before the pandemic.<sup>148,149</sup> Fears that workers who exited the labor force would not come back have been largely allayed, as most “missing workers” have returned.<sup>150</sup>

The national labor force participation rate decreased by 2.9 percentage points from January 2008 (66.2%) to January 2020 (63.3%).<sup>151</sup> One key to understanding this decline since the 2008 financial crisis is the United States’ aging population. In 2008, the first baby boomers were eligible to take their Social Security retirement.<sup>152</sup> As older workers exit the workforce, lower birth rates mean the labor pool is likely to stay low, absent a significant in-migration of prime-age adults.<sup>153</sup> Aging alone does not explain the lower labor supply, however, as rates of participation in the labor force by prime-age males have been nearly continuously decreasing since the 1950s.<sup>154,155</sup> The labor force participation rate was brought up by prime-age women entering the workforce in large numbers, but this rate too began to decline slightly after the late 1990s.<sup>156</sup>

Empirical evidence suggest a suite of policies that can buoy or raise the labor supply, especially if employed in concert. Labor demand continues to outpace labor supply in the post-pandemic economy, and ensuring that labor force participants are healthy; have proper training, education, and connectivity; and can access

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affordable child care will give a boost to Americans working or looking for work.

*Access to affordable health care raises labor supply and supports workers' performance*

Providing for the health care of low-income or unemployed individuals and families leads to higher labor force participation. States that opted to expand Medicaid in 2014 generally saw an increase in labor supply.<sup>157,158</sup> Health coverage through Medicaid has helped workers across the country to look for employment and do a better job at work.<sup>159,160</sup> Poor physical and mental health, including chronic disease, are significant factors associated with workers exiting paid employment through disability insurance, unemployment, or early retirement.<sup>161</sup> Research indicates that employee well-being is associated with better job performance, lower absenteeism, and longevity of employment.<sup>162</sup> Providing affordable health care is thus important to maintaining a productive and effective workforce.

*Improving educational access and attainment, including in fundamental skills like literacy, creates a larger and more skilled workforce*

The evidence is clear that those with higher educational attainment typically have greater participation in the labor market and higher wages.<sup>163,164</sup> Higher educational attainment also helps reduce the time in which a worker is unemployed, while vocational education and training allow jobseekers to find employment faster and obtain higher-paying jobs.<sup>165,166</sup> Literacy is a crucial step toward reaching higher levels of education. Increased literacy in adults is associated with a higher chance of being employed and earning higher wages.<sup>167</sup>

*Well-designed job and career training programs can match those currently out of the labor force with promising career opportunities*

Effective active labor market policies and programs (ALMPs) give workers the skills and networks to enter the labor force and find gainful employment. State and local governments should design ALMPs to reflect the needs of their populations and ensure their programs promote equity. To do so, ALMPs should provide opportunities for vulnerable populations, such as those with limited work experience, dependent care obligations, low skills, or health limitations. Successful programs help individuals strengthen life skills, social integration, and motivation; develop work-related skills; assist potential workers in finding and applying to jobs; potentially subsidize employment, training, and mentoring; and provide follow-up support.<sup>168</sup> While ALMPs are an important way to improve labor force participation, the needs of vulnerable groups are complex and require a holistic approach. Consistent monitoring and evaluation of ALMPs means that policies can be more likely to respond to changes in the labor market, such as during a shock like a pandemic or in a transition to clean energy, and can better integrate with other policies intended to raise the labor supply.

*Increased broadband access can connect more people with employment opportunities*

Access to affordable and reliable internet helps job seekers find and apply for work. For low-income individuals, access to affordable internet could help increase labor force participation and decrease the chances of being unemployed.<sup>169</sup> The internet is now an essential tool for education, access to goods and services, and communication—all of which can support an individual when seeking or training for employment. Increasing access to broadband has greater effects on certain populations. Greater

usage of high-speed internet has been found to increase labor force participation and hours worked by married women with children.<sup>170</sup> Recent federal investment in expanding broadband and related infrastructure is likely to create, at its peak over 10 years, 23,000 new jobs nationwide.<sup>171</sup>

*Benefits for families can help parents enter the labor force, but they take time to make a difference and require sustained funding and good implementation*

Access to affordable and reliable child care is a large factor in determining the availability to work in certain populations. A lack of access to child care disproportionately affects women, single parents, families of color, those with immigrant status, and low-income families. Nationwide, the families of one in six Latino children aged five and younger experienced job changes related to a lack of child care. For Latina and Black mothers, center-based child care for two children consumed 42% and 56%, respectively, of household income in 2017, compared to 26% for white mothers.<sup>172</sup> Support for affordable child care, teleworking, and parental leave can create the necessary conditions for women with young children to join the labor force.<sup>173</sup>

*Increased immigration can also grow the labor force while strengthening the broader economy*

While increasing participation among the current population is important, one clear way to grow the labor force is by increasing immigration. As the baby boomer generation enters retirement age, and population growth continues to slow, there is a growing need for immigrants to both help fill vacant roles left by older Americans leaving the workforce and meet the employment needs of a growing economy.<sup>174</sup> Immigrants already play a vital role in the current economy, working across many economically

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significant sectors like education and health services, finance and real estate, and construction.<sup>175</sup>

However, the United States should increase its number of immigrants and streamline the process to help meet the continued workforce needs throughout the occupational landscape.<sup>176</sup> Increasing employment-based immigration while ensuring that the country continues to be a welcome home for refugees and those seeking asylum is both in line with our nation's values and good for the economy. Countries like Canada have drastically increased their immigrant populations in recent years through common-sense immigration policies aimed in part at increasing economic dynamism.<sup>177</sup> Other more technical approaches include updating the list of Schedule A occupations, which would help bring in more immigrants who could fill employment shortages in identified fields where the United States faces a shortage.<sup>178</sup>

Economic evidence also shows that many of the concerns about the effect of immigrants on current workers are unfounded. Research shows that immigration does not bring down wages for similarly-skilled workers.<sup>179</sup> Other research shows that immigrants also support additional jobs because they bring complementary skills to those more common in the U.S.-born labor force, which can then support a “multiplier” effect that grows the broader labor force.<sup>180,181</sup> Immigrants also help to keep our economy more dynamic by moving between different labor markets in response to changing levels of demand.<sup>182</sup>

***Work reporting requirements fail to expand the workforce while punishing those in need with unnecessary bureaucracy***

There is a long-running assumption that those who receive social assistance choose to not work and must be compelled to do so.<sup>183</sup> But the reality is that most adults who receive assistance from

programs like Medicaid and the Supplemental Nutrition Assistance Program (SNAP) are already employed, while others are between jobs, attending school, caring for family members at home, or have an illness or disability that may prevent them from working. Data from the Kaiser Family Foundation shows that more than six in 10 adults who receive Medicaid are working full- or part-time, and a further 30% are students and caregivers or have a disability or illness.<sup>184</sup> Assuming that benefit recipients are choosing to not work also ignores structural labor market issues that may hinder some from working, such as discrimination in hiring, the lack of affordable and reliable child care and paid leave, and failure to provide accommodations to those who are sick or disabled.

Programs like Medicaid and SNAP—two of the most successful anti-poverty programs in America—provide nutrition health and health care assistance for millions of Americans, which can lay a foundation for them to join the labor force. It is difficult for those who are hungry and in poor health to look for and sustain work. Before the pandemic, Medicaid covered over 64 million people as the largest insurer in the country, while SNAP lifted over 7 million people, including more than 3 million children, above the poverty line.<sup>185,186</sup> Instituting work reporting requirements that block people from receiving this assistance would be counterproductive, especially without providing any additional supports to help people find jobs. The anti-poverty effects of these programs would also diminish under stricter work reporting requirements, as it would cut assistance without connecting people to jobs.

*Evidence shows that work reporting requirements are ineffective at increasing employment or labor force participation*

Economic studies show that work reporting requirements for social assistance programs achieve little to no progress towards

their supposed goal of increasing labor force participation. Instead, they are only effective at taking supports away from people. Numerous studies have shown that SNAP work requirements for adults who don't have kids or a disability have "no measurable impact on employment or earnings."<sup>187</sup> On the other hand, work reporting requirements are extremely effective at reducing program participation. Data from the Department of Health and Human Services show that work requirements could jeopardize Medicaid coverage and access for 21 million people, while the Center on Budget and Policy Priorities estimated that the Republicans' Default On America Act would have put Medicaid coverage at risk for more than 10 million Medicaid expansion enrollees in 32 states.<sup>188,189</sup> Another study found Virginia's work requirements helped reduce SNAP participation by 53% among adults who were subject to the requirements in the 18 months following their introduction.<sup>190</sup> And households without children aren't the only ones who lose benefits—another study found that increased administrative burdens reduced Medicaid and Children's Health Insurance Program coverage for families by 5.4% within the year after they were enacted.<sup>191</sup>

Evidence from states also show the harmful effects of short-lived Medicaid work reporting requirements, with thousands losing coverage and no increase in employment.<sup>192,193</sup> In Arkansas, more than 18,000 people lost Medicaid coverage in just the seven months after work requirements were instituted. Similarly, 80,000 people in Michigan and almost 17,000 people in New Hampshire would have lost coverage had the policies not been halted. In all three states, people who were working or who should have been eligible for exemptions lost coverage or would have been at risk of losing coverage. At the national level, these work requirements could mean millions of Americans, including those who are

working or who are exempt, losing their Medicaid coverage or SNAP benefits.

*Work reporting requirements often mean that people who are already employed or exempt from the requirements must jump through additional hoops to get their benefits*

People who are actively working could still lose their benefits because they would have to meet more complex administrative requirements to prove their eligibility. Confusing eligibility rules, ineffective outreach about program changes, and complex or inaccessible reporting systems prove to be serious hurdles for eligible beneficiaries.<sup>194</sup> They do nothing to encourage work; they just put more burdens on families who are already under financial strain and make it less likely they will receive their benefits.

Even though some people, such as those with children or those with serious health needs, disabilities, or substance use disorders, may be exempt from additional work reporting requirements, they could still get captured by the requirements and lose their assistance.<sup>195,196,197,198</sup> They too would have to meet complex administrative requirements and would not receive additional assistance in completing the steps to claim their exemptions. Evidence from Arkansas shows that people with disabilities who were exempt from Medicaid work requirements were still subject to the requirements due to narrow definitions around “able-bodied” and the difficulty in collecting the necessary documentation such as medical records, especially for the uninsured.<sup>199</sup> Instead of expanding work reporting requirements, Congress should expand eligibility for programs like Medicaid and SNAP that are incredibly effective at reducing poverty and supporting families and children.

*Artificial intelligence and maintaining American leadership*

The rapid rise of artificial intelligence (AI) tools has the potential to alter nearly all aspects of society with large but uncertain impacts on the economy and labor market. Generative AI has progressed quickly in the last few years—in particular with the release of ChatGPT—prompting governments to grapple with ways to encourage AI development within the bounds of ethical and national security concerns. AI tools may disrupt several industries from the music industry and questions of copywriting to manufacturing and human resources. Many questions remain around AI, including inaccurate decision-making and algorithmic bias (e.g. facial recognition doing a worse job of identifying Black female faces); lack of interpretability; information provenance (e.g. privacy concerns, deep fakes, and misinformation); and supply-chain issues. AI may also increase inequality if the large tech companies that own these AI tools consolidate their wealth and dominance. To maintain American leadership in AI and ensure a just integration of technology, the federal government, including the national labs, should work with technologists and other stakeholders to establish a safe and ethical structure for AI development. While there are a range of plausible scenarios of how this new technology transforms the economy and our workforce, substantial American leadership and public investment are needed to secure our competitiveness and national security while also ensuring that all U.S. citizens are uplifted by these changes and safeguarded against risks.

*AI could fundamentally alter the U.S. labor market*

AI may lead to fundamental changes in the U.S. labor market, and with its recent advancements, it is increasingly likely that the future of AI is the future of work. With AI tools, the economy may see potentially large savings in labor costs and productivity gains, leading to a possible 7% annual increase in global GDP.<sup>200</sup> AI

technologies could influence nearly every sector in the economy, which could decrease employment in certain sectors while expanding opportunity in others.

The tasks that AI targets may lead to job polarization, but recent work also suggests that tools like ChatGPT can narrow the productivity gap between lower skilled workers and those with more skills—potentially growing the middle class. Because routine tasks that are most susceptible to AI are predominantly in middle-paid occupations while non-routine tasks are in low and high-paid occupations, middle-income jobs may be most likely to change with an increase in AI tools.<sup>201</sup> However, a recent study showed that ChatGPT helped narrow the productivity gap between lower skilled workers and workers with more skills in a customer service context and could point to AI providing skills to grow the middle class.<sup>202</sup> High skill occupations are also exposed to AI tasks that involve detecting patterns, making judgment, and optimizing, such as clinical lab technicians, chemical engineers, optometrists, and power plant operators.<sup>203</sup> Thus, technological advances will impact the labor market in complicated and uncertain ways.

History (e.g. the advent of the dishwasher or the internet) shows that technological developments do not destroy overall employment but can render some roles obsolete and provide others with opportunities. Women are more at risk than men from losing their jobs to AI or other digital technologies for many reasons, including many that parallel those of gender inequities more broadly in STEM and in leadership positions (e.g. gender stereotypes).<sup>204</sup> The International Monetary Fund also calculated that a higher percentage of jobs (11%) held by women than by men are at risk for elimination due to AI and other technological advances. There have been reports of AI algorithms in hiring

processes being biased against women because of the data used to train the algorithms.<sup>205</sup> We must also account for complexity because AI will impact the working lives of women in different cultures and labor markets differently. AI has the potential to mitigate the corporate gender gap that broadly mirrors the STEM gap by removing bias in recruiting, reviews, and promotion decisions and by improving retention of female employees.<sup>206</sup>

Educating, training, and reskilling to meet the new challenges of an AI-informed and augmented labor market will become increasingly important to avoid job loss, especially for women and other historically disadvantaged groups.<sup>207</sup> Educating the future workforce to prepare people early on will be important, in particular increased gender and racial equity efforts in STEM fields to ensure groups are not left behind. Research conducted by the World Economic Forum and BCG showed that 95% of at-risk U.S. workers can be retrained for jobs that pay at or above what they make now and offer growth potential. Reskilling would be costly, but companies could profitably reskill 25% of their workforce—and 77% of workers could be retrained through government programs or incentives with a net cost benefit.<sup>208,209</sup> Further, Congress could adopt tax policies that encourage “human labor augmentation” within firms rather than ones that incentivize the substitution of technology for human labor and skill.<sup>210</sup>

*To maintain American leadership in AI, the federal government should work with technologists to establish a safe and ethical structure for AI development*

With these rapid developments in AI, both the Biden administration and Congress have begun working through what role the federal government can and should play in this space. In this exploding field, technologists are looking for structure and guidance from the government on safe and ethical AI development

while maintaining their own competitiveness. Sam Altman, the CEO of OpenAI, which created ChatGPT, went so far as to ask for government regulation of AI in a Senate hearing in May.<sup>211</sup> A multi-stakeholder approach is thus necessary with engagement from the government, private sector, technologists, and academia.<sup>212</sup> For example around AI and its impact on vulnerable groups (e.g. through its use in health care or due to privacy concerns), governments should create and encourage policies that consider this impact. Institutions have an essential role in fostering skill-equalizing work environments for women and other historically marginalized groups. The U.S. federal government can and should be at the forefront of coordinating a safe and ethical deployment of AI within the labor force and economy given our substantial density of AI technologists in Silicon Valley and its possible use cases across government and society.

Socially optimal applications of AI also provide an opportunity for governments to use the large datasets that they have access to combined with their need to make decisions under uncertainty to make better policy.<sup>213</sup> For example, Kleinberg and others found that for the decision on allowing a criminal defendant to post bail or requiring them to remain in prison, a machine learning algorithm suggests welfare gains for either crime reduction (up to 25%) or reduced incarceration (up to 42%) when compared to decisions made by a judge only.<sup>214</sup> Work has also shown that AI improved the targeting of COVID-19 relief in Togo using machine learning, satellite records, and mobile phone data.<sup>215</sup> The U.S. federal government has already begun to implement AI. For example, the Internal Revenue Service (IRS) uses it to improve taxpayer wait times, and the Centers for Medicare and Medicaid Services (CMS) has created AI competitions to predict health outcomes using Medicare data.<sup>216</sup>

Other work is also underway in the Biden administration and Congress to root out bias and promote equity and mitigate threats posed by AI—and should be built upon to further solidify American leadership in safe AI deployment. The Biden administration put out a blueprint for an AI bill of rights focused on five principles: safe and effective systems; algorithmic discrimination protections; data privacy; notice and explanation; and human alternatives, consideration, and fallback.<sup>217</sup> In February 2023, President Biden issued an executive order directing federal agencies to root out bias and promote equity in the design and use of new technologies including AI.<sup>218</sup>

Simultaneously, Congress has been ramping up efforts to understand AI and lay the groundwork for regulation. Bipartisan Senate and House caucuses complement work done in the administration and have taken leadership on organizing Member and staff-level briefings to increase AI literacy on Capitol Hill. Initial legislative proposals are currently underway.<sup>219,220</sup>

*The research and development infrastructure in the U.S. has a strong role to play in AI safety and development*

Further, the Biden administration is making large investments in AI research and development (R&D), and in May 2023, the National Science Foundation (NSF) announced \$140 million in funding for seven new National Artificial Intelligence Research Institutes as part of a cohesive cross-government approach to address AI related opportunities and risks.<sup>221</sup> The new AI Institutes will advance foundational AI research on ethical and trustworthy technologies and on solutions and innovations on cybersecurity, climate change, the brain, and education and public health—all while supporting the development of a diverse AI workforce.

Responsible AI R&D is essential to execute science, energy, and security missions, and these efforts will require large public investments with associated substantial public benefits. The Department of Energy (DOE) has the capabilities and experience to provide leadership in this effort. DOE has proposed a new initiative to lead the nation and the world on trustworthy AI development: FASST or the Frontiers in Artificial intelligence for Science, Security, and Technology for the Nation. To initially fund this effort, a new research line item for DOE is necessary with at least \$1 billion per year.<sup>222</sup> In consultation with the White House Office of Science and Technology Policy (OSTP), NSF has created a complementary roadmap for a National AI Research Resource (NAIRR) to enable the academic community to better utilize and expand AI within their own research.<sup>223</sup> In addition to the academically-focused NAIRR, the federal government should explore ways to enable small and medium size firms to access, use, and interpret AI tools.

The potential for other countries to get ahead of the U.S. and for malicious actors to use AI for malicious purposes highlights the need for the U.S. R&D infrastructure to understand how AI will impact all aspects of society from the societal impacts of wide-ranging AI use—particularly in the labor market—to impacts on democracy like data and election manipulation and privacy concerns.<sup>224</sup> Recent bipartisan legislation aims to protect Americans' data from unfriendly foreign nations. The bill would build upon federal government priorities to protect American health care records, geolocations, web browsing activity, and other information that malicious actors could use to harm American people and interests.<sup>225</sup>

***Union representation supports the middle class while expanding worker power that can balance out corporate consolidation***

Workers get significant economic benefits from labor unions, even if they are not members of a union themselves. While union membership rates among workers remain at historic lows, recent years have also seen increased union activity and a favorable turn in public opinion towards labor organizing.<sup>226</sup> New union organizing reflects a growing awareness of the economic benefits that unions have to offer all workers, including those who are not union members. Together, these efforts offer another way to counterbalance the growing trend of corporate consolidation that has for many decades tilted power in the economy in favor of wealthy companies and their shareholders.

***Unionization brings higher wages, better benefits, and improved working conditions***

Union workers earn an average of 10.2% more than their non-unionized peers even when comparing workers with similar education, occupation, and experience levels.<sup>227</sup> Unionized workers are also 18.3% more likely to have employer-provided health insurance compared with their non-union peers.<sup>228</sup> Moreover, employers for unionized workers pay 77.4% more per hour worked towards the cost of health insurance.

Workers in unions have more control over their schedule. Unionized workers are over 10 percentage points more likely than their non-unionized counterparts to know their work schedules more than a week in advance.<sup>229</sup> Getting work schedules earlier allows workers to make arrangements, such as for child care, sufficiently enough in advance to balance both work and care responsibilities.

There are broader spillover economic benefits for all workers in industries with high rates of unionization—even if individual workers are not themselves in a union. Unions set a standard for working conditions in industries in which they are prevalent.<sup>230</sup> If employers have to compete for workers who have a good chance of getting a union job, non-union employers have to pay higher wages and offer better benefits to attract and retain workers. As a result, average wages are higher in highly unionized industries even if a worker is not themselves in a union.

*Unions play a critical role in narrowing racial and gender economic disparities*

Today, unions play a critical role in narrowing racial economic disparities. For example, Black, Chinese and Latino workers have a long history of organizing for better wages and working conditions, even when they were excluded from established unions and lacked labor protections.<sup>231,232,233</sup> Many unions excluded Black workers and other workers of color—either explicitly or by creating unreasonably high barriers.<sup>234,235,236,237</sup> With the formation of the explicitly multiracial Congress of Industrial Organizations in 1935 and the passage of the Civil Rights Act in 1964, unions have increasingly become more inclusive. Today, 11.5% of Black workers are members of a union, the highest rate of any major racial group.<sup>238</sup>

Union representation narrows racial pay gaps. Collective bargaining increases the power of marginalized workers by standardizing pay grades based on skill level and strengthening protections against workplace discrimination.<sup>239</sup> Unionization increases pay for Black and Hispanic workers by 13.1% and 18.8% respectively, which is a greater wage premium than the 10.2% average wage boost for all unionized workers.<sup>240</sup> Increased income thanks to unionization also narrows racial wealth gaps.<sup>241</sup>

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For example, Black households with unionized members have median wealth that is three times that of non-union Black households. By comparison, white households with unionized members have median wealth that is less than two times that of non-union white households.

In addition, union representation is important for women's economic security. In select industries such as teaching, unions have been shown to narrow gender pay gaps. Overall, hourly wages for female union workers are 4.7% higher than for their non-union counterparts.<sup>242</sup> In the female-dominated service industries, union workers make 52.1% more than their non-union counterparts.<sup>243</sup>

*Supporting workers' right to organize is a key way to help boost wages and grow the middle class*

Protecting and supporting workers' right to organize is critical to boost wages and improve job quality because unionization has such a positive impact on workers' wages. To bolster workers' ability to organize themselves, Congress and the Biden administration are taking a number of actions, including through the bipartisan Infrastructure Investment and Jobs Act and through the Inflation Reduction Act.

The Inflation Reduction Act incentivizes projects that pay prevailing wages and use registered apprentices, which together will strengthen demand for union workers.<sup>244</sup> Also, many of the jobs created by the bipartisan Infrastructure Investment and Jobs Act will be subject to the Davis-Bacon Act that sets wage and benefit rates for construction workers supported through federal contracts at existing market levels and ensures that they are not paid poverty wages.<sup>245</sup> In addition, President Biden issued an executive order requiring that all large federal construction

projects include a project labor agreement, a collective bargaining agreement for contractors and labor groups on certain projects worth more than \$35 million.<sup>246</sup> Together, these efforts can help more workers get secure union jobs that create a pathway to the middle-class.

Historically, higher union representation is correlated with a larger and stronger middle-class, with declining unionization in recent decades often highlighted as one driver of greater income inequality.<sup>247</sup> Using policy to increase unionization can help reinvigorate both the American middle class while also investing in the clean energy transition, domestic manufacturing, and improving critical infrastructure. The Protecting the Right to Organize (PRO) Act, which passed the House during the 117<sup>th</sup> Congress, would further strengthen workers' ability to organize.<sup>248</sup>

## CHAPTER 4: ENSURING FINANCIAL STABILITY AND ECONOMIC FREEDOM

As the United States strives to maintain the promise of opportunity and prosperity for all Americans, consumer protection, fair market competition among businesses, and financial stability are central to that goal. However current trends in bank behavior, monopolistic business practices, and private equity's increasing footprint throughout the economy—ranging from retail business, to nursing homes and hospitals—threaten this promise. The Biden administration and past congresses have taken steps to address each of these issues. Now, Congress must work with the administration to help guarantee a sound banking system, growth of stable, well-paid jobs, allow more Americans a fair chance at entrepreneurship, and ensure a free and competitive market that protects Americans from exploitative overcharges on goods and services.

### *Financial reforms are needed in light of the Silicon Valley Bank crisis*

The recent failures of Silicon Valley Bank (SVB), Signature Bank, and First Republic Bank serve as a reminder of how contagion can threaten the U.S. banking sector, and in turn, the wider economy. The combined size of these three banks totaled \$532 billion, which is larger in terms of total asset size than the 25 banks that failed during the 2008 financial crisis.<sup>249</sup> Silicon Valley Bank alone was the second largest bank failure in U.S. history.<sup>250</sup> Poor management and internal structure have been cited as the key reasons for the banks' failure. But these institutions, despite their size, were not subject to strict scrutiny due to recent changes in

U.S. law made under former President Trump. Fortunately, U.S. policymakers and regulators acted decisively to ensure that any risks to the broader economy were contained. This section outlines why these failures happened and how more appropriate regulation can help identify and address potential issues in the banking sector, to protect against future financial instability.

*Recognition of interest rate risk is key to ensuring banking sector stability in a time of high inflation*

As interest rates increase, the value of assets such as Treasury bonds or loans that banks hold on their balance sheets decline. As this occurs, the bank's net worth can decline and the risk that it will become insolvent and fail to pay back its depositors will rise. A bank's solvency is of the greatest concern to account holders with balances above the FDIC's \$250,000 limit on insurable deposits, who may panic at signs of decline in asset value and pull their funds, further increasing stress on the bank.<sup>251</sup> This was a central issue for SVB which had 88% of deposits uninsured, as well as Signature Bank which had 90% of all deposits uninsured in the last quarter of 2022.<sup>252</sup> First Republic had 68% of all deposits uninsured, an amount that was significantly lower than the other two failed banks.<sup>253</sup> However, First Republic was known for issuing large, and long-term loans with low interest, which fell steeply in value as the Federal Reserve increased interest rates, further reducing bank value and sparking fear of insolvency among its uninsured depositors.<sup>254, 255, 256</sup>

Although there have not been any more bank failures in 2023 since First Republic Bank, some analysts believe that other banks may harbor a series of issues which have yet to be discovered.<sup>257</sup> If the Federal Reserve continues to raise its benchmark interest rate as expected, it is possible that other banks and financial institutions with similar asset compositions will come under added stress, if

they have failed to appropriately guard against their interest rate risk.<sup>258</sup> If these banks start to buckle, this could depress spending levels across the economy, suppress both employment and wages, and affect people's retirement savings.<sup>259</sup>

*Previous rollbacks of financial regulations left significant regulatory gaps and insufficient supervision of SVB*

Following the 2008 financial crisis, Congress passed the Dodd-Frank Act (Dodd-Frank), which aimed to prevent the sort of risky practices at financial institutions that had contributed to the crisis. These reforms introduced enhanced prudential standards (EPS) for financial institutions termed “systemically important financial institutions” (SIFI). Essentially all commercial banks holding at least \$50 billion in assets, including SVB, were required to maintain higher levels of assets relative to their liabilities, had higher levels of federal oversight, and had to pass stress tests that gauged their ability to weather financial shocks.<sup>260,261</sup> The requirements allowed for greater protection of the financial system from widespread bank failure and guarded against the need for banks with poor practices to be bailed out by American taxpayers. They have also been cited as having created the conditions for continued health of the banking sector despite macroeconomic instability during the pandemic.<sup>262</sup>

However, in 2018 the Trump administration and a Republican Congress passed the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA) which among other provisions, increased the threshold for banks that qualified as SIFIs from \$50 billion in assets to \$250 billion, claiming that Dodd-Frank regulations were too burdensome. As a result of this, less than 10 banks remained under greater levels of oversight than Dodd-Frank had initially extended to thousands of large banks.<sup>263</sup>

This rollback weakened regulations that could have helped protect the wider financial system against poor management practices at SVB. Following the EGRRCPA's passage, SVB was allowed to set lower requirements for both minimum asset and liquidity levels. In addition, the new law reduced supervisory requirements for banks of SVB's size at the time, as well as made it harder for regulators to step in when concerned about mismanagement.<sup>264</sup> In addition, due to the regulatory changes made following EGRRCPA, the Federal Reserve could not quickly implement certain risk management requirements and supervisory tools to keep up with the bank's rapid growth. As a result of these regulatory rollbacks, SVB had not undertaken a Federal Reserve stress test, despite having more than \$200 billion in assets at the end of 2022.<sup>265,266,267</sup> In a review of SVB's failure, the Federal Reserve Board of Governors highlighted issues within the bank's risk management program alongside its lack of a Chief Risk Officer for a period of months in 2022.<sup>268</sup> In addition, the review cited the bank's overreliance on a "highly concentrated business model" based in depositors from venture capital-backed firms and start-ups whose access to credit and ability to grow was reliant on the low-interest rate environment, and "a reliance on uninsured deposits" with more than 80% of deposits exceeding the Federal Deposit Insurance Corporation's (FDIC) threshold.<sup>269</sup>

*Passage of the Secure Viable Banking Act and a consideration to change Accumulated Other Concentrated Income reporting is an important first step to ensuring avoidance of future bank failures*

In 2018, the JEC Democratic staff under Senator Martin Heinrich highlighted how SVB would be exempt from regulatory scrutiny following the proposed regulatory rollback.<sup>270</sup> During the 118<sup>th</sup> Congress, Senator Heinrich has joined other Congressional Democrats in co-sponsoring the Secure Viable Banking Act,

which would reinstate the \$50 billion threshold for EPS.<sup>271,272</sup> In line with the Federal Reserve’s findings on SVB’s failure, this legislation would enable regulators to more effectively execute their supervisory duties. Given the role played by the ratio of insured to uninsured deposits, it is also imperative that federal regulators require banks to create risk models and undergo stress testing to determine their levels of exposure in the event of a deposit run.

Furthermore, policymakers may consider changing “Accumulated Other Concentrated Income” (AOCI) reporting requirements for larger banks, to enhance assessment of interest rate risk. This accounting measure allows regulators to assess the change in the value of a bank’s “assets for sale” (AFS) portfolios, which include Treasuries and other fixed-income securities whose value tend to fluctuate more readily with shifts in interest rates.<sup>273,274</sup> However, the value of these assets will not be recorded in the bank’s net income measure until those assets are sold. Thus, lack of AOCI reporting may obfuscate interest rate risk exposure and regulators’ view into potential volatility in a bank’s capital.<sup>275,276</sup>

By 2019 SVB, Signature Bank, First Republic Bank, and other banks with total assets below \$700 billion had the ability to “opt out” of reporting AOCI to regulators.<sup>277,278</sup> Each of the three failed banks did opt out when given the choice. Thus, prior to the banks’ failures, regulators could not as readily assess or respond to potential losses to bank equity value, linked to increasing interest rates as they may have given AOCI reporting.<sup>279,280</sup> Requiring AOCI reporting for a wider range of large banks could therefore provide regulators with tools to help prevent future bank failures or crises in the banking system.

***Curbing junk fees protects consumers from exploitation and enhances business competition***

In recent years the proliferation of deceptive, additive fees has cost U.S. consumers billions of dollars. The Federal Trade Commission (FTC) terms such fees as “junk fees,” and defines them as unfair or deceptive fees charged above the good or service’s base cost. These fees are for additional goods or services that have too little to no added value to the consumer, or that the consumers would reasonably assume to be covered within the overall advertised price. For example, it is estimated that consumers have lost at least \$28 billion per year in payment of additional fees for cable service in 2018.<sup>281</sup> In 2021, the Consumer Financial Protection Bureau (CFPB) reported that fees for overdrafts and nonsufficient funds in consumers’ bank accounts had hit approximately \$15.4 billion in bank revenues the prior year.<sup>282</sup> The CFPB also issued a report showing that late fees on credit cards had cost consumers \$12 billion in 2020.<sup>283</sup>

Junk fees have wider implications for the overall market, increasing inequality and harming competition. While junk fees can eat away at the income and savings of all Americans, low-income communities and communities of color are disproportionately burdened by such fees. In addition, hidden fees can cause consumers to choose a good on the basis of a lower perceived price, and which they may not otherwise have chosen if they had been given the full price up front.

*Junk fees are harming vulnerable communities*

Empirical analysis in recent years has shown that low-income communities and communities of color are hit the hardest by junk fees. For example, a 2022 analysis from the Consumer Financial Protection Bureau (CFPB) found that on average, consumers residing in the lowest-income neighborhoods paid two times more

in late credit card fees than those living in the highest-income neighborhoods. Additionally, in majority-Black neighborhoods per 2010 census data, the average credit card late fees paid in 2019 were higher when compared to neighborhoods where Black individuals were in the minority.<sup>284</sup>

Other evidence shows how consumers of color, as well as low-income and young consumers, are adversely impacted by bank overdraft fees. A 2021 report from the Financial Health Network (FinHealth) shows that Black and Hispanic or Latino households spent \$1.4 billion and \$3.1 billion in overdraft fees, respectively, in 2020. In addition, FinHealth found that the probability a low- to moderate-income household had an overdraft on their checking account was almost twice as high as that of a high-income household in 2020. They also found that young people, who on average have less wealth and income than older Americans, were more likely than people aged 65 and older to have an overdraft on their account.<sup>285</sup>

*Drip pricing hides the true cost that consumers pay, which harms consumers and hurts businesses that provide transparent pricing*

By diminishing pricing transparency, businesses can deceive consumers from selecting the lowest overall price. This practice has been termed “drip pricing,” where businesses will show an initial base price, and subsequently add on fees as the consumer moves through the online purchasing process. At the end of this process, the price that the consumer ultimately pays for the good or service is higher than the initial base price. The consumer also may not be able to compare this final, true price with other providers’ final prices without taking additional time to move through the other providers’ purchasing process. Research has found that consumers may be unwilling to look into other

providers' offers after spending substantial time on the drip pricing purchasing process.<sup>286,287,288</sup>

It follows that businesses engaging in transparent pricing could also be harmed by this practice, as transparent prices may appear higher than prices with hidden fees. This creates a perverse incentive where businesses feel the need to adopt drip pricing to protect their market share and avoid the opportunity cost of forgoing the higher profits that the practice offers.<sup>289</sup>

*Enhancing regulation around junk fees will improve market conditions for businesses and consumers alike.*

Recent studies have shown that regulation of junk fees have led to improved outcomes for consumers. For example, one study examining impacts of the CARD Act regulation of credit card fees found that it saved consumers \$12.6 billion per year in borrowing costs.<sup>290</sup> The largest impacts of these savings were on the lowest credit score borrowers.<sup>291</sup> Research has also found that regulation that limits the magnitude of drip pricing increases consumer surplus.<sup>292</sup>

In the face of an increasing presence of junk fees, the Biden administration has introduced multiple measures to protect consumer well-being and increase competition among firms. In October 2022, the CFPB effectively banned the use of surprise overdraft fees and depositor fees by banks.<sup>293</sup> Then in February 2023, the CFPB proposed a rule to reduce the burden of excessive credit card late fees on Americans.<sup>294</sup> Most recently, in July 2023 the CFPB and Office of the Comptroller of the Currency (OCC) found that Bank of America (BoA) had illegally charged customers multiple overdraft fees on single transactions, opened unauthorized credit card accounts using their customers' sensitive information without their consent and charged fees on these

accounts, and withheld promised bonuses from credit card customers.<sup>295</sup> As a result, the CFPB ordered BoA to pay over \$80 million to consumers, as well as \$90 million in penalties to the CFPB.<sup>296</sup> The Biden administration’s OCC also charged BoA \$60 million in penalties for the illegal overdraft fees.<sup>297</sup> Moreover, in January 2023, the Biden administration’s Federal Communications Commission began requiring internet companies to display an easy-to-understand label that includes all monthly fees.<sup>298</sup> This will enhance business competition by helping customers see which companies offer the cheapest prices. The FTC has also issued notices of proposed rulemaking regarding companies’ “deceptive or unfair acts or practices relating to fees” and has opened investigations and filed lawsuits against companies that have charged illegal junk fees or charged Black and Latino consumers higher financing costs and fees.<sup>299,300</sup>

***Expanding right to repair will increase market competition and support small business while enhancing economic freedom***

In the past, Americans have been able to repair their own personal items, equipment, and vehicles themselves, or to choose to have these products repaired through an independent repair shop without restrictions. However, various modern manufacturers now limit this freedom, forcing consumers instead to pay a small number of major dealers to provide necessary parts or to repair their equipment. This comes at a large cost to consumers, including those who use the product for their business. According to the U.S. Public Interest Research Group, restrictions on repairs could cost an annual amount of \$40 billion in the United States, or \$330 per family on average.<sup>301</sup> In response to this wave of restrictive repair rules, 28 states across the political divide have introduced legislation that would codify the “right to repair” for a range of different products.<sup>302,303</sup> Expansion of the right to repair protects consumer choice, creates market conditions for greater

competition and lower prices, and allows for a better economic environment for small business—whether they be the product user or repair service provider.

*Repair restrictions limit competition in the repair services market*

Restrictions on repairs are imposed on what the Federal Trade Commission (FTC) calls “aftermarkets.” These are markets for parts and services offered after the product’s initial purchase. Some product manufacturers restrict the aftermarket to their company’s supply of parts and services or will only allow an affiliate company to supply such parts and services.<sup>304</sup>

Current law prohibits companies from engaging in practices that restrict competition in aftermarkets. However, if these practices are deemed “procompetitive” a company may carry them out under current law even if they restrict competition. Procompetitive practices are those that a company needs to employ in order to ensure consumer and servicer safety, protect user privacy and data, allow for enhanced production and distribution, or maintain producer patented rights to their intellectual property.<sup>305</sup>

Frequently, producers cite a procompetitive reason for their need to engage in practices that restrict aftermarket competition.<sup>306</sup> However, the FTC found in their May 2021 report that these claims are not well-supported, which the FTC Chief Counsel for Development and Innovation reaffirmed in recent testimony.<sup>307,308</sup> Thus, manufacturers’ reasoning for limiting competition does not appear to be as necessary for product success and safety as they claim. Meanwhile, companies imposing repair restrictions gain more market power and an unfair advantage over competing firms in the aftermarket. These practices can harm the U.S. economy through multiple sectors, and limit access to prosperity for a greater number of Americans.

*Farmers, small businesses, and consumers have been harmed by restrictions on repairs*

As repair restrictions have become more common, they can lead to a less diversified economy and market conditions where business stems from only a few large companies. The result is an economic system that yields profits primarily to high-earning suppliers, increases the cost burden of repairs on more Americans' incomes, and inhibits access to wealth-building opportunities in the United States by reducing small business formation.

Independent repair shops currently maintain a significant share of vehicles in the United States and support local economies.<sup>309</sup> They are also especially important to rural areas that do not have franchised dealerships.<sup>310</sup> Additionally, many Black-owned small businesses are in the repair and maintenance industries.<sup>311</sup> However, independent car repair businesses face limited access to the repair market due to the proliferation of certain repair restrictions. For example, as cars become increasingly reliant on proprietary software, these businesses face barriers to operation that can threaten their important role in the U.S. economy.

Farm equipment is another area where repair restrictions are negatively impacting vulnerable consumers and small businesses. As equipment like tractors and combines have become increasingly technologically advanced, farmers have called out manufacturer business practices that have stopped them from repairing their own equipment. Being unable to make these repairs themselves can force farmers to wait multiple days for the company's required servicer to come and complete repairs. This loss in workdays can lead to a significant loss in revenues.<sup>312</sup>

Finally, there is increasing concern regarding the right to repair for wheelchairs and medical equipment. Currently, some electric

wheelchair suppliers are limiting access to wheelchair components, as well as service manuals.<sup>313</sup> More broadly, since the COVID-19 pandemic, advocates have been calling on medical equipment manufacturers to allow for more accessible repair options, including allowing consumers to repair medical products at home.<sup>314,315</sup> Restricted access to such repairs leave disabled as well as ailing Americans with little options for maintenance, posing dangers to their health.

*The Biden administration has acted through executive order and agency efforts to protect consumers, farmers, and small businesses from harmful repair restrictions*

Right to repair policies build off of the Biden administration's work to increase economic liberty for all Americans by strengthening competition. As part of a broader whole-of-government effort to end anticompetitive behavior in the economy, the Federal Trade Commission has increased its enforcement of companies that violate the right to repair.<sup>316,317</sup> For example, in summer 2022 the FTC issued orders for three companies, including motorcycle manufacturer Harley-Davidson, to remove clauses voiding their warranties if consumers used independent repair shops.<sup>318</sup> This increased enforcement comes as other federal entities crack down on anticompetitive behaviors that harm consumers and small businesses.<sup>319,320</sup> Increasing competition, including through the right to repair, helps grow the economy by giving consumers the freedom to choose where to take their business.

*The increasing presence of private equity is harming jobs and services in the real economy*

Private equity investing—when investors purchase partial or full ownership of companies whose shares are not listed on a public

stock exchange—was once seen as a “niche” investment practice taken up by financial institutions, corporations, or individuals with high levels of wealth.<sup>321,322</sup> However, shifts in private equity investing began to occur in the early 1980s, as firms specializing in private equity fund management began to emerge.<sup>323</sup> Today private equity firms are described as a “critical component” of the greater financial system.<sup>324</sup> S&P reports that private equity firms’ assets under management (AUM) grew by over 400% between 2010 and 2022, reaching \$7.6 trillion in June of 2022.<sup>325</sup>

In addition to their increased influence in the financial sector, growth in private equity firm acquisitions is impacting key components of average Americans’ lives. For example, private equity firms currently own at least 30% of all for-profit hospitals nationwide.<sup>326</sup> Moreover, private equity investment and ownership has become highly prevalent in low-wage industries including the retail and food service industry, affecting jobs, earnings, as well as prices and quality of goods and services.

#### *Fund structure rewards managers for high-risk deals*

There is concern among regulators that the common private equity fund structure incentivizes managers to seek out investments that have a higher risk of failure, as they aim to maximize profits.<sup>327</sup> In order to raise equity capital to make investments or acquisitions, private equity firms commonly set up a fund under a limited partnership with investors. The structure of these limited partnerships exposes general partners to low levels of risk, while allowing them to reap high rewards for a profitable deal. Individuals managing the firm act as the general partners of the fund, while outside investors act as the limited partners. The limited partnership yields the general partners greater control over the fund’s management. Although the majority of the fund consists of investments from these outside investors, general partners

receive a larger share of the profits relative to their investment share. Typically, they earn carried interest on the returns equal to 20% of profits from fund investments as well as fund management fees. Therefore, private equity fund managers will have a small loss relative to the fund if the investment does not yield returns. However, fund managers will gain substantial profits relative to their investment, and those profits increase with higher returns, thus incentivizing managers to make riskier investments.<sup>328,329,330</sup>

*Private equity purchases are often highly leveraged, and place the burden of debt repayment on the acquired company*

Concerns over high-risk behavior also stem from the level of debt that private equity firms use when making acquisitions. Private equity acquisitions tend to be carried out through “leveraged buyouts,” or buyouts where fund equity makes up a small fraction of the acquisition, with the larger fraction coming from debt. Often, 70% of the buyout will be carried out with debt, and 30% with equity.<sup>331</sup> The debt then frequently becomes part of the acquired company’s liabilities, which it must pay off.<sup>332</sup> When revenues from the acquired entity are insufficient to pay off this debt, the result can be bankruptcy for the acquired entity, which in turn leads to job loss and loss of the services that the acquired entity had provided to the economy.<sup>333</sup> Policymakers, economists and advocates have noted the impact that such deals have had in major sectors including retail, food service and health, as discussed in greater detail below.

*Private equity acquisitions are concentrated in low-wage industries, threatening job stability and pay for workers*

Private equity firms have tended to focus their acquisitions on low-wage industries. In 2021, 1.5 million food service workers were employed by companies owned by private equity firms. The industry with the second greatest number of workers under a

private-equity-owned company was the retail industry, at 1.1 million workers, followed by the security and health care industries, which collectively held 1 million workers.<sup>334</sup>

While the number of workers in private equity-owned firms need not be a concern on its own, recent empirical evidence has shown that private equity firm ownership can harm worker wages and employment. For example, on average, workers' wages have been found to decline by 1.7% after a private equity acquisition.<sup>335</sup> Moreover, according to one study, within the first two years of private equity ownership, a company's employment declines by 4.4%.<sup>336</sup> Other studies have found high concentrations of job loss in the retail industry, and a net decline in employment among restaurants, as a result of private equity buyouts.<sup>337,338</sup>

*Private equity acquisitions' impacts on services are especially concerning in the health care sector*

Private equity's presence in the health care sector has been building since the 1990s, and has expanded its reach to different areas of the health care system. Previously, the health care sector was predominantly made up of nonprofits and public entities.<sup>339</sup> However, private equity is increasingly becoming a major player. Beginning with nursing homes and hospitals, which provided firms with consistent, large revenue streams, private equity has since expanded into other areas of the health care system including investment in or ownership of private physician practices, urgent care clinics, and independent emergency departments.<sup>340</sup> Notably, private equity investment in health care increased from \$5 billion to \$100 billion between the years 2000 and 2018.<sup>341</sup>

While research on the impact of private equity ownership of medical institutions is limited, some evidence has pointed to concerning trends. For example, private equity acquisitions of

hospitals appear to lead to lower-quality care when there is a high concentration of private equity ownership in the market.<sup>342</sup> Research has also shown that private equity ownership of health care establishments, ranging from private physician practices to nursing homes, has been associated with higher profits paired with potential over prescription of procedures, and shortages in medical devices.<sup>343,344</sup> A study specifically focused on the impact that private equity acquisitions have on nursing homes also found that private equity ownership was associated with higher rates of mortality, reduced compliance with Medicare standards of care, greater incidence of negative outcomes for patient health, and lower ratios of nurses to patients in their care.<sup>345</sup>

Given these results, an area of particular concern is private equity firms' increasing ownership of hospitals in underserved areas. A recent study found that hospitals under private equity ownership in 2018 tended to be in lower-income and rural areas. In line with the research referenced above, they also tended to have lower patient satisfaction scores and had a lower ratio of employees-per-occupied beds.<sup>346</sup> Recent studies have found private equity-owned rural hospitals also tended to be more concentrated in the south, with Texas having the greatest number of private equity owned hospitals and New Mexico having the greatest number of private equity-owned hospitals relative to total hospitals in the state.<sup>347</sup>

## **CHAPTER 5: ECONOMIC AND HEALTH RISKS POSED BY CLIMATE CHANGE**

Climate change represents an existential threat to our way of life, including massive economic damages and health consequences from extreme events and transition risks as we move to clean energy. While fires in the western United States have been increasing in magnitude and frequency over the last several decades, the large fires in Canada in June 2023 showed that the smoke from these climate-exacerbated extreme events can and will increasingly affect the eastern United States. As more smoke impacts large population centers in the east, there will be potentially large impacts on our health care systems and in particular, on vulnerable populations' health, such as increased incidence of childhood asthma and increased heart and lung problems in historically disadvantaged groups.

To address the underlying driver of climate-exacerbated extreme events, the Biden administration has been at the forefront of regulating carbon emissions. The standards that the Environmental Protection Agency (EPA) proposed on May 11, 2023 for fossil fuel power plants will improve public health and provide substantial economic benefits while tackling the climate crisis.

Physical and transition risks from climate change jeopardize everyone's finances, from businesses to households and pension funds to local and Tribal governments. However, these different groups have significantly different capacities to respond to climate related challenges. To inform decision making across scales, data on climate risks and a workforce capable of interpreting that data accurately are sorely needed.

Climate change also threatens our public lands and the economic benefits that they provide through tourism, the recreation economy, and health advantages of being outside. Furthermore, catastrophic fires and other climate change impacts can harm these public lands, and they can shift forests from acting like sponges and soaking up carbon to being sources of atmospheric carbon, accelerating climate change and increasing wildfire risk.

***Climate-exacerbated fires lead to massive economic damages***

Climate change is making air quality worse around the country and across the globe, which is directly making people sicker. Within the United States, one clear and visible cause of poor air quality are the more frequent, destructive, and longer-lasting wildfires that fill the air with harmful smoke, including particulate matter.<sup>348</sup>

Since the 1980s, but especially in recent decades, western states have felt the increasing negative impacts of wildfires as they burn for longer and with more frequency.<sup>349,350</sup> The smoke that blanketed the eastern United States in early June 2023 underscores that the impacts of climate change and the fires it exacerbates will be felt nationwide.<sup>351</sup>

Altogether, research shows that wildfires in the United States cause tens to hundreds of billions of dollars in damages each year, which is a low-end estimate as there are many related market and non-market costs that we do not yet have reliable estimates for.<sup>352</sup> Direct expenditures include suppression and evacuation costs, and direct losses include natural resources; structures and property; utilities and infrastructure; loss of life, injuries, and health impacts from smoke; and economic impacts during incidents. Indirect economic costs are even more numerous. Indirect expenditures and loss of value are felt in our ecosystems and landscapes,

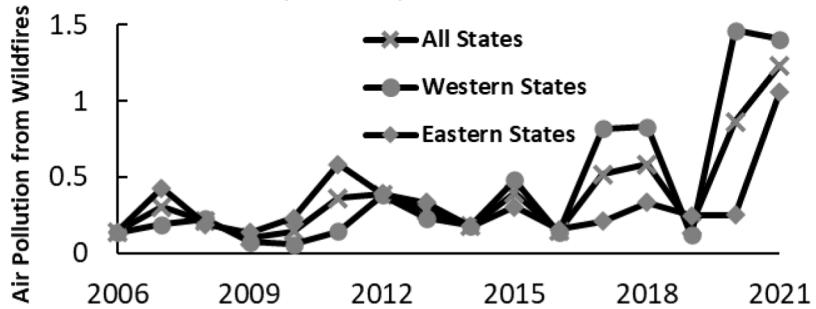
including necessary ecological restoration and loss of carbon capture abilities by the environment. Economic costs and losses include increased insurance premiums or loss of coverage and economic consequences across a range of labor and property concerns. Mitigation investments to try and address rising health and wellbeing costs are large and growing.

*People face substantial health consequences from fires*

Climate change worsens air quality through increased smoke from more frequent fires, hotter temperatures that increase smog, and many other effects.<sup>353,354</sup> Higher levels of air pollution, especially from fires, lead to premature deaths, more frequent pre-term births, and more asthma attacks, lung infections, and heart disease.<sup>355,356,357,358,359,360</sup> For wildfires in particular, the effects of heavy smoke on public health are harmful and most obvious, but fires also contribute to less visible but still damaging air pollutants that are more widespread, affecting air quality across the United States.<sup>361</sup>

The following graph shows that air pollution from wildfires has increased since at least 2006, with pollution from fires in western states driving the overall increase. Now eastern states are also seeing how damaging wildfire smoke can be to daily lives.<sup>362</sup>

## Air Pollution from Fires Has Gotten Worse in Recent Years, Especially in Western States



Source: O'Dell et al, 2019

Note: "Air Pollution from Wildfires" refers to annual mean smoke concentration in the contiguous U.S. in micrograms per meter cubed.

### *Fires also lead to large labor and learning losses*

Fires can lead to increasingly costly labor impacts and learning losses. For example, workers who primarily do their jobs outside, such as agricultural or construction workers, are at risk for missed or diminished work days due to smoke. In California, one of the states hardest hit by large U.S. wildfires, Latinos make up 71% of agricultural workers, so this population subgroup is particularly hard hit.<sup>363</sup> All workers are at risk if they cannot reach their place of employment due to fires shutting down roads or if they need to take time off work to tend to their family or neighbors in the aftermath of a wildfire. Some may even leave the area altogether to mitigate their own future risks or to get a fresh start. A recent study showed that wildfire smoke reduced earnings in the United States by an average of \$125 billion a year between 2007 and 2019, with a welfare cost of \$92 billion.<sup>364</sup> Counties who have an above-median proportion of Black residents experience earnings losses that are about 60% larger. Students also suffer learning

losses if smoke or fires cause school closures or disruptions or if a family must temporarily evacuate.

*Fires interrupt business and diminish property values*

Fires directly and indirectly impact businesses and physical assets. Businesses' property and equipment are at risk from fires, but even if physical assets are not directly harmed, companies may face disruptions and supply chain issues due to evacuations, modified work hours due to wildfires and smoke, or road and transportation closures. Furthermore, even if a fire does not directly threaten a business, the utilities a business relies upon or their infrastructure may be impacted. Until utilities are repaired, many companies cannot operate or generate revenue to pay bills. Certain industries, like agriculture, ranching, forestry, and real estate may have their key assets threatened by fires and smoke. This can lead to diminished property values and increased insurance premiums for businesses and residences. This increased risk has recently led to two major insurance companies declining to insure new properties in California, putting additional burden on the FAIR Plan, a state-mandated insurance pool or a provider of last resort.<sup>365</sup>

*Fires can deteriorate water quality and lead to erosion*

Fires can also affect the quantity and quality of water during a fire and for years following. When a fire is actively burning, ash and pollutants can be deposited on streams, lakes, and reservoirs, and vegetation that holds soil in place and retains water is destroyed. Following a wildfire, rainwater can flush contaminants into water supplies. The destruction of vegetation makes landscapes more susceptible to erosion, landslides, and even flooding. Both natural and human-made substances can then be washed into water bodies and impact drinking water quality, discolor recreational waters, and potentially increase the risk of harmful algal blooms.<sup>366</sup> Due to the unpredictability of wildfires, planning for managing floods

and treating polluted water is challenging, and drinking-water utilities need information and tools to better prepare.

*Addressing wildfire risks requires a holistic approach*

Addressing wildfire risks requires a comprehensive strategy focused on better funding and staffing, proactive interventions, and better preparation in affected areas. Financial and policy bottlenecks, which are hindering more prescribed burning, must be addressed. More prescribed fires to minimize available fuels are needed on a large scale, particularly in the western United States where this approach has been less common than in the east.<sup>367</sup> One reason why states are reticent is because smoke from these prescribed fires counts towards a state's Clean Air Act (CAA) compliance. Currently the Environmental Protection Agency (EPA) classifies smoke from wildfires as "exceptional events," meaning that regulators can seek waivers to exclude this pollution from CAA compliance, and a recent EPA proposed rule suggests including prescribed fires under this designation as well. However, the process to exclude smoke from CAA compliance is labor intensive and happens slowly, so alternative policy solutions should also be investigated. In concert with more funding for prescribed burns, addressing this policy barrier would encourage more "productive" fire on the landscape. More funding for other preventative forest management practices like thinning would further lower fire risk.

While lowering fire risk through management is essential, we will still experience more fires and their impacts and need increased capacity to respond to these fires to protect people and property. Primarily, more funding is desperately needed to pay and retain firefighters. Six-hundred million dollars was included in the Bipartisan Infrastructure Law for temporary increases in firefighter pay, which has covered wildland firefighters since

October 2021. However, that funding is expected to run out by the end of the fiscal year, and so the U.S. Forest Service, Department of Interior Office of Wildland Fire, and Office of Personnel Management have collaborated on a draft legislative proposal to address these issues. The key pillars are increases in base pay for all wildland firefighters, half pay for firefighters while on deployment to a fire during their rest hours, increased caps for overtime pay available to wildland firefighters, and dedicated paid leave for firefighters to address physical and mental health concerns after deployment to a wildland fire.

The United States must build upon the landmark climate investments passed last year to facilitate clean energy transmission, clean up our power sector, and foster international climate action, while also working to recruit and retain more wildland firefighters who work on the front lines to prevent and contain these climate disasters.<sup>368,369,370</sup>

***The EPA's new standards for fossil fuel power plants will improve public health while tackling the climate crisis***

Carbon pollution not only impacts the climate but also the health of communities.<sup>371</sup> Ensuring we have clean air will improve lives and pay dividends for the U.S. economy. On May 11, 2023, EPA proposed new carbon pollution standards for coal and natural gas-fired power plants, which will deliver up to **\$85 billion** in climate and public health benefits over the next two decades.<sup>372</sup> These standards will reduce carbon dioxide emissions and other pollutants from new and existing power plants, helping the United States achieve its climate goals while ensuring that people can breathe clean air. Importantly, the EPA estimates that these updated rules will have little impact on families' electricity bills.

*Cutting pollution and emissions will save lives and improve health, and the EPA expects this rule to provide \$85 billion in total climate and health benefits over the next 20 years*

These regulations would help the United States avoid up to 617 million metric tons of carbon dioxide emissions over the next 20 years. Reducing fossil fuel emissions can profoundly impact people's lives, as many types of air pollution can cause serious and expensive health problems like premature deaths, pre-term birth, respiratory infections, and heart problems—all with associated household and health care costs. Cutting carbon emissions also reduces climate costs that come from changes in water supply and water quality due to both drought and extreme rainfall, the increased risk of storm surges and flooding along coasts, risks to the electric grid, and substantial disruptions to agriculture, including crop failures.

*In 2030 alone, the lower emissions from this rule would provide \$5.4 billion in climate and between \$6.5 and \$14 billion in health savings*

In 2030 alone, the proposed standards would provide between \$12 and \$20 billion in climate and health benefits and prevent substantial health and economic costs across the U.S., including:

- approximately 1,300 fewer premature deaths,
- more than 800 fewer hospital and emergency room visits,
- more than 300,000 fewer asthma attacks,
- 38,000 fewer school absence days, and
- 66,000 fewer lost workdays.

The new standards would avoid 89 million tons of carbon dioxide emissions in 2030, which would be comparable to taking 22 million gasoline-powered cars off the road.

*These new standards will benefit nearly every state but will be particularly important for states that are still heavily reliant on fossil fuel power plants*

Florida, Texas, and Pennsylvania would see the largest climate benefits from this regulation with \$557, \$529, and \$413 million in benefits respectively in 2030, but nearly every U.S. state would see tens to hundreds of millions of dollars in climate benefits.

The states with the largest potential climate benefits are also the states that would see the largest reduction in harmful carbon emissions. In Florida alone, the reductions in power plant emissions would be equivalent to keeping 2.3 million gasoline-powered cars off the road in 2030.

*These new standards follow the best system of emissions reduction, utilizing cutting-edge technology*

These new technology-based standards would require new fossil fuel-fired power plants to include technology in their construction that reduce harmful emissions. The proposal also establishes emission guidelines that include technological adaptations for states to pursue that would aim to limit carbon pollution from existing fossil fuel power plants.

As required by the Clean Air Act, this proposal balances the reduction in emissions alongside other factors like the available sources of energy, the costs of adaptation, and the range of existing technologies like carbon capture and storage and clean hydrogen. The EPA is also proposing to repeal the Affordable Clean Energy rule from 2019 because it does not reflect the best system for emissions reduction.

*The economic benefits will likely be much larger, as reducing other pollutants can lead to better health outcomes*

While the national-level health benefits are already large, the current calculations do not include the benefits of:

- fewer people having chronic responses to air pollution,
- the health effects from air pollutants not examined in the EPA's initial study,
- ecosystem effects,
- and visibility impairments, which affect outdoor recreation and national parks.

For context, the eastern U.S. experiences some of the largest fossil fuel-associated air pollution mortality globally, including 876 excess annual deaths of children due to lower respiratory infections across North America.<sup>373</sup> The impacts of avoiding these health and ecosystem issues are significant but are not included in the EPA's current analysis.

*Reducing pollution from power plants will benefit many communities of color that historically have been exposed to dangerously high levels of pollution*

Coal plants subject to the proposed standard are disproportionately located near Black communities and communities that are two times below the poverty level. The EPA is also aware of two existing power plants within Tribal jurisdictions that are potentially affected by this proposal. One is the Four Corners Steam Electricity Station on the Navajo Nation, which is within New Mexico's boundaries and will be retired in 2031. The other is Bonanza on the Uintah and Ouray Reservation located within Utah's boundaries and will retire in 2030. The new standards will help ensure localities most negatively affected by carbon pollution will become cleaner and healthier for their residents.

This proposal is also projected to reduce mercury emissions, which in turn will reduce mercury in fish that live in waterbodies near affected powerplants. This reduction will most benefit communities that locally source their own food near affected powerplants, including minority and low-income households who are more likely to eat fish from the affected areas. Together, the EPA's new proposed rules for fossil-fuel power plants reflect a common-sense and best available technology approach to curbing emissions. This will improve Americans' health and economic well-being across the nation.

***Importance of climate risk inclusion in financial modeling***

Climate change threatens everyone's finances, from businesses to pension funds to local and Tribal governments. These risks stem from physical climate risks like extreme events, heat, and precipitation, and from transition risks as the world moves away from fossil fuels and certain assets that are reliant on fossil fuels become stranded assets. Simultaneously, environmental, social, and governance (ESG) investing presents an opportunity to meet a market demand for sustainable and responsible investing with \$8.4 trillion under management that uses these sustainable methods.<sup>374</sup> Thus, including climate-related risks and opportunities in financial modeling of all kinds is incredibly important, and more information and workforce capacity to quantify these risks and interpret them for decision making are sorely needed.

***Businesses face real and large financial risks from climate change***

Businesses face substantial financial risks from the physical risks that climate change poses and from transition risks as the world moves away from fossil fuels. Physical assets owned by businesses and the supporting infrastructure and utilities that they

rely upon are at increasing risk from extreme events, stressed energy grids, and other climate impacts. A recent study found that 215 of the world's largest companies face nearly \$1 trillion in combined risk from climate impacts.<sup>375</sup> The majority of risk is concentrated in the financial sector with almost 80% of risk reported there.

Financial markets are also threatened with \$283 billion at risk in the U.S. as the world transitions away from fossil fuels.<sup>376</sup> Financial holdings that are tied to fossil fuel extraction or use could become stranded assets as the world moves away from those energy sources. A recent study in *Nature* calculated that under reasonable climate policy expectations, the present value of lost profits in the upstream oil and gas sector exceeds \$1 trillion dollars.<sup>377</sup>

*Climate change poses substantial risks to pension funds and individuals*

Most of the market risk from stranded assets falls on private investors, especially in the OECD nations, with substantial exposure through pension funds and financial markets. A huge proportion of these individuals are in the United States and the United Kingdom, where individuals own 86% and 75% of potentially stranded assets in each respective country. This is in direct contrast to China, where 80% of potentially stranded assets are owned by the government.

Natural disasters are associated with increases in credit card debt, debt collection, mortgage delinquency, and foreclosure. Households that are already financially unstable or are part of historically disadvantaged communities tend to experience problems like the effects of hurricanes most seriously and are more likely to live in areas more susceptible to climate impacts.<sup>378,379</sup>

*Local and Tribal governments face similar climate risks with a limited capacity to respond*

Local governments also face significant climate-related risks. Municipal budgets can be impacted, and large-scale community infrastructure can be destroyed, such as roads, bridges, and public buildings.<sup>380</sup> A 2022 study showed that California wildfires between 1990 and 2015 had a negative and substantial effect on municipal budgets and caused a long-term increase in local government spending.<sup>381</sup>

Local and Tribal governments may also face transition risk if their finances are tied to industries that emit substantial greenhouse gases. For example, U.S. municipalities, states, and Tribes receive \$85.2 billion in revenue each year from fossil fuels.<sup>382</sup> These revenue streams are expected to decline with or without climate action, but the uncertainty of the low-carbon transition poses additional risks to communities that have historically relied upon this income to support infrastructure, education, and public health.

*To inform decision making across scales, more climate data is sorely needed*

Climate-exacerbated disasters are pocketbook issues, and to prepare and respond, people need more information and tools. We are at the infancy of combining catastrophe risk models used in the insurance industry with long term climate data from the Intergovernmental Panel on Climate Change and other sources of projections to provide information on climate risk. Standards for these data and methods are needed to ensure transparency and robustness. In addition, there is a large amount of uncertainty in any of these future projections, and so standards, and potentially regulation, would be helpful in providing direction on which version of the future is correct.

The price tag for physical risk projections of fires, floods, or extreme heat at a specific physical location can reach into the millions. While the information generally needed to feed into these calculations is publicly available, the computing power and expert knowledge needed to accurately take global climate data and downscale it to the local level create large barriers to entry. Small municipalities, utilities, Tribes, and others with fewer resources are therefore at a disadvantage.<sup>383</sup>

Additional labor force capacity to interpret and utilize this information in decision making is essential to ensure broad and appropriate usage. As previously noted, climate-exacerbated extreme events hit the poor hardest and unmapped flood areas have an overrepresentation of people of color, and so additional resources and workforce development to handle climate data needed for planning and risk assessment should be aimed at these historically disadvantaged areas and communities.<sup>384</sup>

#### ***Public lands boost the economy and outdoor recreation***

Public lands and their associated resources create economic opportunity and competitive advantage and improve health outcomes. Conservation broadly supports state and local economies and rural communities with tourism, outdoor recreation, and retirees accounting for large economic benefits.

#### ***Public lands can boost local economies***

Public lands (including national parks and monuments) can boost local economies, drawing tourists and others, including retirees, seeking recreational and quality of life opportunities. In 2021, the outdoor recreation economy accounted for 1.9% (\$454 billion) of U.S. gross domestic product (GDP).<sup>385</sup> At the state and local level, outdoor recreation generates \$59.2 billion in state and local tax revenue annually.<sup>386</sup> Non-labor income is a major driver of growth

in local western economies, coming from dividends, interest, rent, and government transfers to individuals (such as social security).<sup>387</sup> Much of this growth has a significant age-related aspect and is tied to the aging U.S. population.

Counties with public lands are experiencing net positive migration and tend to have more ethnic and racial diversity.<sup>388</sup> Attracting new people is integral for the long-term health and strength of the West's economy, and in-migration to the non-metro West experienced 49% of all population growth from net in-migration from 2000 to 2010.<sup>389</sup>

*Counties with public lands see faster employment and income growth*

Areas with public lands in the United States saw increased economic growth across several metrics relative to other areas. For example, western non-metropolitan counties with more than 30% of the county's land base in federally protected status, such as national parks, monuments, or wilderness, saw jobs increase by 345% over the last 40 years in contrast to counties with no federal public lands that saw employment increase by only 83%.<sup>390</sup> These same counties with large shares of public lands also saw faster population and personal income growth on average.<sup>391</sup> The best performing counties are benefitting from nearby public lands in several ways, such as by supporting commodity sectors like timber, increasing tourism and recreational spending, and attracting entrepreneurs and retirees. High wage service industries are also using the West's public lands as a recruiting tool for innovative, high-performing talent who want to work near where they can enjoy outdoor recreation and natural landscapes. The Economic Research Service (ERS) of the U.S. Department of Agriculture found that job earnings in rural counties where

recreation is a key industry are \$2,000 more per worker than workers in rural counties not focused on recreation.

The bipartisan Recovering America's Wildlife Act (RAWA) would encourage this growth by investing \$1.3 billion in state fish and wildlife agencies and another \$97.5 million in Tribal wildlife conservation efforts. Through this investment, RAWA would generate 33,600 direct jobs every year in industries ranging from construction to forestry, in addition to bolstering the outdoor recreation sector.<sup>392</sup>

#### *Public lands influence local fiscal policies*

Public lands also influence local fiscal policies, and New Mexico's management of revenue from state trust public lands is model fiscal policy. New Mexico invests all nonrenewable revenue generated from state trust lands in the Land Grant Permanent Fund (LGPF), which means nearly 90% of all state trust land revenue is allocated to the LGPF. Smart fiscal management has grown the LGPF to more than \$23 billion as of June 2021.<sup>393</sup> This fund provides stable revenue (in FY2020 \$784 million) to state beneficiaries, such as public schools. Distributions are expected to surpass \$1 billion annually in the coming years.

#### *Public lands play a critical role in improving health outcomes*

The ERS of the U.S. Department of Agriculture found that tourism and recreation boost local economies while reducing poverty and improving education and health outcomes. Nearly half of Americans get less than the recommended physical activity, and public lands and parks play a critical role in encouraging healthy movement, particularly outside. Public lands and open space lowering stormwater management costs and by protecting underground water sources of drinking water.<sup>394</sup> Protecting wild animals and vegetation provides innumerable additional benefits

to nearby communities, and RAWA directs important investments towards accomplishing these goals.

***Climate change poses a risk to continued health of U.S. public lands and the economic benefits they provide***

Climate change threatens the continued health of U.S. public lands and their associated economic benefits. Extreme events exacerbated by climate change pose risks to the physical wellbeing of public lands from fires to hurricanes. Disasters may also hinder access to public lands if infrastructure is damaged or travel is limited. Hotter temperatures and smoky skies also limit the quantity of days when outdoor recreation is possible and healthy.

## CHAPTER 6: STRENGTHENING STATE AND LOCAL ECONOMIES

As the economic recovery from the COVID-19 pandemic recession transitions into the current economic expansion, policymakers must ensure that economic growth is shared equally throughout the United States. Due to the landmark bills passed in the last Congress, and as a result of administrative actions taken by the Biden administration, there are new opportunities to expand employment in clean energy sectors, help address long-running health care worker shortages, spur local economic development, and improve housing affordability across the country.

***The United States must expand investments in career and technical training to meet the needs of the clean energy transition***

As the United States continues to transition away from fossil fuels and adopt cleaner forms of energy, there is a growing need for workers in a wide range of skilled trades and occupations to help build and maintain this new energy infrastructure. This work will include both solar installers and people who build wind turbines, as well as electricians to help expand the transmission grid and skilled contractors who will build new power plants, EV charging stations, and other clean energy infrastructure.

This need for trades workers creates an opportunity for millions of Americans to get good-paying jobs without having to earn a four-year college degree. In addition, new investments in clean energy infrastructure will be spread out across the country instead of being concentrated in a few coastal cities, meaning more communities stand to benefit from these new career opportunities.

*The clean energy workforce is growing rapidly, and the United States currently does not have enough workers ready to meet the need*

Even before the passage of the landmark climate provisions in the Inflation Reduction Act, the clean energy workforce was growing faster than the overall economy. From 2021 to 2022, the Department of Energy found that job growth in clean energy roles grew by 3.9%, outpacing the national employment growth rate of 3.1% over that same window.<sup>395</sup> The same report found that half of the new workers in the energy sector were women, which if the trend continues will help counteract the significant gender imbalance in the sector.<sup>396</sup> Looking forward, some estimates find that the investments in the Inflation Reduction Act will help create as many as 9 million new jobs in areas like clean energy, clean manufacturing, clean transportation, building efficiency, environmental justice, and natural infrastructure.<sup>397,398</sup> While forecasting the exact number of jobs created by a policy is difficult, when paired with the recent trend in job growth it is clear that jobs in the clean energy economy will grow significantly in the United States in the coming years.

This expanding need for people who can build and maintain clean energy infrastructure is occurring simultaneously with a long-term decline in the number of building trades workers, brought about by demographic trends and lagging investment in worker training.<sup>399,400</sup> The construction sector is still recovering from massive employment losses during the Great Recession, which contributes to a broader shortage of trades workers throughout the economy. For example, the Bureau of Labor Statistics forecasts that the United States will average 80,000 job openings for electricians every year until 2031, reflecting the growing need for these workers and the trend of older workers retiring.<sup>401</sup>

*Community colleges and apprenticeship programs will play an increasing role in growing this workforce, including for people currently working in some fossil fuel industries*

While headwinds will remain when it comes to filling clean energy roles, there are proven models in community colleges, trade schools, and registered apprenticeship programs that can train the next generation of workers to meet these needs. The Infrastructure Investment and Jobs Act is already investing \$72 million in programs training people for clean energy careers outside of four-year degree institutions.<sup>402</sup> The Inflation Reduction Act (IRA) also supports the successful Registered Apprenticeship program that is funded through joint union and employer contributions.<sup>403</sup>

While these programs have demonstrated success in training new workers in an array of clean energy occupations, there is an emerging need to identify occupational training opportunities for people currently working in many fossil fuel industries. While it will take time, the overlapping skillsets required between people working in hydraulic fracturing and geothermal power, or between oilfield work and clean hydrogen production suggest a viable pathway for an employment transition for current energy sector workers.<sup>404,405,406,407</sup> As training programs expand to help meet the needs of the energy transition, policymakers must ensure that training is offered to help match current energy workers with similar positions focused on clean energy. Some recent data show that green job opportunities are growing in areas with higher shares of fossil fuel extraction workers, which is promising for the prospects of job availability for these newly-trained workers.<sup>408</sup> Several important tax credits in the IRA offer bonus credits for siting new clean energy facilities in communities that rely or have relied on fossil fuels for both jobs and local revenues.<sup>409</sup>

*Clean energy jobs can also provide pathways into the middle class for a broad set of communities across the country*

Making sure more people can train for and attain clean energy jobs is especially important given the opportunity these jobs offer for higher salaries that can springboard more Americans into the middle class. While the broad range of clean energy occupations pay different wages depending on the sector, electricians, construction managers, and wind turbine technicians all earned close to or above the national average salary.<sup>410</sup> One recent study also found that job listings for clean energy occupations were both more common in areas that currently rely on fossil fuel extraction and were in occupations that pay above the national average.<sup>411</sup> There is also an emerging contingent of labor and climate groups working together to expand worker protections and increase pay in a range of clean energy fields.<sup>412,413</sup>

There is already momentum for unionization in the energy field. The Department of Energy's recent energy employment report highlighted that the share of energy sector employees represented by a union was 11% last year, higher than the national unionization rate of 7%.<sup>414</sup> The report also found that unionized energy sector employers had an easier time filling job vacancies, likely due to the better pay, benefits, and worker safety available in unionized workplaces.<sup>415</sup>

***Addressing health worker shortages in rural areas can improve population health while creating job opportunities***

Addressing the rural health care worker shortage and creating pathways to allow supply to better meet demand are critical in protecting and improving the health and economic stability of rural communities. One important solution to the ongoing shortage are “grow your own” programs that look to train and equip local residents to fill shortages in their own communities. Americans

deserve access to health care regardless of where they reside, and addressing the rural health care worker shortage will mark a significant step toward creating that equity.

*In total, 90% of rural counties face health care workforce shortages, jeopardizing health and economic outcomes*

Rural areas in the United States are facing a health care shortage. Specifically, nine in ten rural counties face primary care workforce shortages in geographic areas and population groups.<sup>416</sup> In some areas, staffing shortages among all health care providers have even become severe enough to lead to hospital closures. Since 2010, 136 rural hospitals have closed, driven in part by lack of staff.<sup>417</sup>

The shortage of health care providers has significant negative impacts on the health and economic security of rural areas. Reduced numbers of available physicians have led to a 24% growth in wait times since 2004 and hospital closures have forced rural patients to travel 20 miles more on average to receive common care services.<sup>418,419</sup> Longer wait times and hospital closures cause patients to delay care due to travel or time restrictions, leading to worse health outcomes and greater mortality, as patients experience avoidable illness due to lack of treatment.<sup>420,421</sup> Traveling extended distances also has individual economic costs, including more time taken from work, child and family care arrangements, and costs for gas, food, and lodging. Additionally, greater rates of illness in a community can harm productivity, costing the economy hundreds of billions of dollars annually due to absence or the effects of working while sick.<sup>422</sup> Finally, each physician in a community generally supports multiple jobs and brings added revenue to the economy and the loss of these positions can decrease available employment and hinder economic growth.<sup>423</sup>

*The demand for physicians is growing, but supply challenges are worsening the shortage in rural areas*

The health care workforce shortage is being driven by growing demand for providers coupled with an insufficient supply of medical professionals. The main driver of growing demand is the aging population, as older adults require greater amounts of medical care.<sup>424</sup> Rural areas already have a higher rate of older residents aged 65 and older (19%) than urban areas (15%), and those rates are expected to grow significantly in the coming years.<sup>425</sup> By 2034, the U.S. population of people aged 65 and older is expected to grow by more than 40%.<sup>426</sup>

Challenges in the training and distribution of doctors are preventing supply from meeting rising demand in rural areas. Across the country, the number of medical school students is not rising fast enough to meet the growing need for doctors.<sup>427</sup> Additionally, students who do go to medical school face an extremely limited number of residency slots.<sup>428</sup> In rural areas, this lack of providers is magnified because these areas often struggle to attract and retain physicians as the areas themselves often have smaller economies, under-resourced schools, or other challenges that can lead doctors to opt for larger cities.<sup>429</sup> Often, these areas rely on physicians who are born or raised in a rural area as they are most likely to return to practice in these rural regions. However, the number of medical school entrants from rural areas declined by 28% from 2002 to 2017, potentially leading to a smaller number of medical school graduates who want to work in rural medical centers and heightening the need to focus on recruiting more rural medical school matriculants to improve these numbers for the future.<sup>430</sup>

*Health worker shortages in rural areas pose particular risks to pregnant women, communities of color, and those on Tribal lands*

Groups that have greater health care needs or are over-represented in rural areas bear a greater share of the burden created by health care worker shortages. Rural areas have a lower concentration of internal medicine physicians and OBGYN physicians compared to their female population aged 15-to-29.<sup>431</sup> This increases pregnancy risks for mothers in rural communities since lower levels of provider accessibility in a region is correlated with higher rates of maternal mortality.<sup>432</sup>

Furthermore, people of color are even more likely to feel the burden of lower access to health care in rural areas. Almost 1 in 4 rural Americans is a person of color or Indigenous person and rural communities of color usually experience the biggest health risks.<sup>433,434</sup> Limited access to health care is one of the reasons for higher health risks in non-white rural communities.<sup>435</sup> This is especially true for Indigenous communities on Tribal lands, where the Indian Health Service has long struggled with staffing shortages. Today, the overall vacancy rate for providers is 25%. These shortages are exacerbated by lower salaries, housing shortages and difficulties attracting providers to rural locations.<sup>436</sup>

*Grow your own programs can create career pipelines into key health occupations for people from rural areas*

Individuals with rural backgrounds are more likely to return to these areas to practice medicine.<sup>437</sup> Surveys have found that 30-52% of providers with rural backgrounds return to rural areas to practice, compared to only 11% of doctors overall.<sup>438,439</sup> Because of this, programs that focus on empowering rural students to pursue medicine and return to rural areas, known as “grow your own” programs, are a key component of bolstering the rural health care workforce. Many medical schools have already begun to

adopt this approach, with schools in largely rural states such as Alabama and Mississippi creating programs to recruit and support rural students.<sup>440,441</sup> These programs have already shown signs of success. Alabama’s program has seen the vast majority of students who complete the program go on to practice in the state, mostly in rural areas. Mississippi’s program has also seen success, adding 66 rural primary care doctors to the health care workforce to date with over 80% of those doctors remaining in rural areas even after their commitment to practice in a rural area, which is a required part of the program, runs out.<sup>442</sup> Because of the success seen with these programs, and the critical need to increase the number of rural physicians, expanding access to these programs to reach more students could play an important role in reducing the rural health care worker shortage.

*Other initiatives that address the health care worker shortage can supplement grow your own programs*

In addition to “grow your own” programs, a number of other initiatives have been enacted or introduced to reduce the shortage of health care workers both in rural areas specifically and across the nation. Existing national programs include the National Health Service Corps, which incentivizes newly trained doctors to work in high-need areas in exchange for debt relief.<sup>443</sup> Additionally, to address the impact of limited residency programs, the Teaching Health Center Graduate Medical Education Program provides funding for more primary care residencies, with a focus on rural and in-need areas.<sup>444</sup> Proposed programs include the Health Care Workforce Shortage Initiative, introduced in the FY24 budget, which would fund awards used to encourage innovative approaches to health care workforce recruitment and training, with an emphasis on supporting rural and underserved areas.<sup>445</sup> Similarly, Health Profession Opportunity Grants, if refunded, would provide training pathways to low-income individuals to

pursue non-physician health care roles such as nursing or medical assisting.<sup>446,447</sup>

***Investing in anchor institutions can foster economic growth and technological innovation through potential agglomeration effects***

Research shows that *anchor institutions*, such as universities, hospitals, and national laboratories can play an outsized role in local communities and economies, including by providing additional benefits outside of their core functions.<sup>448</sup> The economics literature also points to how clusters of firms and other institutions focused on similar industries can build off of each other through what are known as *agglomeration effects* to spur both technological innovation and regional prosperity.<sup>449</sup> While the larger question of how to foster inclusive economic development is still unanswered, investments included in the CHIPS Act, Infrastructure Investment and Jobs Act, and Inflation Reduction Act can leverage these local effects to increase economic growth in more communities around the country.

*Anchor institutions can play an important role in expanding economic opportunity in communities throughout the country*

Anchor institutions are any large organization like a university, hospital, or government-run entity, like a national lab, that provides expanded benefits to their surrounding communities. These organizations provide direct benefits in terms of job creation and economic activity, especially since many sectors like education and health care are less impacted by the business cycle.<sup>450</sup> One estimate from the Federal Reserve Bank of Philadelphia found that hospitals and higher education institutions directly or indirectly provided jobs for 18 million people while creating \$1.1 trillion in economic activity.<sup>451</sup>

Additionally, anchor institutions can have a profound effect on the surrounding communities through local hiring and procurement practices. Recent efforts by hospitals and university systems in Toledo, Boston, Philadelphia, and Newark show that anchor institutions can create job opportunities for people in the surrounding communities while supporting local businesses through both training and outreach programs or even by adding additional services meant to meet unaddressed community needs.<sup>452,453,454</sup> The local spillover benefits of national labs are comparatively under-explored compared to the research that has been completed on universities and hospitals, in part because there are fewer national labs overall.<sup>455,456</sup>

*Leveraging agglomeration effects can both spur technological innovation and bolster local economies*

Agglomeration effects describe the phenomenon where firms and other institutions in similar industries clustered near one another build off of one another to spur innovation and economic growth.<sup>457</sup> When studying agglomeration effects in the United States, researchers often highlight Silicon Valley, the research triangle in North Carolina, Boston, Seattle, and Pittsburgh as domestic examples of how geographic proximity, transportation infrastructure, and a shared pool of workers can create cycles of economic innovation.<sup>458</sup> One important study finds that patent filings increase when potential inventors move to these innovation clusters and benefit from the assembled resources.<sup>459</sup> This innovation increases overall economic growth for the country as a whole, while studies also highlight how these clusters also facilitate local economic growth.<sup>460</sup>

It follows from these findings that the United States should seek to both bolster its existing innovation clusters while also cultivating agglomeration effects in other regions that have yet to

experience these benefits. While starting such clusters from scratch could result in a net loss for the country, strategies that seek to build off of existing networks to cultivate innovation could increase both regional and national economic growth.<sup>461,462</sup>

*Federal investments in local economic development in the CHIPS Act, Infrastructure Investment and Jobs Act, and Inflation Reduction Act can leverage these effects to foster equitable economic growth*

The major bills passed during the 117<sup>th</sup> Congress facilitate significant investments in infrastructure, scientific research, semiconductor production, and climate technology, which could both strengthen anchor institutions and spur more agglomeration economies around the country.

The CHIPS and Science Act's investment in semiconductor manufacturing can help spur agglomeration benefits as new facilities come online close to one another. The child care services that recipient firms must provide to their employees are an example of the sort of anchor institution benefit that can benefit the broader community.<sup>463</sup> The bill also authorizes a significant increase in basic research funding, support for the national labs, and regional innovation hubs that can in turn bolster the local, regional, and national economic benefits described above.<sup>464,465</sup>

The Inflation Reduction Act's landmark investment in clean energy technology has already spurred billions of dollars in investment throughout the United States.<sup>466</sup> Much of these new projects are not centered around the large coastal cities that have dominated discussion of U.S. growth drivers in recent years, highlighting how the clean energy investments in this bill can spread out clean energy development to a larger number of U.S. regions. In fact, states in the mountain west and southwest have

led the nationwide resurgence in manufacturing investment growth in electronics, computer, and battery technology that began shortly after the passage of the IRA and CHIPS and Science Act.<sup>467,468</sup>

By supporting transportation infrastructure throughout the country, the Infrastructure Investment and Jobs Act will help aid the physical transfer of goods and people. The bill also funds regional hubs focused on clean hydrogen production, which, when taken together with funding from the IRA, could support regional economic development through clean energy technological innovation.<sup>469</sup>

These investments offer an opportunity for the federal government to work with state and local partners to make sure that the coming decades center around economic growth that both grows the middle class and expands opportunities to more parts of the country. While a promising ingredient, leveraging anchor intuitions and agglomeration effects are just a few key inputs that the U.S. will need to accomplish the goal of broadened economic growth. It will take years, if not decades, before we can gauge the success of the landmark investments passed in 2021 and 2022, but these laws represent a strong down payment on inclusive and effective regional economic development.

#### ***Guaranteeing housing affordability to ensure economic stability***

For communities to thrive, people must have a stable and affordable place to live. Unfortunately, housing has become increasingly unaffordable in recent years, whether for renters or those looking to buy a home, and high housing costs have gone from being a largely coastal phenomenon to being a problem throughout the country. While recent steps by the Biden administration and Congressional Democrats have alleviated

some of the housing pressures that Americans face, the country will need significant action at the national, state, and local level to ensure housing affordability and stability for all.

*Housing affordability is a challenge for Americans across the income spectrum*

The cost of housing is rising at a more rapid pace than workers' wages. As the National Low Income Housing Coalition (NLIHC) reports from multiple studies, the rise in median rents in the U.S. have outpaced the rise in the national median household income, with the latter increasing only by 3.2%, and the former increasing by nearly 18%. Moreover, while lower-wage workers have seen the greatest percentage gains in their income when compared to all other income groups, that gain is not large enough to make up for the increase in rents.<sup>470</sup>

In addition, the Census Bureau found striking numbers on the amount of middle- to low-income renter households who are cost burdened, meaning that they spend over 30% of their monthly income on rent. As the Census notes, when a household is cost burdened by rent, they may be more likely to face difficulty in paying for their basic needs. Nearly 90% of households in the lowest-income quintile were cost burdened in 2021. Approximately 60% of renter households in the second-lowest income quintile were cost burdened in 2021, and about a quarter of all renter households in the middle quintile were cost burdened. Together, this means that nearly 20 million households were cost burdened in 2021, before the worst of the rent spikes due to COVID-19 had hit the market.<sup>471</sup> Viewed another way, if every renter who is cost burdened lived in a single state, it would be the largest state by number of households in the United States, at roughly double the number of households in Texas.<sup>472</sup>

*Rural and Tribal communities face distinct housing affordability challenges that policymakers must address*

In 2017, HUD released a series of studies which consisted of the first ever nationwide review of American Indian and Alaska Native households on Tribal lands. Among their findings, one study reported that while 5% of all U.S. households live in housing with physical damages or complications, 23% of all households in Tribal areas have a physical issue with their housing. They also note that homelessness in Tribal areas consists of overcrowding among households, rather than Tribal members living without a place to reside. While only 2% of U.S. households were reported to experience overcrowding, 16% of Tribal households experience the same.<sup>473</sup> More recently, the representatives of Tribal governments and housing authorities testified before Congress, emphasizing the need to increase the housing stock.<sup>474</sup> As Chairman Heinrich has emphasized, the federal government's adequate provision of public funds is a step toward fulfilling our mandated responsibility to support the economic prosperity of Tribal communities.<sup>475,476</sup>

Lawmakers and advocates are also concerned about affordable housing in rural areas. The “515 program” at the U.S. Department of Agriculture (USDA) requires rural multifamily building owners with low-interest USDA mortgages to maintain rent levels that are affordable for rural middle- and low-income individuals for the duration of the owner’s mortgage.<sup>477</sup> USDA also has a rental assistance program for rural households, referred to as “Section 521,” which subsidizes qualifying households’ rent within Section 515-financed housing, to ensure rent makes up only 30% of those tenants’ income.<sup>478</sup> However, Section 515 mortgages, which have 30- to 50-year terms, and which many owners entered into about 50 years ago, are beginning to mature. Following the loan maturity date, residents in these buildings will no longer qualify for the

Section 521 subsidies, and some building owners will no longer be required to set rents at an affordable rate.<sup>479,480</sup> According to the National Low Income Housing Coalition, over 21,000 rural units are within Section 515-financed buildings with mortgages maturing by 2027.<sup>481</sup> The number of affordable rental units that will be lost due to Section 515 mortgage maturity will only increase after that year. Chairman Heinrich and Democrats have been committed to resolving this issue, offering solutions such as ending the requirement for Section 521 rental assistance recipients to reside only in Section 515-financed housing.<sup>482</sup>

In addition, while the 515 program was created to incentivize construction and rehabilitation of affordable rural housing, lack of funding for the program has led to structures falling into disrepair, and a halt in construction since 2012.<sup>483</sup> Without sufficient funding for housing preservation, USDA estimates the rural affordable housing stock will drop from 400,000 to just over 66,000 by 2050.<sup>484</sup> Other programs created to support rural housing affordability under USDA have also been left without funding for years.<sup>485</sup> Potentially compounding this crisis, there are reports that the influx of high-income individuals from metropolitan areas has been driving up housing prices in rural areas throughout the pandemic period. Even as these individuals leave, the prices remain high.<sup>486</sup>

*Government investment in housing for low-income Americans can provide the housing stability necessary to ensure economic stability, especially during economic crises*

The Housing Choice Voucher (HCV) program, despite being the largest rental assistance program in the country, only funds about a quarter of those who are eligible due to funding constraints. If the program were fully funded, research suggests that it could lift an additional 9.3 million people out of poverty, and an estimated

24 million people who are severely rent burdened would be able to secure affordable housing.<sup>487</sup> In addition to expanding funding for the program, policies like the DEPOSIT Act would provide families with vouchers with additional funds to cover security deposits or other move-in costs that can be prohibitively expensive for many renters.<sup>488</sup>

Additionally, the emergency rental assistance (ERA) program created in response to the COVID-19 pandemic provides another strong blueprint for how the federal government can keep families stably housed in the face of economic crises. While the program took time to stand up, it helped nearly 4 million households pay their rent in 2021 and helped keep eviction rates lower than the historical average across the country.<sup>489</sup> By February 2022, the U.S. Department of the Treasury also reported that more than 80% of all ERA funds were provided to households with an income that is equal to or less than 50% of the area median income (AMI). This program was especially successful in places where state and local fund providers could streamline the application process and directly send funds to tenants when landlords were unresponsive. Together, the ERA program shows how the federal government can effectively deliver rental support that complements the HCV program in times of need.<sup>490</sup>

*Expanding tenants' right to counsel, rent stabilization, and Housing First programs can keep more people stably housed*

Recent evidence also shows a range of strategies that can help people stay in their homes, prevent evictions, and help people transition out of homelessness. Tenant protections can be expanded through tenants' right to counsel in eviction cases to put renters on a more even footing with landlords. The American Civil Liberties Union (ACLU) found while 80% of all landlords have legal representation in housing court, only 3% of tenants

nationwide have legal representation.<sup>491</sup> As of June 2023, 17 cities, 4 states, and 1 county have passed tenants' right to counsel laws, which studies routinely find reduce the likelihood of eviction.<sup>492,493</sup>

Rent regulations place a limit on market rent increases, which can help renters from being priced out of an apartment where they currently live. While research has shown that rent stabilization laws do keep tenants from getting priced out, absent other policy reforms these caps can reduce housing supply and worsen housing quality as landlords decline to invest in an asset where the returns, in this case the monthly rent, are capped at a set amount that may not cover costs.<sup>494</sup> While the extent of the housing supply effect is unclear, given their role in maintaining affordability for current tenants, rent stabilization policies have a role to play alongside other reforms meant to strike a balance between tenant protections and housing availability.<sup>495,496</sup>

The housing first model for alleviating homelessness provides unhoused people with permanent housing and optional treatment services. The alternative model, frequently referred to as “treatment first” requires those seeking permanent housing to first graduate from a drug addiction or psychiatric treatment program to secure permanent housing. Studies of housing first programs have repeatedly shown that participation leads to a higher likelihood of housing stability than participation in treatment first programs, with similar levels of health benefits, and substantial cost savings per dollar invested.<sup>497,498,499</sup>

*The Biden administration has taken important actions to expand housing supply and improve housing stability for renters*

Federal supply interventions are needed to address the housing shortage, such as ensuring that financing is available for housing

construction and preservation. In 2022, the Biden administration published a plan that addresses these challenges. Included in their objectives, the administration committed to making financing available for construction of a larger variety of single- and multi-family housing units, including manufactured housing and smaller multifamily buildings. The administration also proposed increasing the availability of federally-backed loans offered for construction and ownership (“Construction to Permanent loans”), encouraging states, Tribal governments, and localities to utilize COVID relief funds towards growing the affordable housing stock in their areas, and making changes to key government programs that incentivize and help to fund affordable housing construction, such as the HOME Investment Partnerships Program and the Low Income Housing Tax Credit (LIHTC).<sup>500</sup>

In January 2023, the Biden administration released the “Blueprint for a Renters Bill of Rights,” which outlines objectives to ensure tenant protections and affordable rent. Included in this plan was an announcement that the Federal Trade Commission (FTC) would investigate rental market practices that harm tenants.

The Biden administration has also tasked the Consumer Financial Protection Bureau (CFPB) with protecting tenants by among other efforts, collecting more data on housing practices that impede stable housing. The Department of Justice will also be reviewing rental markets to determine whether there is need for an update to guidance on anti-competitive practices as it applies to such markets.<sup>501</sup> These actions, along with those previously discussed, can help improve housing stability for renters.

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## Views of Vice Chairman David Schweikert

The Employment Act of 1946 declares:

It is the continuing policy and responsibility of the Federal Government [...] to promote maximum employment and production, increased real income, balanced growth, a balanced Federal budget, adequate productivity growth, proper attention to national priorities, achievement of an improved trade balance [...] and reasonable price stability.<sup>1</sup>

The Employment Act underscores the goal of affording “useful employment opportunities, including self-employment, for those able, willing, and seeking work.”<sup>2</sup> Emphasizing the role of “free competitive enterprise” instead of “Federal Government control” over the economy, it places a “primary emphasis on the expansion of private employment.”<sup>3</sup> It encourages reducing Federal outlays as a share of GDP (gross domestic product) to “the lowest level consistent with national needs and priorities.”<sup>4</sup> The Employment Act further declares “that inflation is a major national problem requiring improved government policies” addressing “improved and coordinated fiscal and monetary management, the reform of outmoded rules and regulations, [and] the correction of structural defects in the economy that prevent or seriously impede competition in private markets.”<sup>5</sup>

Today we are losing ground on fulfilling these essential responsibilities. The labor force participation rate for prime-age men (those ages 25–54) has declined since the 1960s and stands near its all-time low. Real GDP growth and productivity growth have dramatically slowed since the 1980s. As a share of GDP, Federal debt held by the public is projected to reach 115 percent by FY2033—breaking the record set due to World War II

spending.<sup>6</sup> The Social Security and Medicare Part A trust funds are projected to become insolvent in FY2033, entailing automatic and severe benefit cuts that could double the rate of senior poverty throughout the U.S.<sup>7</sup> The trade balance has badly deteriorated. Inflation has soared to a four-decade high while wage growth has not kept up. The purchasing power of a dollar has fallen by almost 16 percent since January 2021. Under the Biden Administration, America's families, especially the poorest, are falling further and further behind.

These macroeconomic failures underscore the important role of the U.S. Congress Joint Economic Committee. Established by the Employment Act, the purpose of the Committee is to provide expert advice to Congress on economic policymaking. For example, the Joint Economic Committee provided the intellectual leadership behind the bipartisan fiscal reforms that helped squash inflation during the Reagan Administration.<sup>8</sup> As a result, the U.S. saw three decades of low inflation and greater economic stability.<sup>9</sup>

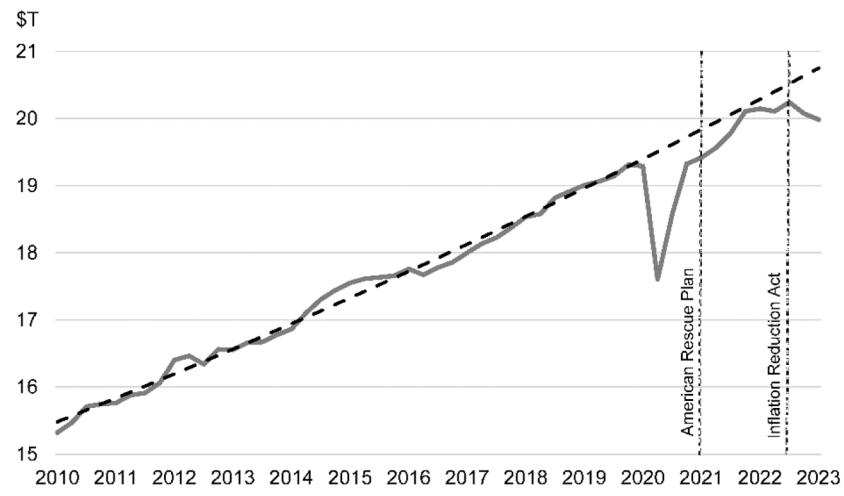
The Joint Economic Committee has a statutory obligation to report “its findings and recommendations with respect to each of the main recommendations” in the 2023 *Economic Report of the President* (henceforth the *Report*).<sup>10</sup> Unfortunately, the Biden Administration has proposed doubling down on the failed policies of the past. The Administration’s proposals to expand the scope of government would further worsen economic growth, further diminish the participation of prime-age men, and further curtail market competition and technological innovation.

The Republican section of the 2023 *Joint Economic Report* (henceforth the *Response*) delivers its findings and recommendations in five chapters.

Chapter 1 (“The Fiscal Roots of Inflation”) explains the nation’s unsustainable fiscal path and its inflationary consequences. The

re-emergence of high and volatile inflation during 2021 and 2022 is best explained by the large, unbacked fiscal expansion undertaken by the Biden Administration, such as the ironically titled “Inflation Reduction Act.” The chapter further argues that inflation is not explained by a sudden outburst of “corporate greed.” This rhetorical excuse chasing to justify preferred policies only serves to increase political partisanship—it does nothing to address our economic problems.

**Figure 0-1: Bidenomics Has Stalled Our Recovery.  
U.S. Real Gross Domestic Income Is Still \$773 Billion Below Trend.**



Source: BEA (NIPA Table 1.17.1, line 2). JEC calculations. Trend line fitted to pre-pandemic data.

Chapter 2 (“A Framework for U.S. Debt Stabilization”) highlights the ballooning U.S. debt-to-GDP ratio, which is set to rise to 115 percent by FY2033 and 181 percent by FY2053. It explains the importance of fiscal responsibility for creating long-run price stability in a fiat money economy. This chapter offers a framework for stabilizing the Federal debt by reducing the primary deficit as a share of GDP, increasing real GDP growth, and reducing Federal borrowing costs. It concludes by exploring proposals for improving U.S. budgeting and debt management.

Chapter 3 (“The Social Costs of Obesity”) measures some of the personal and economic costs of obesity. As I have long argued, demographics and disease are primary drivers of our debt. This chapter details how obesity and obesity-related diseases will contribute \$5.6 trillion to the primary deficit over the next decade.

Chapter 4 (“How (Not) to Increase Economic Growth”) estimates the macroeconomic effects of the Biden Administration’s proposals to increase taxes by \$4.7 trillion over the next 10 years. Contrary to their analysis, these proposals would severely inhibit long-run U.S. real GDP growth. This chapter also rebuts the notion that hiking taxes is about “fairness,” contrary to the impression given by the *Report*. The Federal government is predominantly financed by taxes paid by households in the top income quintile.

Chapter 5 (“Getting Prime-Age Men Back to Work”) evaluates the long-term decline in prime-age men’s labor force participation and highlights several contributing government-created barriers. It surveys potential reforms for increasing their participation and estimates the value of doing so could expand annual GDP by \$215 billion, grow government revenue by \$400 billion over the next 10 years, and increase average household income by \$1,325 per year.

We have reached the point where we can no longer play politics with our nation’s fiscal health. It is time to come together, as well as to be open and honest about our nation’s fiscal challenges. That is our moral obligation to the communities we serve.

## Chapter 1: The Fiscal Roots of Inflation

The Biden Administration has failed in its responsibility under the Employment Act to “promote [...] price stability.”<sup>11</sup> Worse, prices have risen faster than wages, leaving workers behind. The burden of inflation likely has disproportionately fallen on lower-income Americans. This chapter provides analysis showing that the recent surge of inflation was caused by the Administration’s reckless fiscal policy, not a sudden outbreak of so-called “corporate greed.”<sup>12</sup> Over the long-run, restoring price stability will require Congress to restore fiscal responsibility.

### In 2022, Inflation Surged to a Four-Decade High

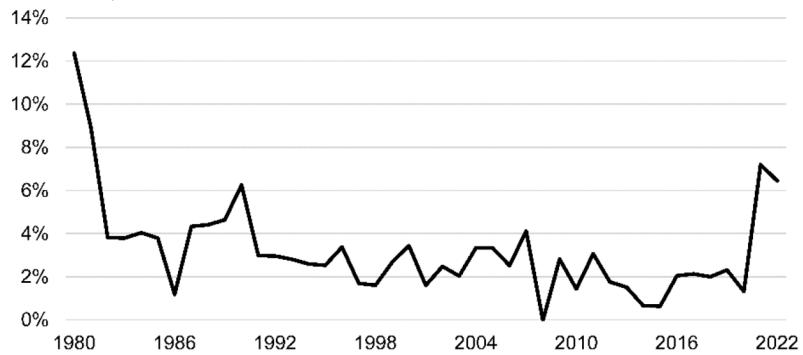
Inflation spiked during the first two years of the Biden Administration. The CPI-U (Consumer Price Index for All Urban Consumers: All Items) rose by 7.0 percent in 2021, the highest rate in four decades. It increased by another 6.5 percent in 2022 (Figure 1-1).<sup>13</sup> This rate of inflation is more than triple the Federal Reserve’s 2 percent annual target.<sup>14</sup> In total, the national average of consumer prices rose by 14 percent during 2021 and 2022.<sup>15</sup> Price increases in some metropolitan regions were substantially higher, such as Phoenix (20.3 percent), Miami and Tampa (19.3 percent), and Atlanta (18.6 percent).<sup>16</sup>

Contrary to the assessment of President Biden’s CEA (Council of Economic Advisers) in 2021, inflation has not been “transitory.”<sup>17</sup> The prices of necessities have grown particularly fast. Over President Biden’s first two years, home food prices rose by 19 percent, home energy prices rose by 39 percent, shelter prices (such as rents) rose by 12 percent, clothing prices rose by 9 percent, new vehicle prices rose by 18 percent, and gas prices rose by 47 percent.<sup>18</sup>

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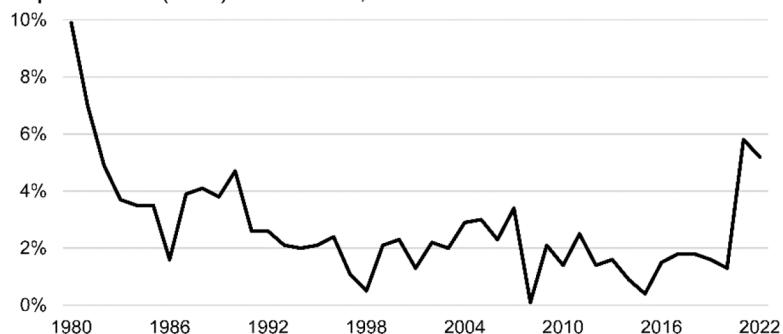
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Figure 1-1: Percent Change in the Consumer Price Index (CPI-U), All Items, December to December



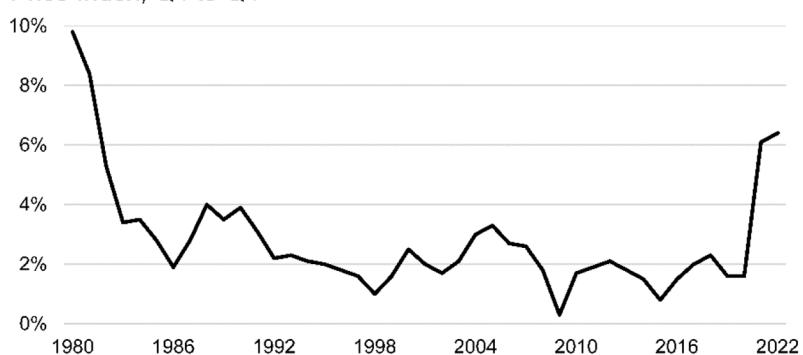
Source: BLS (series ID: CUSR0000SA0)

Figure 1-2: Percent Change in the Personal Consumption Expenditures (PCE) Price Index, December to December



Source: BEA (NIPA Table 2.8.7. line 1)

Figure 1-3: Percent Change in the Gross Domestic Product (GDP) Price Index, Q4 to Q4



Source: BEA (NIPA Table 1.1.4. line 1)

There has been a decades-long debate about whether (or to what degree) the CPI-U overstates inflation.<sup>19</sup> Regardless, alternative measures of inflation also show that U.S. inflation reached a four-decade high during the first two years of the Biden Administration.

- The chained CPI-U for all urban consumers (C-CPI-U) is an improved version of the CPI that better accounts for changes in consumption patterns in response to changing prices.<sup>20</sup> C-CPI-U rose by 6.5 percent in 2021 and 6.6 percent in 2022.<sup>21</sup>
- The percent change in the PCE (personal consumption expenditures) price index is the Federal Reserve System's preferred inflation gauge.<sup>22</sup> The PCE price index suggests that inflation reached 4.0 percent and 6.3 percent in 2021 and 2022, respectively (Figure 1-2).<sup>23</sup>
- The percent change in the GDP (gross domestic product) price index measures inflation across the entire U.S. economy, including the price of investment goods.<sup>24</sup> GDP inflation was 4.5 percent and 6.0 percent in 2021 and 2022, respectively (Figure 1-3).<sup>25</sup>

Inflation has remained stubbornly high in H1 2023. Moreover, although the inflation rate has slowed from its four-decade high, consumer goods and services generally remain much more expensive than before. As of June 2023, consumer prices are 15.7 percent higher than when President Biden took office in January 2021.<sup>26</sup> In other words, contrary to the president's initial claim, these price increases have not turned out to be "temporary."<sup>27</sup>

### **Inflation Is a Greater Burden for the Poorest Households**

Economic inequality may compound the harm of high inflation.<sup>28</sup> The CEA notes that lower-wage workers (such as service workers) have seen higher rates of earnings growth than average.<sup>29</sup> Nevertheless, research has shown that lower-income households also tend to experience above-average inflation. For example,

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Greg Kaplan and Sam Schulhofer-Wohl estimate that between Q3 2004 and Q3 2013, “average inflation cumulates to 33 percent for households with incomes below \$20,000 but just 25 percent for households with incomes above \$100,000.”<sup>30</sup>

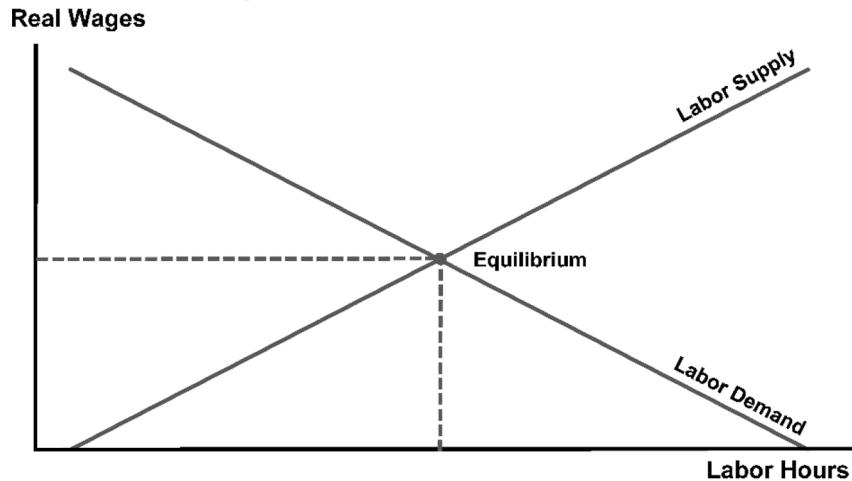
Inflation may disproportionately burden lower-income workers because they tend to consume a higher proportion of their incomes.<sup>31</sup> Shutao Cao et al. estimate that a 3 percent increase in inflation reduces well-being by 13 percent of one-year consumption and that this is “mostly borne by the poor and old” who “hold 10 times more money per unit of consumption than their young and rich counterparts.”<sup>32</sup>

### **Average Wages Have Not Kept Up With Rising Prices**

Americans’ wages have not kept up with rising consumer prices. After adjusting for CPI-U inflation, the BLS (Bureau of Labor Statistics) reports that AHE (average hourly earnings) fell by 2.0 percent and 1.6 percent in 2021 and 2022, respectively.<sup>33</sup> Since President Biden took office, real AHE have fallen by about 3.2 percent.<sup>34</sup> These real wage declines are consistent with a long economic literature emphasizing wage stickiness due to employment contracts and labor search frictions.<sup>35</sup> As both Milton Friedman and Edmund Phelps hypothesized, nominal wages have been slow to adapt to unexpected inflation.<sup>36</sup> In this way, the worker shortage described by the *Report* can be understood as a consequence of inflation, not its cause (see Figures 1-4 and 1-5).

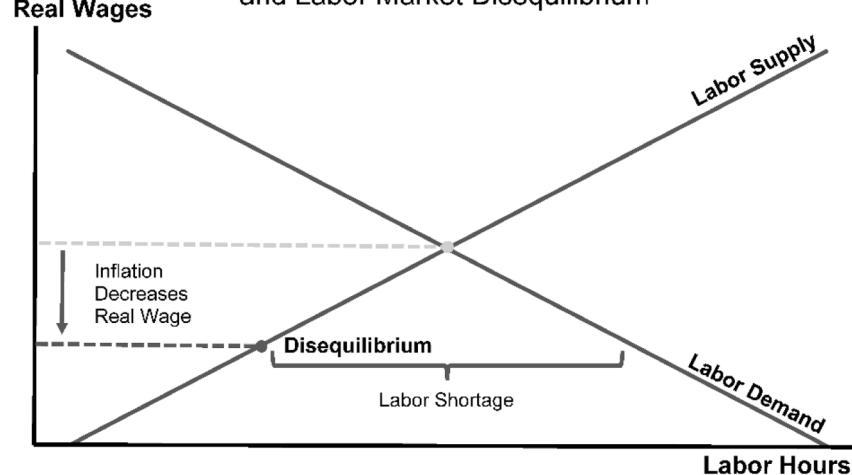
While the *Report* notes nominal AHE rose faster for lower-wage workers, households facing higher inflation rates require greater nominal wage growth just to keep up.<sup>37</sup> For example, the inflation-adjusted AHE for production and nonsupervisory employees fell by 1.5 percent and 0.8 percent in 2021 and 2022, respectively.<sup>38</sup> Differences in household-level inflation can exacerbate economic inequality. For example, Philip Hoffman et al. document that

Figure 1-4: Labor Market Equilibrium



The **labor demand curve** shows the quantity of labor that firms would hire at each level of wages. Profit maximizing firms hire labor to the point that the wage equals the marginal product of labor. The **labor supply curve** shows the quantity of labor that workers would offer at each level of wages. The **equilibrium point** is the intersection of the labor supply and labor demand curves. It is the level of wages and labor supplied and demanded satisfactory to both workers and firms, clearing the market.

Figure 1-5: Unexpected Inflation and Labor Market Disequilibrium



The unexpected increase in consumer prices reduces the prevailing real (i.e., inflation adjusted) wage below its market-clearing level. At this disequilibrium outcome, labor demanded is greater than labor supplied. This labor shortage persists until wages rise enough to return the real wage to the equilibrium.

rising food and fuel prices drove up inequality in Europe from 1500 to 1815.<sup>39</sup> They document that globalization between 1815 and 1914 helped reverse this trend by lowering the price of grain.

As the *Report* correctly notes, AHE growth can also reflect changes to the composition of the labor force, not just individual wage growth.<sup>40</sup> Lower-wage service workers suffered disproportionate job losses in 2020 because of the COVID-19 pandemic and government restrictions on in-person economic activity.<sup>41</sup> Because AHE is not adjusted for industry composition, the re-entry of these workers may downwardly bias measured AHE growth.

The *Report* instead suggests using the ECI (Employment Cost Index), which is composition adjusted.<sup>42</sup> Using the ECI, real total compensation fell by 2.6 percent and 1.4 percent in 2021 and 2022, respectively.<sup>43</sup> Average real earnings began recovering in H2 2022, but even returning to pre-2021 real earnings will not undo the real income losses suffered for the past two and a half years.<sup>44</sup>

### **Accounting Alone Is Insufficient to Understand Inflation**

As Americans have again felt the pain of high inflation, the cause of that inflation has become the topic of public debate. Many commentators have attempted to explain the factors driving inflation by breaking down the “contributions” to overall inflation from various sub-categories. The different metrics of inflation presented earlier (CPI-U, PCE, and GDP) can be broken down into growth of different subcategories. For example:

- food prices, energy prices, shelter prices, and other prices;<sup>45</sup>
- business profits, labor costs, taxes, and import prices;<sup>46</sup> or
- the money supply, money velocity, and real GDP.<sup>47</sup>

However, these are accounting identities, meaning that the terms are defined such that the relationships are always true.

Commentators have then tried to infer the causes of inflation from events correlated with price increases in these sub-categories.

- Seeing a large rise in energy prices, some have argued that the cause of inflation was the Russo-Ukrainian War.
- Seeing a large rise in import prices, some have argued that the cause of inflation was pandemic-era supply chain stress.
- Seeing a large rise in the money supply, some have argued that the cause of inflation was overly easy monetary policy.
- Seeing a large rise in corporate profits, some have argued that the cause of inflation was firms raising prices above costs.

However, as the *Report* acknowledges, economists cannot infer causal relationships from accounting identities alone.<sup>48</sup> Among many other economists, Richard Lipsey stressed this distinction in his critique of Keynesian economics.<sup>49</sup> Indeed, this distinction is a special case of Kant's analytic-synthetic distinction.<sup>50</sup> In the case of inflation, economists cannot determine the cause of inflation by tautologically decomposing inflation into "contributions" from suggestively named categories.

Rather, accounting identities are only the starting point for economic analysis. As Friedman emphasized, understanding causality also requires making behavioral assumptions and distinguishing between competing assumptions based on their predictive ability and parsimony.<sup>51</sup> In other words, analysis of causality requires applying economic theory. Economists also need to distinguish between changes in relative prices and changes in the overall price level. Understanding the cause of inflation, in other words, requires an explanation of *why prices tend to rise together*, not why one price rose relative to others.

While the *Report* reviews many hypotheses for inflation, it does not defend any specific hypothesis. Instead, it sidesteps the need

for more rigorous analysis by proposing an ecumenical acceptance of all proposed explanations.<sup>52</sup>

The possible causes discussed here likely played some role in the level and elevated nature of inflation in 2022—and the pandemic was a large exacerbating cause to each. Interactions between causes likely worsened inflation. Frequently cited hypotheses include the shock to energy, food, and other commodity prices associated with Russia’s invasion of Ukraine; pandemic-related supply chain issues; the extension of zero interest rate monetary policy and accompanying quantitative easing; household transfers legislated as part of the CARES Act, the American Rescue Plan, and related legislation; and households’ accumulative of “excess savings.”<sup>53</sup>

The problem with this approach is that any observation can be rationalized by assuming enough *ad hoc* causes. Over 2,000 years ago, Aristotle explained the principle of parsimony: “[w]e may assume the superiority *ceteris paribus* of the demonstration which derives from fewer postulates or hypotheses.”<sup>54</sup> In other words, progress can often be made by using simpler assumptions to engage complex puzzles.<sup>55</sup> In a survey of Nobel laureates in economic science, almost all respondents said that simplicity was an explanatory virtue and emphasized the role of simplicity in their own research.<sup>56</sup>

### **Fiscal Theory Explains Recent U.S. Inflation**

Of the competing explanations, the fiscal theory of the price level provides a predictive and parsimonious explanation for the dramatic surge of inflation during 2021 and 2022. Specifically, in a fiat money economy inflation occurs when government debt

rises relative to people’s expectations about future surpluses to repay the debt. Boiled down, fiscal theory is the hypothesis that “persistent high inflation is always and everywhere a fiscal phenomenon,” albeit often one with a central bank accomplice.<sup>57</sup>

Using a simple model for illustration, JEC economists estimate that President Biden’s deficit spending caused a 17.1 percent cumulative inflation, compared with the observed CPI inflation of 15.7 percent from January 2021 to June 2023 (see Box 1-1).<sup>58</sup> The model’s key assumption is that the public does not expect the “emergency” spending undertaken during the Biden Administration (e.g., the American Rescue Plan, the Inflation Reduction Act, and Infrastructure Investment and Jobs Act) to be repaid via future primary surpluses.

Many fiat-money-issuing countries have resorted to inflationary finance in emergencies. For example, Francesco Bianchi and Leonardo Melosi cite President Roosevelt’s use of two budgets during the Depression: a “regular budget” that he committed to balance, and an “emergency budget” that he did not clearly commit to balance.<sup>59</sup> Bianchi and Melosi propose an analogous strategy for preventing a pernicious deflationary spiral when the Federal Reserve’s monetary policy stimulus is constrained by the zero lower bound on overnight interest rates.

Yet, the economy was not at risk of deflation when President Biden took office. The recession had long ended, and the U.S. economy was rapidly recovering.<sup>60</sup> As Veronique de Rugy notes, the Biden Administration’s fiscal stimulus was two or three times more than the output gap.<sup>61</sup> Even top economists from prior Democratic administrations sounded the alarm about fiscal stimulus (see Box 1-2). Sophisticated models also point to the role of fiscal policy in driving U.S. inflation. Oscar Jorda et al. estimate that fiscal policy may have raised U.S. inflation in 2021 by about 3.5 percentage points.<sup>62</sup> Using a general equilibrium model,

Bianchi, Renato Faccini, and Melosi “conclude that unfunded spending has played an important role for accounting for inflation dynamics, both historically and in the post-pandemic period.”<sup>63</sup>

**Box 1-1: Applying a Simple Model of Fiscal Theory**

Consider a one-period model with perfectly flexible prices, constant interest rates, short-term government debt, and no risk premia.<sup>64</sup> The public owns  $B$  dollars of outstanding one-period, zero-coupon government bonds, which the government pays by printing new money. The government also taxes the public the quantity  $Ps$ , where  $P$  is the price level (dollars needed to buy a basket of goods) and  $s$  is the amount of real tax payments (quantity of baskets of goods that are taxed). In equilibrium, the price level adjusts so that the total amount of tax revenue equals the total amount of bond payments. Re-arranging terms, the equilibrium price level is given by:

$$P = \frac{B}{s}$$

As a comparative statics exercise, instead consider the equilibrium price level  $P^*$  given  $B^*$  of outstanding bonds, all else equal. The predicted inflation (percentage increase in the price level) equals the percent increase in the outstanding bonds.

$$100 \left( \frac{P^*}{P} - 1 \right) = 100 \left( \frac{B^*s}{Bs} - 1 \right) = 100 \left( \frac{B^*}{B} - 1 \right)$$

Between January 2021 and May 2023, CBO’s projection for Federal debt held by the public in FY2030 rose by 17.1 percent. Gross Federal debt rose by a similar percentage. This simple fiscal theory model predicts that (assuming no change in the expected path of primary surpluses) the Biden Administration’s deficit spending would create a 17.1 percent cumulative inflation.

Although titled as the Inflation Reduction Act, Democrats' green energy and healthcare subsidies will expand the deficit and further fuel inflation. The Penn Wharton budget model projects the package adds \$750 billion to the deficit over 10 years.<sup>65</sup>

**Box 1-2: Left-Leaning Economists Warned About Inflation**

Larry Summers (previously Treasury Secretary for the Clinton Administration and Director of the National Economic Council for the Obama Administration) warned in 2021 that the \$1.9 trillion ARP (American Rescue Plan) was “the least responsible macroeconomic policy we’ve had in the last 40 years.”<sup>66</sup> In 2022, Summers described the ARP as “a serious error” that “set the stage for the inflation.”<sup>67</sup>

Janet Yellen (current Treasury Secretary, previously appointed Chairwoman of the Federal Reserve by President Obama and served as CEA Chairwoman for President Clinton) privately “worried about accumulating too much federal debt and risking higher inflation” and preferred a much smaller ARP package.<sup>68</sup>

Both Jason Furman (previously Chairman of the CEA for President Obama) and Steven Rattner (economic adviser to the Obama Administration) described the oversized ARP as the “original sin” of surging inflation.<sup>69</sup>

**Fiscal Theory Makes Sense of Alternative Explanations**

The ability for a simple fiscal theory model to predict U.S. inflation (at least within reasonable magnitudes) undercuts the motivation to introduce other *ad hoc* causes. Rather, insofar as these other factors matter quantitatively, they matter *vis-à-vis* their impact on government debt and expected future surpluses.

For example, consider the Federal Reserve’s LSAPs (large-scale asset purchases, also known as quantitative easing, or QE) during the pandemic. LSAPs are financed by expansions of the money

base, such as reserves and physical currency. Drawing on the quantity theory of money, Joshua Hendrickson and others have hypothesized that the recent spike in inflation was caused by large increases in the money supply.<sup>70</sup>

However, quantity theory incorrectly predicted double-digit inflation during the Federal Reserve's initial LSAP programs in the 2010s following the Great Recession.<sup>71</sup> The failure of quantity theory in this episode may owe to a breakdown of a stable money demand function in an economy with interest paying money and liquid government bonds. In such an economy, the public views money and bonds as perfect substitutes, and any increase to the money stock is offset by a decrease in money velocity.<sup>72</sup> The public may have interpreted the Federal Reserve's asset purchases during the pandemic as a fiscal commitment to not raise primary surpluses (i.e., permanently increasing the stock of U.S. debt).

Similarly, public deficits mechanically create private surpluses.<sup>73</sup> Under Ricardian equivalence, the resulting "excess savings" will not be spent if the public anticipates that they will be taxed this amount in the future.<sup>74</sup> However, absent a credible commitment of future surpluses, these "excess savings" will be spent, driving up aggregate demand and raising the price level.<sup>75</sup>

Moreover, "transitory" supply-side shocks (e.g., Russia's invasion of Ukraine and resulting disruptions to global trade) can result in permanent increases in the price level (not just temporary changes to relative prices) insofar as those shocks temporarily lower economic activity, and the correspondingly higher government deficits are not offset by increases to future primary surpluses. JEC economists anticipate exploring these relationships in future work.

### **"Corporate Greed" Ignores Basic Economics**

President Biden and others have attempted to shift the blame for inflation away from their fiscal policy to so-called "corporate

greed.”<sup>76</sup> The *Report* suggests that inflation could have been exacerbated by firms exercising “market power” to increase their prices more than their increase in costs. Citing research from the Federal Reserve Bank of Boston, the *Report* argues, “More U.S. industries have become dominated by a few, large firms over the last 20 years. There is some evidence that these firms increase prices in response to cost increases more than firms without market power would have done in the past.”<sup>77</sup>

However, the corporate-greed hypothesis is particularly ill-suited for explaining the surge of inflation. To begin, consider the Bertrand model, the standard model of imperfect competition among price-setting firms. For illustration, assume that each firm produces homogenous products at constant marginal costs and faces a downward sloping market demand curve (Figure 1-6).<sup>78</sup>

All firms attempt to maximize profit by selling their product for a price above their marginal cost. Each firm’s profit is the number

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Figure 1-6: Bertrand Competition

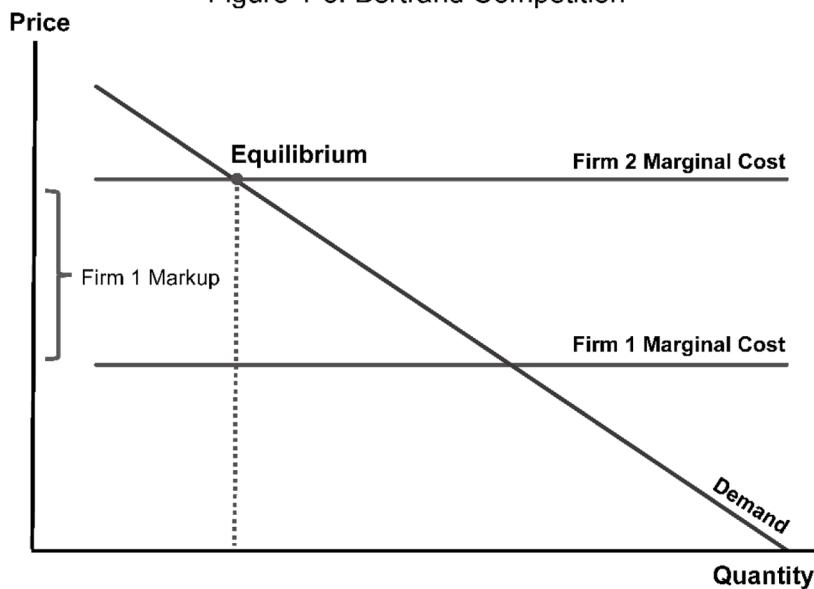
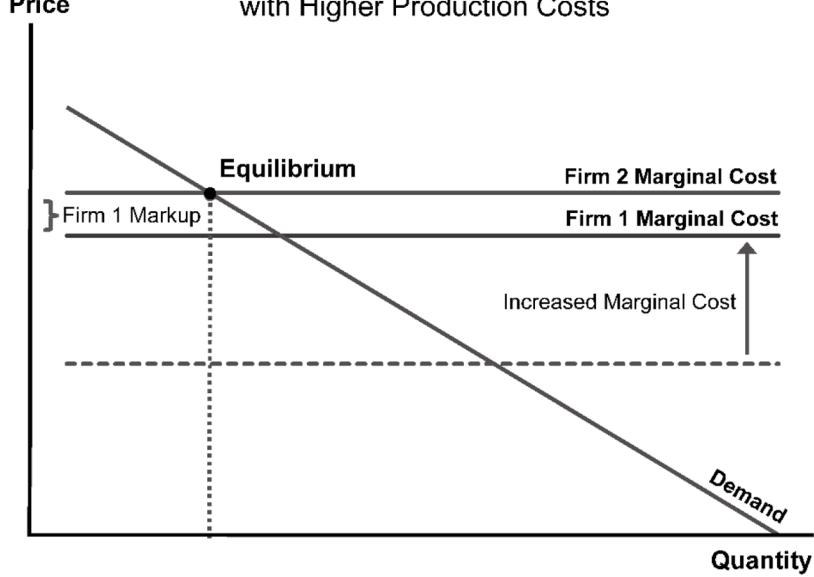


Figure 1-7: Bertrand Competition with Higher Production Costs



of units sold times its markup (i.e., difference between its sale price and its own marginal cost). Consumers will purchase from the lowest-price firm.<sup>79</sup> The unique Nash equilibrium of this game suggests that the least-cost firm will be able to sell its products for a price equal to the marginal cost of the next-best competitor, thereby earning positive profits and serving the entire market.

Importantly, the potential for competition from other firms imposes market discipline on the incumbent, even though the firm serves the entire market demand. For example, this price-setting firm cannot arbitrarily raise its prices without harming its own profits—even a marginal increase in price would reduce its profits to zero. In this way, the competition driven by “corporate greed” (i.e., firms attempting to maximize profits) prevents the very abuse that the Biden Administration and others blame for inflation.

Moreover, even small amounts of competition are sufficient to approximate the perfectly competitive benchmark. In the Bertrand model, if the difference in marginal costs of production between firms is sufficiently small, then prices can be arbitrarily close to their perfectly competitive level (see Figure 1-7). Insofar as the incumbent firm’s cost advantage comes from non-excludable resources (e.g., employing a workforce with better human capital) competition over those factors will compress firm markups.

This means that a firm also has an incentive to create excludable technology through R&D (research and development) to reduce its marginal cost.<sup>80</sup> Doing so will raise its profits without raising the price that consumers pay. Conversely, all else equal, even an increase in the marginal cost of the lowest-cost firm will not increase prices. The firm-specific increase in marginal cost will reduce the firm’s profits until the point that it is no longer the

lowest-cost firm. At that point, the next-best competitor will service all consumers at only a marginally higher price.

In practice, market competition will never be “perfect” in the sense of the perfectly competitive benchmark.<sup>81</sup> Neither does this market “imperfection” imply the superiority of Federal control over private competitive enterprise. Rather, Congress should be skeptical of the Biden Administration’s appeals to “competition” to justify greater regulation of specific markets.<sup>82</sup> Greater government control is often the means by which politically-favored firms exclude competitors at the expense of the American people—exactly what the regulations are ostensibly intended to avoid.<sup>83</sup> F. A. Hayek summarizes the fundamental question about competition policy as being “that we should worry much less about whether competition in a given case is perfect and worry much more about whether there is competition at all.”<sup>84</sup>

### **Market Concentration Is Not Market Power**

The Bertrand model underscores one of the serious methodological problems of the Federal Reserve Bank of Boston paper.<sup>85</sup> Fundamentally, the paper attempts to estimate the relationship between market concentration (as a proxy for market power) and the pass-through of input costs into output prices (see Box 1-3 for a discussion of the contribution of price markups to inflation). However, economists widely recognize that “market concentration” is not informative about market power.<sup>86</sup>

Perhaps the deepest conceptual problem with concentration as a measure of market power is that it is an outcome, not an immutable core determinant of how competitive an industry or market is [...] As a result, concentration is worse than just a noisy barometer of market power.

Instead, we cannot even generally know which way the barometer is oriented.<sup>87</sup>

For this reason, the industrial organization literature has long abandoned using regressions of price on market concentration.<sup>88</sup>

As an illustration, consider a Bertrand model with the lowest-cost firm having a marginal cost only just below the marginal cost of the second-lowest cost firm (like Figure 1-6). In equilibrium, the industry's Herfindahl-Hirschman Index would be 1 (indicating maximum concentration) but potential competition would reduce markups to nearly zero (the perfectly competitive benchmark).<sup>89</sup>

There are also several important data issues with the Federal Reserve Bank of Boston paper. Notably, the authors use data from Compustat. However, one study explains that:

Industry concentration measures calculated using Compustat data, which only cover the public firms in an industry, are poor proxies for actual industry concentration. These measures have correlations of only 13 percent with the corresponding U.S. Census measures, which are based on all public and private firms in an industry.<sup>90</sup>

Subsequent research supports this conclusion.<sup>91</sup> The Federal Reserve Bank of Boston authors also drop many industries from their analysis, including all retail sectors.<sup>92</sup> In other words, their measure of prices excludes one of the most important sectors for American households.

**Box 1-3: Be Skeptical of Estimates of Markup Shocks**

Within the NK (New Keynesian) literature, it is common to attempt to explain inflation via exogenous, time-varying “price markup shocks” by monopolistically competitive firms in the intermediate goods sector.<sup>93</sup> These theorized shocks serve two key

purposes: providing an additional degree of freedom for fitting the historical data and imposing on the log-linearized model a tradeoff between stabilizing inflation and the output gap.<sup>94</sup>

To analyze the relative contribution of different causes of inflation, Jai Kedia, re-estimated the model of Frank Smets and Rafael Wouters with recent U.S. macroeconomic data.<sup>95</sup> (The SW2007 model is a standard workhorse in the NK literature). Like the accounting exercises discussed previously, this model can decompose overall inflation into the constituent contributions from different economic sectors. Unlike the accounting exercises, however, the model incorporates economic assumptions that purport to identify the causal roles of the various contributions.

Kedia's shock decomposition suggests that both price markups and monetary policy were economically significant causes of surging PCE inflation in 2021 and 2022. Conversely, his analysis purports to show that fiscal policy reduced inflation in this period.

However, the markup shocks in the SW2007 model do not correspond to "markups" in the industrial organization literature. Rather, the "markup shocks" in SW2007 are merely the residual of the model's Phillips curve. The size of SW2007's estimated "markup shocks" suggest that the Phillips curve is unable to rationalize the recent surge in inflation following decades of muted inflation since the mid-1980s.

Finally, the SW2007 model has many *ad hoc* features (e.g., investment adjustment costs, habit persistence, and autocorrelated errors) that make its results vulnerable to the Lucas critique under a policy regime change.<sup>96</sup> Notably, the model is super-Ricardian, essentially assuming away the possibility of a permanently unbacked fiscal expansion. As a result, it assumes away the possibility of the U.S. returning to the fiscally led policy regime of the 1960s.<sup>97</sup> It is this precisely possibility that one wants to test.

To be clear: This discussion is not a criticism of Kedia. He sensibly applied a workhorse model to provide policymakers insight on an important and time-sensitive policy problem. This approach is a better than inventing a new, untested model.<sup>98</sup> His result also underscores the importance of understanding and questioning the assumptions underlying macroeconomic models. It also suggests caution when interpreting the results of large-scale macroeconomic models, especially those whose causal inferences are not robust to misspecification or changes in policy regimes.

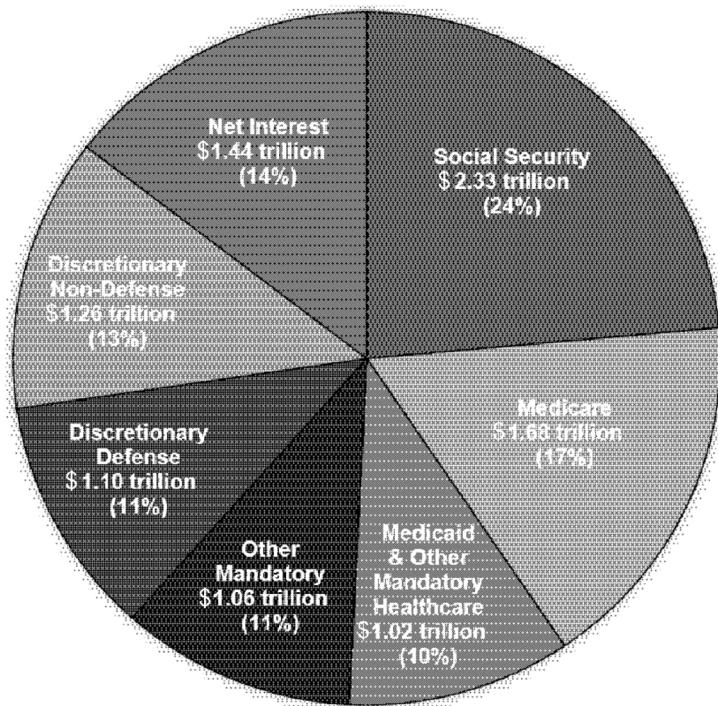
## CHAPTER 2: A FRAMEWORK FOR U.S. DEBT STABILIZATION

The growth of U.S. Federal debt is on an unsustainable and potentially ruinous path. The par value of Federal debt held by the public reached \$24 trillion in FY2022, which is a greater than sevenfold increase since 2001.<sup>99</sup> The debt burden is nearly 100 percent of GDP (gross domestic product).<sup>100</sup> The dollar lost over 70 percent of its consumer purchasing power since 2001, and inflation recently hit a four-decade high.<sup>101</sup> Unless Congress changes course, the publicly-held debt-to-GDP ratio will continue to dramatically rise, risking even greater reductions in the dollar's value. To avert the looming risk of high inflation, Congress should stabilize the publicly-held debt-to-GDP ratio. This can be done by (1) reducing the primary deficit as a percent of GDP, (2) increasing the growth rate of real GDP, and (3) reducing the real interest rate paid on Federal debt.

### The U.S. Fiscal Outlook is Dire

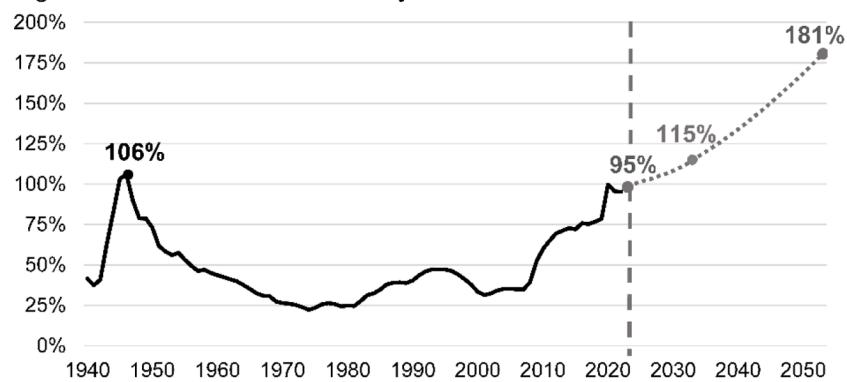
The CBO (Congressional Budget Office) projects that the Federal budget deficit will exceed \$1.5 trillion in FY2023.<sup>102</sup> It will be the third largest in U.S. history, exceeding the \$1.4 trillion deficit in FY2009 after the financial crisis.<sup>103</sup> CBO projects that the deficit will only worsen over the coming decades, rising above its FY2020 all-time high (\$3.1 trillion) by FY2037.<sup>104</sup> Unless Congress changes course, a typical year's deficit will soon be greater than when substantial portions of the economy were shut down during the COVID-19 pandemic.<sup>105</sup> CBO projects that the main driver of deficit increase will be "increasing net interest costs and the growth of spending on major healthcare programs and Social Security."<sup>106</sup> (See Figure 2-1 for projected spending.)

Figure 2-1: FY2033 Projected Outlays, Excluding the Effects of Offsetting Receipts



Source: CBO (May 2023 Update to the Budget Outlook).

Figure 2-2: Federal Debt Held by the Public as a Percent of GDP



Source: OMB (FY2024 President's Budget Table 7.1), CBO (June 2023 Long-Term Budget Outlook).

As a result of rising deficits, CBO projects that publicly held U.S. Federal debt will rapidly increase. CBO projects that Federal debt held by the public will grow to 115 percent of GDP by FY2033 (see Figure 2-2).<sup>107</sup> This debt-to-GDP ratio would be the highest in U.S. history, even surpassing the burden undertaken to fight World War II (106 percent of GDP in FY1946).<sup>108</sup> However, unlike the World War I and World War II deficits, which were followed by subsequent surpluses and falling debt-to-GDP ratios, CBO projects that the debt-to-GDP ratio will continue rising to 181 percent by FY2053.<sup>109</sup> Even these dire projections may be too rosy (see Box 2-1).

Despite rising debt-to-GDP ratios, a decline in U.S. real interest rates over the past several decades has (so far) slowed the growth of net interest costs.<sup>110</sup> As detailed by President Obama's CEA (Council of Economic Advisers), several trends may have contributed to this decline in interest rates. Commonly cited examples include slowing productivity growth, shifting demographics, a global “glut” of savings, and a global “shortage” of safe assets.<sup>111</sup> Moreover, Kenneth Rogoff, Barbara Rossi, and Paul Schemlzing have documented a multi-century decline in real interest rates across many countries, with a sharp drop during the twentieth century.<sup>112</sup>

Although some have argued that the downward trend of interest rates will continue, Congress should question that assumption and consider the balance of risks.<sup>113</sup> While the historical decline in real interest rates is suggestive of a continued decline, a large literature warns against putting too much faith in statistical estimates of long-term trends.<sup>114</sup> Even if the long-run trend continues, Congress should evaluate the risk of a short-run deviation. As John Maynard Keynes famously cautioned:

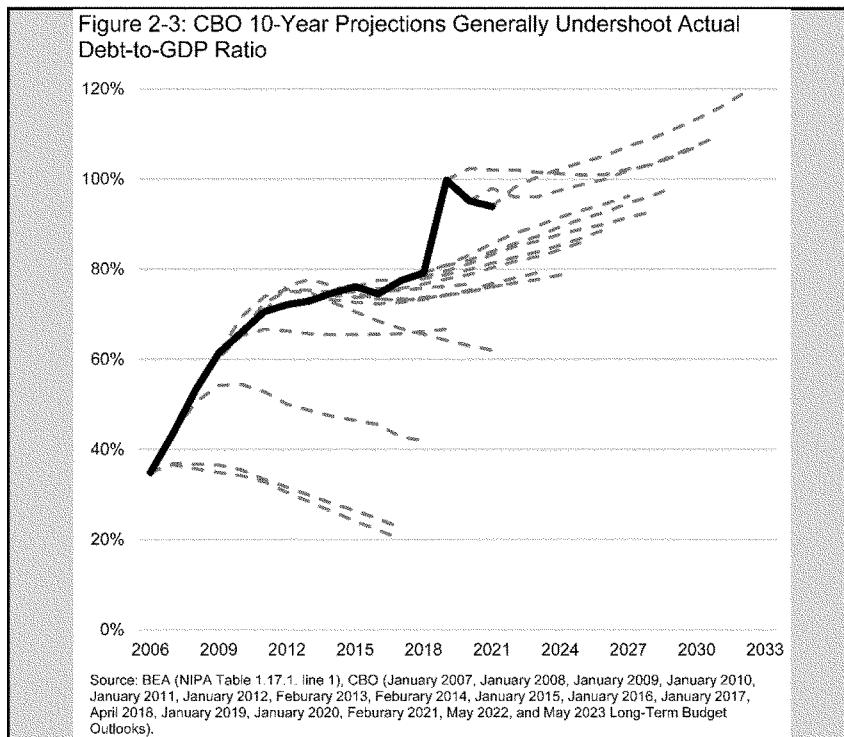
The *long run* is a misleading guide to current affairs. *In the long run* we are all dead. Economists

set themselves too easy, too useless a task if in tempestuous seasons they can only tell us that when the storm is long past the ocean is flat again.<sup>115</sup>

For example, Rogoff, Rossi, and Schemlzing identify four historical eras of low real interest rates.<sup>116</sup> Each era abruptly ended. Today, even a small interest rate increase could dramatically increase net interest costs. For example, consider a three-decade deviation that raises interest rates by one percentage point more than projected by the CBO. Brian Riedl estimates that would increase net interest costs by \$30 trillion over thirty years.<sup>117</sup> In the context of sovereign debt, the “short run” could constitute decades.

**Box 2-1: Are CBO’s Projections Overly Optimistic?**

CBO’s baseline projections for the debt and deficit have consistently been too optimistic since 2000 (see Figure 2-3).<sup>118</sup> In part, CBO’s overly optimistic projections reflect its assumption “that current laws generally remain unchanged.”<sup>119</sup> A statutory requirement under the Balanced Budget and Emergency Deficit Control Act of 1985, this assumption is reasonable insofar as the baseline is a benchmark used to score new legislation.<sup>120</sup> However, Congress has an incentive to further increase deficit spending because future generations will bear the financial burden but do not get a vote.<sup>121</sup> Hence, if treated as an unconditional forecast, then CBO’s projections may be downwardly biased.



#### Box 2-2: Higher Debt Lowers Growth, Raises Interest Rates

An array of recent academic research has found that economic growth slows once debt-to-GDP ratios exceed roughly 80 percent.<sup>122</sup> A majority of these studies find that the relationship between debt-to-GDP and growth is convex, meaning that higher debt-to-GDP ratios appear to be increasingly harmful to economic growth—and therefore the ability to pay down Federal debt.<sup>123</sup> In response to a question on the matter, CBO experts responded that their projections account for the tendency of higher sovereign debt to reduce economic growth by increasing interest rates and crowding out private investment.<sup>124</sup>

CBO also notes that costs to service publicly-held debt will rise if rising debt-to-GDP ratios raise interest rates.<sup>125</sup> While estimates vary, several economists have found that a one percentage point increase in the debt-to-GDP ratio raises interest rates by several basis points.<sup>126</sup> Research by Ernie Tedeschi (Chief Economist for President Biden's Council of Economic Advisers) estimates that interest rates rise by about 4 basis points for each percentage point increase in the debt-to-GDP ratio.<sup>127</sup>

### **Price Stability Requires Fiscal Responsibility**

If government attempts to indefinitely increase its debt as a share of GDP, then it will necessarily produce high inflation that devalues its fiat currency and its fiat-currency denominated debt. As Adam Smith explained, the value of fiat money ultimately depends on fiscal policy:

A prince who should enact that a certain proportion of his taxes should be paid in a paper money of a certain kind might thereby give a certain value to this paper money, even though the term of its final discharge and redemption should depend altogether upon the will of the prince.<sup>128</sup>

As discussed in Chapter 1, absent a credible commitment of repaying today's deficits with future primary surpluses, deficit spending will raise aggregate demand, pushing up prices across the entire economy. Ultimately, *price stability requires fiscal responsibility*.

Michael Woodford demonstrates that the relationship between price stability and long-run debt sustainability holds in a wide class of macroeconomic models used by professional economists.<sup>129</sup> If the government does not commit to stabilizing its long-term debt as a share of GDP, then even "tight" monetary policy cannot avert high and volatile inflation. As Thomas Sargent

and Neil Wallace famously pointed out with their “unpleasant monetarist arithmetic,” tight monetary policy can even worsen inflation when government does not commit to offsetting its higher interest costs by raising primary surpluses.<sup>130</sup> Moreover, as the debt burden rises, the government’s incentive for opportunistic inflation (or “state-contingent default”) also rises.<sup>131</sup> In turn, that increases the risk of a run by rational, forward-looking creditors. John Cochrane warns:

As with all runs, once a run on the dollar began, it would be too late to stop it. Confidence lost is hard to regain. It is not enough to convince this year’s borrowers that the long-term budget problem is solved; they have to be convinced that next year’s borrowers will believe the same thing. It would be far better to find ways to avert such a crisis than to be left searching for ways to recover from it.<sup>132</sup>

In other words, once the alarm bells of a crisis start ringing, it will be too late for Congress to act. Rising inflation and interest rates would devalue U.S. Treasuries held by retirement accounts, pension funds, banks, and derivatives exchanges. As has happened throughout history, a sovereign debt crisis could precipitate a domestic banking crisis or a foreign exchange crisis. The next time would not be different (see Box 2-3).<sup>133</sup>

**Box 2-3: Foreshadowing the Consequences of a Run on the Dollar**

The U.S. received a warning shot across the bow of the Federal budget in September 2019 when stress in dollar funding markets caused overnight interest rates to spike. The Secured Overnight Financing Rate (a key reference rate) exceeded 5 percent, more than doubling in a single day.<sup>134</sup> This interest rate spike devalued bank capital and derivatives collateral, which prompted an emergency intervention by the Federal Reserve. More recently,

amid rising inflation and interest rates, the U.S. experienced the second- and third-largest bank failures in its history.<sup>135</sup>

The United Kingdom experienced similar tremors in September 2022 when the Chancellor of the Exchequer announced a “mini budget” that would dramatically raise the U.K. deficit.<sup>136</sup> While the government argued that the package would enhance long-run economic growth, markets swiftly repriced the sterling’s risk. In turn, U.K. pension funds suffered substantial losses. Like the Federal Reserve’s actions during September 2019, the Bank of England intervened with an emergency program of bond purchases.<sup>137</sup>

### There is Still Time to Act

There is still time for Congress to restore long-run price stability. The fiscal roots of inflation imply that Congress should focus on stabilizing the debt-to-GDP ratio. This chapter proposes a framework for U.S. debt stabilization, drawing on Olivier Blanchard’s 2019 presidential address to the American Economic Association and subsequent research.<sup>138</sup> The framework depends on the relationship between three key macroeconomic variables:

1. the inflation-adjusted growth rate of the U.S. economy (“g”);
2. the inflation-adjusted interest rate on U.S. Federal debt (“r”);
3. and the primary deficit the U.S. Federal government (“p”).<sup>139</sup>

As a simplifying assumption, assume that  $r$  and  $g$  are constants equal to their long-run averages. Where  $t$  denotes time, the growth of the debt-to-GDP ratio is given as follows.<sup>140</sup>

$$\frac{d}{dt} \left( \frac{\text{Debt}_t}{\text{GDP}_t} \right) = (r - g) \times \frac{\text{Debt}_t}{\text{GDP}_t} + \frac{p_t}{\text{GDP}_t}$$

As an example, assume that the real interest rate on Federal debt ( $r$ ) is less than the growth rate of the economy ( $g$ ). In this scenario, by balancing receipts and outlays such that the primary deficit is

zero, Congress can reduce the debt-to-GDP ratio without paying down any debt. In practical terms, Congress would simply roll over the entire stock of Federal debt forever and issue new debt to make net interest payments. Although the Federal debt will grow at rate  $r$ , the economy will grow faster at rate  $g$ , and so the debt-to-GDP ratio will gradually decrease. Alternatively, Congress could stabilize the debt-to-GDP ratio at its current level by running a primary deficit no greater than  $g - r$  percent of GDP.

Current CBO projections suggest that  $g = 1.7$  percent and  $r = 1.2$  percent.<sup>141</sup> If Congress adopted policies to reduce the primary deficit to zero, then the debt-to-GDP ratio would decline by 0.5 percent per year. Accounting for compounding, the debt-to-GDP ratio would halve every 138 years.<sup>142</sup> Alternatively, Congress could run a 0.5 percent of GDP primary deficit each year without raising the debt-to-GDP ratio.

Owing to the political difficulties of consistently achieving a long-term primary deficit of zero, JEC economists instead propose stabilizing the debt-to-GDP ratio at current levels through actions that achieve three key objectives.

1. Reduce the primary deficit by addressing discretionary spending and entitlement programs.
2. Raise real GDP growth by enacting pro-competition, pro-innovation, and pro-labor force participation reform.
3. Reduce real interest rates by committing to credible fiscal rules and improving Treasury debt management.

Like the legs of a stool, all three objectives play a critical role in setting the United States down the path of fiscal responsibility and price stability.

**Box 2-4: Debt-to-Consumption as an Alternative to the Debt-to-GDP Ratio**

From an econometric perspective, one of the reasons to favor the use of the debt-to-GDP ratio, as opposed to the Federal debt by the public by itself, is to remove the stochastic trend in latter variable. This detrending helps to make debt burdens more comparable across time. In principle, the debt-to-consumption ratio may be a superior metric because consumption is less volatile than other components of national income. In fact, the relative stability of personal consumption expenditures to income is a key prediction of the permanent income hypothesis.<sup>143</sup>

**Box 2-5:  $r$  vs.  $g$**

Importantly, the condition of  $r < g$  is not a blank check for unlimited government spending on free childcare, free healthcare, free housing, free pre-K, free college, student debt cancellation, national high-speed rail, expanded Social Security, or any other particular programmatic preference.<sup>144</sup> Although  $r$  and  $g$  are assumed to be constant in this analysis, they are endogenous to current *and expected* debt-to-GDP ratios. High current and expected ratios will tend to reduce  $g$  and raise  $r$ , reinforcing the tendency for growing debt-to-GDP levels to further accelerate.

While there is not an *ex ante* “maximum” limit to the debt-to-GDP ratio and modern states may be able to sustain higher debt burdens than in centuries past, these values are also highly uncertain. Keep in mind that  $r$  and  $g$  are estimated with considerable uncertainty. This inherent uncertainty about  $r$  and  $g$  should motivate Congress to leave a sufficient buffer between the actual deficit and the potentially sustainable deficit ( $g - r$  percent of GDP).

Furthermore, when both  $r$  and  $g$  are close, small changes in either parameter can produce outsized effects on the long-run path of debt-to-GDP. A debt-to-GDP ratio that falls towards zero when  $g > r$  may become explosive when  $r > g$ . In fact, Thomas Piketty

famously argued that  $r > g$  in the long-run.<sup>145</sup> If correct, this would imply that the U.S. would need to run primary surpluses (not merely a sufficiently low deficit) to prevent debt-to-GDP from spiraling higher and higher. JEC economists anticipate further exploring these issues in future research.

### **Congress Should Seek Practical, Bipartisan Solutions**

#### *Reducing the Primary Deficit Will Require Entitlement Reform*

Reducing the primary deficit will require Congress to tackle entitlement reform. Budget expert Charles Blahous estimates that “almost three-fifths of the Federal government’s long-term fiscal imbalance derives from policy decisions made in 1965–1972.”<sup>146</sup> He attributes almost the entire fiscal imbalance to ongoing spending growth in three categories: Medicare (47 percent), Medicaid and the 2010 Affordable Care Act (22 percent); and Social Security (15 percent).<sup>147</sup> Successful deficit reduction must include these programs, which amount to 84 percent of the fiscal imbalance.

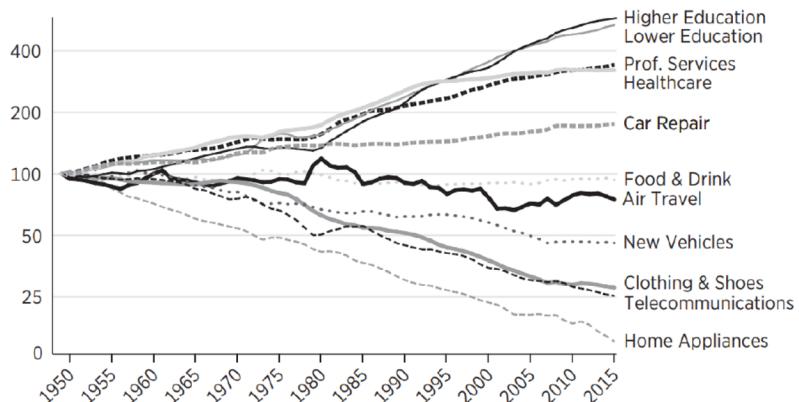
Social Security and Medicare Part A (hospital insurance) are in especially precarious positions. CBO projects that (on a consolidated basis) the Social Security trust funds will be exhausted in FY2033, at which point Social Security benefits would automatically be cut by an estimated 25 percent.<sup>148</sup> Similarly, CBO projects that the Medicare trust fund will be exhausted in 2033, also triggering automatic benefit cuts.<sup>149</sup>

Facing the prospect of automatic benefit cuts or deficit-financed entitlements, Congress has long debated the financing of these programs, often bogging down on the question of “Who pays?”<sup>150</sup> Yet Congress must also focus on reducing the long-run costs of these programs. Certain diseases, such as diabetes, disproportionately contribute to rising Medicare and Medicaid costs.<sup>151</sup> Chapter 3 estimates that obesity-caused illnesses will cost

government healthcare programs about \$4.1 trillion over the next 10 years, or about 42 percent of the Federal primary deficit incurred over the same period.

The rising costs of healthcare are also driven in part by the Baumol effect, which is the tendency for costs to increase in industries with slower labor productivity growth and barriers to employment, relative to industries with faster productivity growth (see Figure 2-4).<sup>152</sup> To reduce healthcare costs, Congress could remove regulatory red tape inhibiting productivity in the healthcare sector. This would include encouraging the development of new consumer medical devices and new drugs.

Figure 2-4: The Baumol Effect



Source: Figure taken from Heiland and Tabarrok (2019). Prices are normalized to 100 in 1950, ratio scale.

For example, COVID-19 presented a useful case study of how burdensome FDA regulations restrict the adoption of beneficial technology.<sup>153</sup> Congress may consider policies to eliminate government-imposed employment barriers to entering medical professions, such as easing restrictions on the immigration of high-skilled doctors and nurses.<sup>154</sup> Reforms to reduce barriers to telehealth provision would similarly be helpful (see Chapter 5). Congress could also explore incentives to find a cure for diabetes by launching an effort like Project Warp Speed.<sup>155</sup>

Unfortunately, the President's price controls (implemented in the Inflation Reduction Act) will dramatically slow the growth of research and development spending on new, beneficial drugs. As University of Chicago economists Tomas Philipson and Troy Durie explain:

A large academic literature estimates the effect of future drug revenues on R&D spending and finds that on average that a 1 percent reduction in revenue leads to a 1.5 percent reduction in R&D activity. We find that H.R. 5376 [Inflation Reduction Act of 2022] will reduce revenues by 12.0 percent through 2039 and therefore that the evidence base predicts that R&D spending will fall about 18.5 percent, amounting to \$663 billion. We find that this cut in R&D activity leads to 135 fewer new drugs. This drop in new drugs is predicted to generate a loss of 331.5 million life years in the U.S., 31 times as large as the 10.7 million life years lost from COVID-19 in the U.S. to date.<sup>156</sup>

Congress could also consider raising additional revenue. *However*, Congress should be skeptical of proposals to enact new taxes, raise marginal tax rates, or increase the complexity of the tax code. These efforts will be counterproductive insofar as they create additional drags on long-run economic growth. For example, a tax hike that increases revenue by 0.1 percent of GDP but slows real GDP growth by 0.2 percent per year will *accelerate* the growth of debt-to-GDP. Moreover, even if it were possible to close the deficit with additional revenue alone, it would require dramatically expanding the tax burden of most Americans.<sup>157</sup> In practice, a review of fiscal adjustments from 1995 to 2019 finds that successful fiscal consolidations tend to be primarily the result of reductions in spending, not increases in tax revenues.<sup>158</sup>

Conversely, while Congress may be able to raise additional revenue with targeted tax reform that simplifies the code and broadens the base, it must weigh the estimated increase in economic growth against the decrease in revenue. In this respect, not all tax cuts are equal. These considerations underscore the need for CBO and the JCT (Joint Committee on Taxation) to dynamically score budget legislation.<sup>159</sup> It also underscores the need for OIRA (Office of Information and Regulatory Affairs) and Federal agencies to conduct cautious cost-benefit analyses of new rulemakings (see Chapter 5 for a discussion of the Department of Labor’s proposed revision to the test of independent contractor status).<sup>160</sup>

### **Raising Long-Run Growth Will Require Reform**

Congress should also consider proposals for raising the long-run growth rate of the U.S. economy, which has dramatically slowed from its post-World War II norm. Higher economic growth has a double benefit for reducing the debt-to-GDP ratio: the GDP denominator grows faster, while the larger tax base raises revenue to reduce the primary deficit. Unfortunately, the President’s taxation and regulatory proposals would significantly reduce U.S. long-run growth by lowering the capital stock and limiting productivity growth. Chapter 4 estimates those effects.

Congress should also consider proposals for bringing prime-age men back into the workforce. Since the Bureau of Labor Statistics began tracking participation in the 1940s, the rate of labor force participation by prime-age males has fallen from around 97 percent to just 89 percent today. Today, about 1 in 9 men between the ages of 25 and 54 (those in the “prime” of their working years) are not in the workforce. Twenty-five percent of them have an atypical reason (or perhaps no reason) for their inactivity.<sup>161</sup> Chapter 5 considers ways of bringing these men back into the

workforce, which would increase their income as well as improve economic growth and expand tax receipts.

### **Improved Debt Management May Lower Interest Rates**

Finally, it is important that Congress credibly commit to the fiscal and economic reforms that it undertakes. Past attempts at lasting reform have proved fleeting. For example, in 2011, Congress passed the Budget Control Act (BCA), which provided for across-the-board budget cuts (“sequestration”) if a bipartisan fiscal committee failed to agree on budget reform. While the committee did fail, Congress regularly undermined the resulting sequestration by renegotiating the BCA.<sup>162</sup>

This suggests that Congress should structure any budget rules with the future political environment and its consequent pressures in mind. For example, one approach put forth by Jerry Brito uses the BRAC (Base Realignment and Closure) Commissions in the 1980s and 1990s as a model of fiscal reform.<sup>163</sup> Others have suggested that Congress adopt “fiscal rules” to improve the budget process, perhaps like the successful “Swiss debt brake” policy.<sup>164</sup> Whatever the details, a credible plan to stabilize U.S. debt may itself help lower interest rates by improving the perceived creditworthiness of the United States.

Congress may also consider steps to improve Treasury market liquidity, which has deteriorated in recent years.<sup>165</sup> The Treasury market has historically been among the deepest and most liquid financial markets in the world, reducing Treasury yields and lowering net interest costs.<sup>166</sup> Conversely, rising illiquidity raises the cost of financing the national debt. Along these lines, Congress could also consider reforms to U.S. debt management that would improve liquidity, such as refinancing long-term bonds into perpetuities.<sup>167</sup> These highly liquid securities would also allow Treasury to lock-in its long-term financing costs.

Finally, Congress should also be cautious of the use of quantitative easing (QE) by the Federal Reserve. The Department of Treasury seeks to finance the debt “at least cost over time,” but QE can undermine U.S. debt management by reducing the average duration of U.S. government liabilities.<sup>168</sup> QE also undercuts U.S. fiscal discipline by allowing the option of “backdoor spending.”<sup>169</sup> In turn, this option also compromises the Federal Reserve’s operational independence necessary for conducting monetary policy to achieve its dual mandate (maximum employment and price stability).<sup>170</sup> Congress should be attentive to the deliberations and decisions of the Federal Reserve’s upcoming review of its monetary policy strategy, tools, and communications.<sup>171</sup>

## CHAPTER 3: THE SOCIAL COSTS OF OBESITY

A critical element of stabilizing the debt-to-GDP ratio is reducing the primary deficit (see Chapter 2). This in turn requires decreasing mandatory spending, which accounts for almost two-thirds of annual Federal expenditures.<sup>172</sup>

Medicare presents an opportunity for substantial savings without drastically changing the nature of the program. Federal healthcare spending totaled \$1.7 trillion in FY2022 and is expected to cost more than \$22 trillion over the next 10 years according to CBO's projections. Medicare and Medicaid account for most of these outlays, with Medicare spending alone projected to exceed \$1 trillion dollars in FY2023.<sup>173</sup> By FY2033, CBO projects that Medicare spending will nearly double, and annual Federal expenditures on healthcare are expected to approach \$3 trillion.<sup>174</sup>

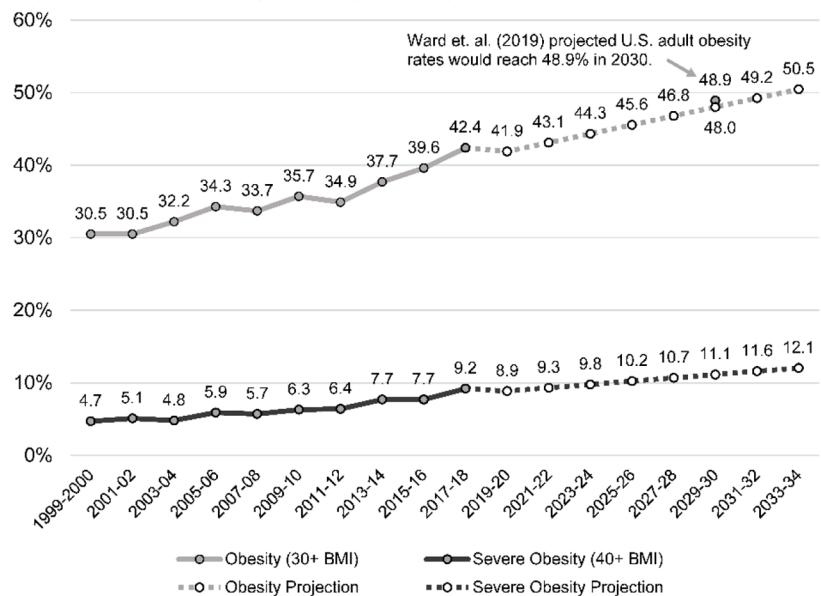
### **Obesity is a Major Driver of Federal Healthcare Spending**

Addressing the acceleration in mandatory spending requires identifying those diseases that impose the largest financial burden, or which offer the most practical means of cost reduction. Obesity and obesity-related diseases fit both categories. Obesity is one of the largest contributors to Medicare and Medicaid spending, and recent medical innovations seem effective at reducing obesity.

Obesity is a causal risk factor for many other diseases, including (but not limited to) diabetes, cardiovascular disease (e.g., heart attack and stroke), sleep apnea, and cancer.<sup>175</sup> One out of every three heart attack or stroke deaths and one in twelve cancer deaths are associated with being overweight or obese.<sup>176</sup> It has also been linked to impaired mental health.<sup>177</sup> Obesity has been found to substantially reduce lifespan, with life expectancy decreasing as BMI (Body Mass Index) increases (see Box 3-1 for a discussion of BMI).<sup>178</sup> The share of American adults who qualify as being

Class 1 obese (BMI ranging from 30–35), Class 2 obese (BMI ranging from 35–40), and Class 3 obese (BMI above 40) has been rising steadily over the past two decades (see Figure 3-1).<sup>179</sup>

Figure 3-1: Increasing Obesity Among Adults in the United States



Source: NCHS (*National Health and Nutrition Examination Survey: 1999–2018*), Ward et al. (2019). JEC calculations, see Box 3-2 for methodology.

These trends are particularly concerning given that spending on obesity and obesity-related diseases is concentrated the most among individuals with Class 2 and 3 obesity.<sup>180</sup> Research suggests there is a dramatic increase in healthcare costs among those with BMIs above 35, even compared to those who qualify as overweight or Class 1 obese.<sup>181</sup> A 10 percent reduction in BMI for a person with a starting BMI of 44 was associated with a \$10,992 annual reduction in medical care costs, while the same proportional reduction in BMI reduced medical costs by only \$629 for someone with a starting BMI of 34.<sup>182</sup>

Based on recent research, JEC economists estimate that in 2023 obesity will cause \$5,155 in average excess medical costs per

person suffering from the condition.<sup>183</sup> This corresponds to \$520 billion in total additional healthcare costs in 2023 alone.<sup>184</sup> Over the 2024–2033 period, JEC economists project that the combined Medicare and Medicaid spending on obesity and obesity-related diseases will total \$4.1 trillion.

**Box 3-1: Background on the Body Mass Index (BMI)**

In 2023, an estimated 44.3 percent of American adults were classified as obese, defined as having a body mass index (BMI) greater than or equal to 30.<sup>185</sup> Within this definition there are further classifications that represent the degree of obesity. Class 1 is defined as having a BMI between 30 and 34.9, Class 2 is between 35 and 39.9, and Class 3 is 40 or higher.<sup>186</sup> These classes, while somewhat arbitrarily defined, are relevant because increasing BMI is causally linked to morbidity, mortality, and the associated healthcare costs.<sup>187</sup> The BMI categories are shown in Table 3-1.

**Table 3-1: Body Mass Index (BMI) Categorical Information**

Medical Classification	BMI Range
Underweight	Under 18.5
Normal Weight	18.5 – 24.9
Overweight	25 – 29.9
Obesity (Class 1)	30 – 34.9
Obesity (Class 2)	35 – 39.9
Obesity (Class 3) (also referred to as severe obesity)	Above 40

BMI provides a rough standardization of individual weight, but the crudeness of the metric (see Equation 3-1) does not account for individual variations in body composition, such as muscle mass. It was developed in the mid-1800s by Adolphe Quetelet, a Belgian statistician, as a population-level tool to assess obesity and

its associated health risks.<sup>188</sup> BMI rose to prominence in the 1990s when the World Health Organization adopted the metric as the official screening index for obesity.<sup>189</sup>

$$BMI = \frac{weight\ (kg)}{height^2\ (m)}$$

$$\text{Imperial System: } BMI = \frac{weight(lb) \times 703}{height^2\ (in)}$$

*Equation 3-1: Body Mass Index (BMI) Calculation*

While BMI is insufficient as a sole measure of individual health, in the aggregate it serves as a valuable tool for analyzing public health. The CDC (Centers for Disease Control and Prevention) notes that while BMI “should not be used as a diagnostic tool” the “longstanding application of BMI contributes to its utility at the population level” and that “BMI should be used as a measure to track weight status in populations.”<sup>190</sup>

### **The Elderly Suffer from Rising Obesity Rates**

The rising rate of obesity among the elderly is another concerning trend that will likely have a substantial impact on mandatory spending. Approximately 35 percent of adults over the age of 65 were classified as obese in 2010.<sup>191</sup> Similarly, the prevalence of moderate (Class 2) and severe obesity (Class 3) in nursing homes grew from 14.7 percent in 2000 to 23.9 percent in 2010.<sup>192</sup> This increase may simply imply an increase in the existing population of obese persons over the age of 65 seeking care in nursing homes. However, it may also reflect a general demographic trend of rising rates of obesity among the elderly. That development would be concerning given the population bulge of the baby boom generation, which for most of the last 70 years has represented the largest age-identified subset of population (see Figure 3-2) and who started entering retirement age around 2010.

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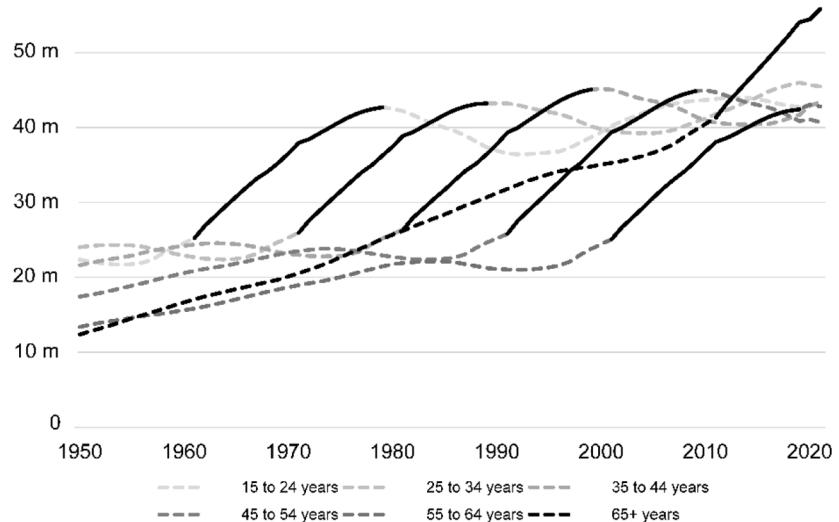
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In 2019, 16 percent of the adult population were aged 65 or older, but that share is projected to rapidly increase, reaching almost 25 percent by 2060.<sup>193</sup> If both the share of the population that is over 65 and the rate of obesity continues to rise, Medicare and Medicaid expenditures will likely exceed CBO projections. Halting and reversing these trends is critical to reducing the primary deficit.

### **Obesity Reduces Life Expectancy**

Obesity also imposes significant costs on the individual, most notably a shorter life lifespan. Medical research suggests that Class 1 and Class 2 obesity may reduce life expectancy by about 2–4 years, while Class 3 obesity can reduce it by up to 14 years.<sup>194</sup> It has been theorized that increases in obesity rates in the U.S. have been a major contributor to slowing improvements in the mortality rate in the U.S. over the past 20 years.<sup>195</sup> Increases in BMI from 1988 to 2011 are estimated to have reduced the average person's life expectancy at age 40 by almost a full year.<sup>196</sup> Since 2011, the prevalence of obesity among Americans has risen further, from 34.9 percent to 44.3 percent.<sup>197</sup>

Figure 3-2: Illustrating the Baby Boom

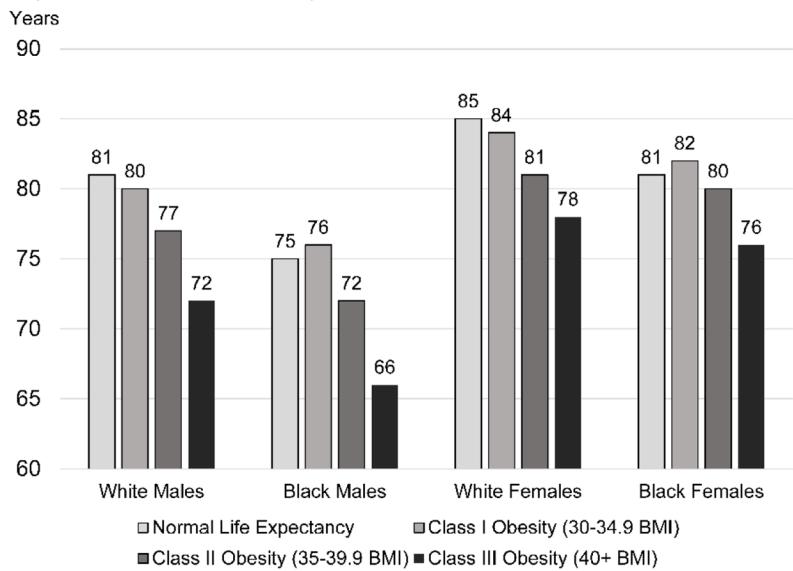


Source: Census Bureau (*National Intercensal Datasets 1900-2020*). Solid black lines indicate period when Baby Boomers (1946-1965) are comprising the age group.

Furthermore, the substantial increases in Class 3 obesity since 2011 has likely exacerbated the disease's reduction in life expectancy. Figure 3-3 illustrates the increased harm caused by increasing obesity.<sup>198</sup> Using recent research, JEC economists estimate that obesity is responsible for 4.7 YLL (years of life lost) for the average person suffering from the disease (see Box 3-2).<sup>199</sup>

Much of the direct benefit of increased lifespan would go to women, as well as Black and low-income adults. Research by Ward et al. suggests that Class 3 obesity will be the most common BMI category for these three demographic groups by 2030.<sup>200</sup> Because reducing obesity carries with it employment, productivity, and income benefits (see the following section), it might also contribute to reducing income inequality.

Figure 3-3: Life Expectancy for 18-Year Olds Given Their BMI Class



Source: Finkelstein et. al., (2012) *Individual and Aggregate Years-of-life-lost Associated With Overweight and Obesity*. The study only observed individuals who have never smoked.

While the prospect of eliminating or substantially curtailing obesity may seem unrealistic right now, so did the idea of moving U.S. culture away from smoking in the 1960s. Rates of adult smokers in the mid-1960s parallel current rates of obesity.<sup>201</sup> Moving away from that unhealthy paradigm took decades of concerted effort but was worth it for the number of lives saved.<sup>202</sup>

The comparison between obesity and smoking is even more apt because the harm caused by obesity is like the harm caused by smoking. A recent long panel study suggests that the Years of Life Lost (YLL) due to smoking corresponds to a 4.3-year decrease in life expectancy for the smoker.<sup>203</sup> If there were a way to eliminate obesity, it would add the equivalent of 515 million person-years of additional life for those with the disease. Expressed another way, the additional life expectancy gained from eliminating obesity is equivalent to the entire expected lifetimes of the population of Indiana (about 6.75 million people).<sup>204</sup>

**Box 3-2: Ending Obesity Would Raise Life Expectancy**

Several high-quality studies have evaluated the effect of obesity on YLL. A 2009 collaborative analysis of 57 studies covering nearly 900,000 participants published in *The Lancet* found that moderate obesity (which they characterize as BMI between 30 and 35—Class 1 obesity) is associated with 2–4 YLL, while severe obesity (which they characterize as BMI between 40 and 45) is associated with 8–10 median YLL.<sup>205</sup> The authors suggest that the mortality effect of severe obesity is comparable with that of smoking, and that the progressively higher mortality for overweight and obese individuals (BMI greater than 25) is “mainly due to vascular disease and is probably largely causal.”<sup>206</sup>

A 2014 PLOS-Medicine (Public Library of Science) journal article by Kitahara et al. examined severe obesity more closely, finding that mortality continues to increase as BMI increases.<sup>207</sup> They find that a BMI falling in the range from 40–45 is associated with 6.5 YLL, while a BMI falling between 45–50, 50–55, and 55–60 is associated with 8.9 YLL, 9.8 YLL, and 13.7 YLL, respectively. They calculate the weighted average decrease in life expectancy for severe obesity as 7.2 YLL for BMI greater than 40.

JEC economists elected to use the upper estimate of 4 YLL from the *Lancet* research for persons qualifying as Class 1 and Class 2 obese, and 7.2 YLL for Class 3 obesity, owing to Kitahara et al.’s more nuanced approach. Given the proportion of people projected to qualify as Class 1 and 2 obese (34.6 percent) and Class 3 obese (9.7 percent) in 2023, they estimate that obesity in the U.S. is currently responsible for 4.7 YLL for obese persons specifically and 2.1 YLL across the entire population, similar to previous estimates.<sup>208</sup> Combining these estimates with the relevant projected populations of Class 1, 2, and 3 obesity suggests that obesity is currently responsible for 515 million years of life lost. Dividing this aggregate estimate by the CDC’s current estimate of

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life expectancy (76.4 years) transforms this estimate into the number of person-lives to provide a relevant comparison: 6.75 million, equivalent to the entire population of Indiana.<sup>209</sup>

### **Obesity Carries High Economic Costs**

The public health research on obesity generally separates the costs associated with obesity into the healthcare costs directly associated with treatment of obesity-related illnesses, and the indirect costs that obesity imposes on labor supply, labor productivity, and human capital. The following discussion of the costs imposed by obesity should be regarded as a starting point, because it is likely that there are other costs created by obesity than those listed here.

#### *Direct Costs: Healthcare Expenditures*

There is a large public health literature that addresses government spending on healthcare attributable to obesity. Box 3-3 briefly reviews the literature and provide projections of the future rates of adult obesity and the likely future government share of per-person obesity-related medical expenditures. JEC economists project that the share of U.S. adults who qualify as obese will rise from around 44 percent in 2023 to 50.5 percent in 2033. Similarly, JEC economists also project that the excess annual healthcare cost (expressed in current dollars) attributable to obesity will rise from \$3,919 for non-severe obesity and \$9,591 for severe obesity in 2023 to \$5,790 for non-severe obesity and \$14,168 for severe obesity in 2033. In turn, projected government expenditures attributable to obesity will sum to \$4.1 trillion over 2024–2033.

#### *Indirect Costs: Labor Supply, Productivity, and Human Capital*

Using their projections of future obesity rates (see Box 3-3) and their estimation of obesity's reduction of life expectancy, JEC economists also estimated the decrease in labor supply attributable

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to obesity (see Box 3-4). This occurs as workers afflicted with obesity and obesity-related illnesses drop out of the labor market, retire, or die earlier than they would have otherwise.

JEC economists estimate that current obesity rates are responsible for a 2.5 percent reduction in aggregate labor supply, which corresponds to a 2.0 percent reduction in the level of real GDP. From 2024–2033, this labor supply reduction represents a potential GDP loss of \$5.6 trillion, which corresponds to a \$1.0 trillion reduction in Federal tax receipts over the same period.

For workers suffering from obesity, public health research has frequently documented obesity-caused reductions to their labor productivity. The effects are separated into “absenteeism” (missing work due to obesity-attributed illness) and “presenteeism” (reduced output on the job attributable to obesity).

JEC economists assume that each is responsible for approximately a 1 percent decrease in labor productivity for obese workers on average, leading to a loss of \$2.6 trillion in potential GDP over the 2024–2033 budget window (see Box 3-5). This corresponds to a \$470 billion reduction in Federal tax receipts over the same period.

In future work, JEC economists anticipate investigating the effect of obesity on the accumulation of physical and human capital. However, such a long-run effect would generally be outside the typical 10-year budget period. Nevertheless, over decades, even “small” increases in the growth rate of the economy can dramatically increase real GDP. For example, a longer life expectancy would incent workers to save more for retirement, increasing the supply of savings available for investment in the size and quality of the capital stock. Also, a longer life expectancy would also incent workers to develop more human capital because the returns would accumulate over a longer career. The improvements to the labor supply and capital stock would tend to

raise the level of real GDP. Moreover, insofar as some of the improvements to the labor supply and capital stock were dedicated to R&D, they would tend to raise the growth rate of real GDP.

**Box 3-3: Government to Spend \$4.1T on Obesity from 2024–2033**

JEC economists use a variety of academic research and government data sources to construct a projection of current and future obesity-related government spending (such as by Medicare and Medicaid). According to these estimates, the government will spend approximately \$283 billion on obesity-related direct health costs in 2023, rising to \$526.5 billion by 2033. As a result, the total projected government expenditure on obesity-related direct health costs over the 2024–2033 10-year budget window is \$4.1 trillion.

These estimates suggest that obesity-related direct health care costs will constitute 12.3 percent of the \$33.0 trillion in total spending on major health programs projected CBO over 2024–2033.<sup>210</sup> In other words, obesity is responsible for about 1 out of every 8 government healthcare dollars.

This amount is comparable to previous estimates of the proportion of obesity-related Medicare and Medicaid expenditures, and to the increase of those costs as the rate of obesity has risen. Finkelstein et al. and Wolf and Colditz estimate that in the late 1990s aggregate obesity-attributed medical expenditures accounted for around 5.5 percent of total national health expenditures.<sup>211</sup> Finkelstein et al. estimate that in 2008 obesity-related healthcare costs accounted for almost 10 percent of all medical spending, and for 8.5 percent and 11.8 percent of Medicare and Medicaid spending, respectively.<sup>212</sup> That was slightly higher than data analyzed by Biener et al., which found that from 2010–2015 an average of 6.86 percent of national Medicare expenditures and 8.48 percent of Medicaid expenditures were attributable to obesity-related illness.<sup>213</sup> Using Biener et al.’s 2001–2015 data to

forecast future expenditures suggests that obesity-related healthcare costs should account for 9 percent of all medical spending in 2023 and almost 11 percent in 2034.<sup>214</sup>

A review of the body of research estimated that obesity-related direct healthcare costs had already reached \$98 billion by 2008. However, another research paper by Biener et al. (which uses different data) suggests that as of 2013 28.2 percent (\$342 billion) of total health care spending was already devoted to treating obesity-related illnesses.<sup>215</sup> It is fair to say that there does not yet seem to be a consensus—even within research teams—regarding the share of total medical costs that are attributable to obesity.

Prescription drugs have been found make up the largest portion of obesity-related direct health costs. Biener et al. estimated that from 2010–2015 13 percent of all prescription drug costs were attributable to obesity-related illness.<sup>216</sup> Finkelstein et al. similarly estimate that in 2008 15 percent of all prescription drug costs were obesity-related.<sup>217</sup>

#### *Forecasting Future Prevalence of Obesity*

JEC economists project the prevalence of obesity in the adult population using data from the National Health and Nutrition Examination Survey (see Figure 3-1).<sup>218</sup> Although it is difficult to know what exactly the future prevalence of obesity will be, recent research from the National Health Statistics Reports evaluating obesity data obtained just before the COVID-19 pandemic (which added 2019–March 2020 data to the 2017–2018 data) closely matched the JEC projection’s first data point for 2019–2020 (41.9 percent of adults qualified as obese and 9.2 percent qualified as severely obese, while the projections were 41.9 percent and 8.9 percent).<sup>219</sup>

The current distribution of obesity by age group suggests that population dynamics over the next 10 years do not appear likely

to deviate from the prior 20-year trend. The NHSR identifies the rates of obesity by age group. The data collected over the 2017–March 2020 time period indicates that 39.8 percent of adults aged 20–39, 44.3 percent of adults aged 40–59, and 41.5 percent of adults older than 59 qualified as obese.<sup>220</sup> Similarly, 9.7 percent of adults aged 20–39, 10.7 percent of adults aged 40–59, and 6.1 percent of adults older than 59 qualified as severely obese.<sup>221</sup> More than 20 percent of children ages 6–19 qualified as obese, with nearly a third of obese children qualifying as severely obese.<sup>222</sup> Moreover, almost 60 percent of current children are projected to qualify as obese by the age of 35.<sup>223</sup>

The projection suggests that by 2033 a majority (50.5 percent) of the U.S. adult population will qualify as obese. The likelihood of this outcome is supported by previous research published in the *New England Journal of Medicine*, which uses more nuanced and sophisticated statistical techniques to project that a near-majority (48.9 percent) of the U.S. adult population will qualify as obese by 2030 (JEC economists' projection for 2030 is 48.0 percent).<sup>224</sup>

#### *Obesity-Related Health Expenditures Issues*

There has been no shortage of research on the costs associated with obesity-related healthcare. JEC economists use estimates from several high-quality studies and their projections of future obesity rates to estimate the annual total direct healthcare costs of obesity and the portion of that amount covered by government funding.

A 2021 study by Cawley et al. examined obesity-related direct healthcare costs from 2001 through 2016. JEC economists selected Cawley et al.'s estimates of the average annual excess medical costs due to obesity (\$2,782, aggregated over all obesity classes during the 2011–2016 time period, 2017 dollars) due to the breadth of data they considered and because the value represented a mid-range estimate compared with similar options (\$1,861 per Ward et al., \$3,429 per Biener et al., and \$3,920 per Lopez et al.

for direct excess healthcare costs derived from similar time periods; 2011–2016 for Cawley et al. and Ward et al., 2013 for Biener et al., and 2018 for Lopez et al.).<sup>225</sup>

Cawley et al. found that the average annual excess cost attributable to obesity-related healthcare effectively doubled a normal weight patient's average annual medical expenses.<sup>226</sup> Similar to other research, they found that the cost of medical care rose in conjunction with BMI: Persons qualifying as Class 1 obese experienced 68 percent higher annual healthcare costs, and persons qualifying as Class 2 and Class 3 experienced 120 percent and 234 percent increases, respectively.<sup>227</sup> Using their data JEC economists estimate that non-severe obesity (Class 1 and 2) accounted for an average \$2,580 in excess annual medical costs per obese person during the later period of their data (2011–2016), and severe obesity (Class 3) accounted for \$6,312 in excess annual medical costs over the same time period.<sup>228</sup>

An analysis of Cawley et al.'s inflation-adjusted data indicates that per patient obesity healthcare costs grew at an annual rate of around 2 percent over the 16-year period that their data covers.<sup>229</sup> This mirrors what other research has found—that obesity-related healthcare costs have increased so rapidly over the last three decades primarily because the numbers of people qualifying as obese has risen, rather than the cost of care.<sup>230</sup> Nonetheless, a 2 percent annual rate of change can compound to substantial increase over longer periods of time. This rate of increase is included along with inflation-adjustments in forecasting the future cost of obesity-related healthcare.

JEC economists combine their projections of excess per person obesity-related healthcare costs (\$3,919 for Class 1 and Class 2 obesity in 2023, and \$9,591 for Class 3) with the projections for the U.S. population which they project qualify as Class 1 or Class 2 obese (85.6 million in 2023) and Class 3 obese (24.1 million in

2023) over the period from 2024 through 2033 to estimate the 10-year aggregate national direct cost of obesity-related healthcare. They multiply these amounts by the estimated government share of these costs (50 percent) to produce the final estimate, \$4.1 trillion in obesity-related government expenditures from 2024–2033.<sup>231</sup>

**Box 3-4: Obesity's Effect on Labor Supply**

The analysis in Box 3-2 suggests that obesity is responsible for an average of 2.1 Years of Life Lost (YLL) across the entire U.S. population. Based on CDC life expectancy estimates, this corresponds to a 2.5 percent decrease in life expectancy. JEC economists estimate that, in effect, obesity currently reduces labor supply by 2.0 percentage points (this assumes the ratio of the average number of working years before retirement and the average length of life following entering the workforce is approximately 0.80).

They apply this increase to labor supply in equal increments over 5 years to account for the estimate representing a long-run effect. Information from the Congressional Budget Office has indicated that labor income accounts for an 80 percent share of potential (i.e., long-run) GDP. JEC economists apply the estimate of increased labor supply to the estimates of the labor portion of GDP projected from 2024–2033 to estimate the total cost imposed on potential GDP by obesity (which is equivalent to the cost to GDP of current obesity rates). They then multiply this amount by 18.2 percent, the CBO's estimate of the share of Federal tax receipts from aggregate economic activity.<sup>232</sup>

JEC economists estimate that obesity-related decreases in labor supply will cost the U.S. economy \$5.6 trillion from 2024–2033. Approximately \$1.0 trillion of this amount would have accrued to the Federal government as tax receipts.

**Box 3-5: Obesity’s Effect on Labor Productivity**

The effect of obesity on labor productivity can be separated into “absenteeism” and “presenteeism” effects (being absent from work and being present, but less productive than otherwise possible). Research by Kudel et al. illustrates that obese workers are absent from their job approximately twice as often as normal weight workers. This corresponds to 2–2.5 extra days of absence each year, which is approximately 1 percent of working days.

JEC economists estimate the labor productivity lost to presenteeism with the simple assumption that the average obese worker, if they were a healthier weight, would perform an extra 5 minutes of work over the typical 8-hour workday. This corresponds to a 1 percent increase in output.<sup>233</sup>

By applying this 2 percent increase in labor productivity to potential GDP (see Box 3-4) and adjusting by the proportion of the U.S. adult population projected to qualify as obese during the 2024–2033 window, JEC economists estimate that obesity will be responsible for \$2.6 trillion in lost economic activity, and \$470 billion fewer Federal tax receipts.

Another way to estimate the effect of obesity on labor productivity is through wage comparisons, assuming that wages are a reasonable indicator of productivity. Biener et al. reports that a 10 percent increase in BMI reduced the earnings of women by 1.86 percent and of men by 3.27 percent.<sup>234</sup> However, it can be difficult to determine the extent to which discrimination against persons with obesity may confound the productivity signal in wages.

JEC economists believe that a 2 percent estimate of the reduced labor productivity of workers suffering from obesity represents a substantially cautious estimate—the true effect is likely substantially larger.

Based on 1994 data, Wolf and Colditz found evidence suggesting that lost productivity due to obesity was nearly equivalent to the direct medical costs.<sup>235</sup> This perhaps provides a useful upper bound for considering what the non-medical, indirect economic cost of obesity might be. Based on their analysis, the labor productivity cost of obesity would be worth \$565 billion in 2023, equivalent to a 6 percent reduction in productivity.

### **Addressing Obesity is Difficult but Important**

Addressing obesity is no easy task for policymakers. One must inevitably balance between preserving individual liberty while reducing the severe costs imposed on others. At a minimum, government policies should not encourage poor health decisions by worsening moral hazard. Moral hazard occurs when someone does not bear the full consequences of their risky decisions, incenting them to take greater risks than they would otherwise.

Automobile seatbelts and airbags are a typical example of how episodes of moral hazard can occur. As the riskiness of harm due to driving has fallen, researchers have documented that automobile drivers (likely unconsciously) have increased the aggressiveness of their driving habits. In the era before safety devices were widespread, drivers experienced a larger penalty for riskier driving, which would have motivated corresponding risk-reducing behavior. Research following the widespread adoption of automobile air bags finds evidence of offsetting driver behavior (increased aggressive driving) in response to the decreased riskiness of driving.<sup>236</sup> Unfortunately, these costs also appear to have been borne by higher rates of injuries and fatalities among pedestrians and bicyclists.

Similarly, academic research has found that when individuals bear less of their medical costs, they are more likely to consume more

healthcare.<sup>237</sup> Finding policy solutions to obesity requires foresight to ensure that the potential for unintended consequences, such as those caused by moral hazard, are minimized.

#### *Reforming Nutrition Assistance Programs*

In weighing these interests, government should thus find ways to incentivize behavior that either lowers risk or promotes positive behavior. At a minimum, the government also must ensure that it is not incentivizing unhealthy behavior. Government nutrition programs like SNAP (Supplemental Nutrition Assistance Program), are likely contributing to unhealthy behaviors and certain aspects should therefore be reevaluated.

SNAP was created in 1964 to assist low-income families with food purchases to avoid malnutrition. Since its creation, economic conditions and public nutrition in the U.S. have substantially changed. When the program began, the primary problem to be solved was that of caloric deficiency—thankfully, that has been achieved. Perhaps, however, it was overachieved. Today, the largest nutrition-related problems facing low-income Americans are unhealthy diets and obesity rates rising much faster than average.<sup>238</sup>

There is concern among academic researchers that SNAP may be contributing to poor nutritional food choices and, therefore, obesity.<sup>239</sup> As the program currently stands, SNAP benefits can be used on a wide variety of foods, including unhealthy foods. While this approach respects individual autonomy, it may be empowering self-destructive behaviors. Research estimates that 23 percent of the value of SNAP benefits are used on objectively unhealthy foods such as sodas, desserts, chips, and candy, meaning that the U.S. government funds approximately \$25 billion dollars in junk food purchases every year.<sup>240</sup>

USDA research has found that “lower nutritional quality of household food acquisitions was associated with SNAP participation status.”<sup>241</sup> This finding coincides with academic research that found that SNAP participants had a poorer diet than income-eligible non-participants.<sup>242</sup> While there may not be a causal effect of SNAP participation exacerbating unhealthy diets, these studies indicate that there is room for government food assistance programs to improve to encourage better health outcomes for the participants.

*Economics of SNAP*

The U.S. spent over \$110 billion on SNAP in FY2021, but this figure fails to capture the full cost that the U.S. is paying due to the adverse health outcomes it is likely creating.<sup>243</sup> SNAP subsidies have increased caloric intake at a time when obesity is arguably the largest health issue in the U.S. This means that Medicaid and Medicare healthcare provisions, combined with SNAP benefits that facilitate unhealthy diets, create a government externality. A government externality is like a market externality, with the difference being that the connection by which others bear the external costs is artificially created by government policy, rather than arising due to market imperfection.<sup>244</sup>

In this case, a large part of the social cost imposed by obesity is due to government funding of healthcare (34 percent of all healthcare costs are covered by government programs).<sup>245</sup> This is not necessarily an argument against government healthcare programs, but rather a rigorous identification of the structure of the problem at hand. To the extent that government externalities are exacerbated by other government policies, like SNAP, which could be mitigated with sensible reforms, all parties should engage in such inquiry with an open mind.

There is a clear argument to pursue SNAP reforms that would encourage healthy diets. This might include limiting junk food

purchases with SNAP benefits or rewarding making changes that lead to positive health outcomes. At a minimum, the Federal government should consider banning soda purchases using SNAP benefits. Soda accounts for the largest expenditure of SNAP benefits, and it (as well as other sugary drinks) has been clearly linked to adverse health outcomes.<sup>246</sup> Insofar as the Federal government continues to fund nutrition programs, it should at least ensure that the programs deliver better health for low-income Americans. SNAP presents a clear lever to address obesity, but fixing its flaws is only a small step toward solving the problem.

#### *Medical Innovations and Obesity Care*

To address obesity, the Federal government must also create an environment in which medical innovation can thrive. This requires a regulatory system in which entrepreneurs are rewarded for innovations without undue regulatory or bureaucratic burdens. Full success of this goal would result in the rapid creation of new medicines, therapies, and technologies as well as swift reduction of the cost and price of existing healthcare products.

Recent and ongoing research has identified that a category of existing drugs can effectively reduce the BMI of individuals, which in turn should help prevent the associated conditions of obesity (heart disease, cancer, diabetes, etc.)<sup>247</sup> For example, GLP-1s (Glucagon-like Peptid-1 Receptor Agonists) have been approved for diabetes care for almost two decades, but were only recently approved for use as a weight loss therapy.<sup>248</sup> They have been observed to reduce the weight of non-diabetic patients suffering from obesity by between 6.1 and 17.4 percent.<sup>249</sup> This area of medical science is moving exceptionally fast, though, and recent trials have shown results suggesting that body weight losses of 24 percent in under a year are possible.<sup>250</sup>

The ongoing innovations in GLP-1 drugs have tremendous potential to address the obesity crisis. However, their cost is likely

to inhibit their widespread use. Without insurance, these drugs can be expected to cost around \$900 a month.<sup>251</sup> Finding ways to reduce these costs, whether it be through greater competition in prescription drug markets or by easing barriers to production, would likely result in greater access to these drugs and their benefits.

Additionally, weight loss drugs such as GLP-1s are explicitly prohibited from being covered by Medicare Part D as their use for weight loss is classified as a “cosmetic treatment.”<sup>252</sup> Given the substantial savings to Medicare that could be achieved by reductions in obesity, this should be reconsidered. Recent research suggests that if this were to change, Medicare could save \$175 billion over the first 10 years.<sup>253</sup> Furthermore, the fact that GLP-1 drugs use for weight loss is covered by Federal health insurance for government workers suggests that simple fairness be applied in making them available for Federal healthcare program recipients.<sup>254</sup>

Given the estimates of average expenditures due to excess annual healthcare costs attributable to obesity, as the costs of these drugs fall, the benefit to government healthcare programs could become quite large. JEC economists estimate that the 2023 excess healthcare cost for each severely obese person is \$9,591. Public healthcare costs tend to be higher, resulting in an estimated 2023 excess healthcare cost for each severely obese person of \$10,634.

These drugs may provide the potential to achieve a net decrease in government expenditures while at the same time achieving better health outcomes—such two-for-one deals in public policy are rare. Given public health research that finds that a large proportion of healthcare spending on obese persons is concentrated on those who are severely obese, it may be most effective to initially concentrate GLP-1 spending on that population.

*Healthcare Patent Policy*

The U.S. is the world's leading innovator in pharmaceutical development, but domestic healthcare consumers pay higher prices than healthcare consumers abroad. This is partially due to free riding by other countries, who refuse to provide patent protection for U.S.-developed drugs. They demand instead that the drugs be priced at the marginal production cost, which does not cover the cost of research and development.<sup>255</sup> It is estimated that patented drugs are priced five times higher in the U.S. as their unpatented equivalents in foreign markets.<sup>256</sup> Addressing this is not easy but there are several policies that can be pursued to reduce prices.

Price competition in the U.S. could be facilitated by expedited review for generic drugs, allowing them to get to market more quickly.<sup>257</sup> In particular, there's a case for expedited review for biosimilar drugs already in widespread use. It would be valuable most when only one drug of that type is available to the public.

Policies that increase drug price transparency and empower consumers to make educated decisions regarding medicine choices would also help. Allowing and encouraging patients to shop around and pursue drugs at cheaper costs would incentivize greater competition among producers and retailers. To facilitate this, instead of patients' prescriptions being managed entirely by third parties, patients could instead have the power to seek out lower costs for their prescriptions and choose which brands best suit their needs.

## CHAPTER 4: HOW (NOT) TO INCREASE ECONOMIC GROWTH

The first two and a half years of the Biden Administration focused on bolstering the COVID-19 economic recovery with unprecedented levels of government spending. The *Report*, and the president's own public statements, make it clear that the Biden Administration believes that the economy requires the Federal government to act as a director and co-investor to achieve long-run economic growth.<sup>258</sup> This soft nationalization has taken the form of investing in infrastructure (defined so broadly as to include consumption) and subsidizing favored industries.<sup>259</sup>

The result has been unsustainably high levels of deficit spending. In turn, the White House has proposed numerous tax increases for 2024 (see Table 4-1 and Table 4-2).<sup>260</sup> Their justification for the increases suggests the new funding would be used to partially reduce the deficit and to also fund programs on other issues, such as income inequality and the depletion of the Medicare trust fund. The OMB (Office of Management and Budget) estimates the White House's proposed policies would increase taxes by \$4.7 trillion dollars over the next 10 years, almost \$3 trillion of which would come from increased corporate taxes, and the balance would be collected from high-income and high-net worth households.<sup>261</sup> This chapter focuses on two topics:

First, the chapter examines the economic growth effects of the mostly unmentioned requirement of "Bidenomics"—that massive spending increases require commensurate tax increases, predominantly to be imposed on corporations.<sup>262</sup> While the Biden Administration's overarching goal—to enhance economic growth—is laudable, the chapter illustrates how the president's preferred policies would backfire.

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Second, the chapter addresses a core premise of Bidenomics: that the tax system of the United States is intrinsically unfair. The chapter illustrates how the U.S. tax code, understood holistically, is one of most “progressive” among advanced economies. Those who insist that the U.S. is lagging other, ostensibly more civilized, countries and who argue for greater redistribution because of “fairness” are incorrect.

The Biden Administration has been clear about its objective: to increase tax revenue by taking a larger part of the income of those who earn the most (and who already pay the largest proportion of taxes). But these changes will reduce savings, wages, and income. In turn, these changes will indirectly harm the same families that the President articulates a desire to help. In short, the policies behind catchphrases like “investing in the economy” and “ensuring the wealthy and big corporations pay their fair share” will not have the effect that the Administration says it desires.<sup>263</sup>

While hiking taxes on high-income households and corporations to subsidize favored industries may seem like a simple way to increase economic growth, it will backfire. In that way, using the large literature on the determinants of economic growth, this chapter argues that “government greed” will not pay off.

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**Table 4-1: Selected Individual Tax Increases in President Biden's Proposed Budget**

- Increase the top tax rate on individual income from 37 percent to 39.6 percent
- Impose a 25 percent minimum tax on unrealized gains for taxpayers with net wealth over \$100 million
- Tax unrealized capital gains over \$5 million at death
- Raise tax rate on capital gains and qualified dividends over \$1 million to 39.6 percent
- Expand the tax base of the Net Investment Income Tax (NIIT) to include non-passive business income
- Increase the NIIT tax rate from 3.8 percent to 5 percent
- Increase the additional Medicare tax rate from 0.9 percent to 2.1 percent
- Treat carried interest as ordinary income
- Create new limitations on high-income taxpayers with large retirement account balances and increase minimum required distributions

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**Table 4-2: Selected Corporate Tax Increases in President Biden’s Proposed Budget**

- Increase the corporate tax rate from 21 percent to 28 percent
- Increase the Global Intangible Low-Taxed Income (GILTI) minimum tax rate from 10.5 percent to 21 percent, as well as and other changes
- Adopt the undertaxed profits rule on large multinational firms
- Repeal several deductions on foreign gross income (Section 265 and 904(b))
- Increase the excise tax on stock buybacks from 1 percent to 4 percent
- Changes to the limit of deductibility of excessive employee remuneration
- Repeal the deduction for foreign-derived intangible income (FDII)
- Make permanent the limitation on excess business losses

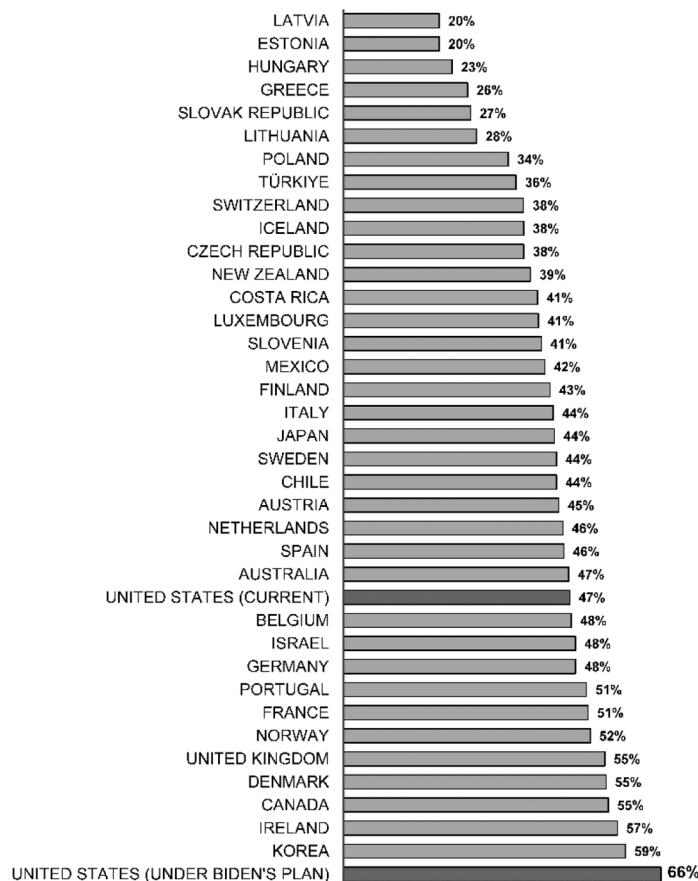
### **Tax Hikes Would Kill the Post-Pandemic Recovery**

#### *Understanding the Biden Administration’s Tax Proposals*

The Biden Administration has proposed both vertical and horizontal corporate tax changes to reduce the Federal deficit and finance new programs. Vertical changes are those that increase the *statutory* tax rate on corporate profits or distribution of those profits to corporate owners (e.g., investors, see Box 4-1). Horizontal changes are tax reforms that serve to increase the *effective* corporate income tax rate without affecting statutory tax rates. Figure 4-1 shows the effect of the Biden Administration’s tax proposals, which would make the United States the only country in the OECD (Organization for Economic Cooperation

and Development) where the combined statutory tax rate on corporate income and its distribution would exceed 60 percent.

Figure 4-1: OECD Comparison of Statutory Tax Rates on Dividend Income



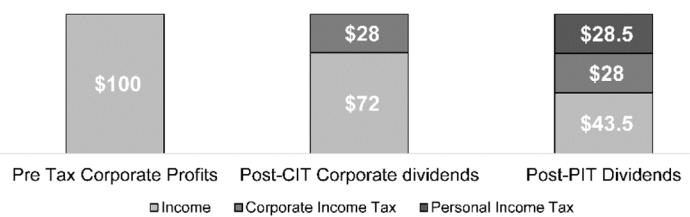
Source: OECD (*Tax Database Table II.4, Overall Statutory Tax Rates on Dividend Income*),  
Tax Foundation (*Biden's FY 2024 Budget Would Result in More Than \$4.5 Trillion in Gross Tax Increases*)

It is worth reemphasizing that statutory tax rates alone are insufficient to understand the incidence and effects of corporate taxation. Identical statutory rates may have substantively different economic effects once deductions, regulations on capital investment, targeted tax credits and other subsidies, etc., are considered.

**Box 4-1: Investors are Double Taxed**

The existence of corporate taxes combined with individual taxes on capital gains or dividends means that each corporation's profit is taxed twice: First at corporate level and later at the individual level when the shareholder receives income from stock dividends or realizes capital gains.<sup>264</sup> For example, under the Biden Administration's proposed changes, corporate profits of \$100 would be taxed at a rate of 28 percent, leaving \$72 available to distribute as dividends. Individual investors taxed at the highest marginal rate (39.6 percent) would then receive only \$43.50.<sup>265</sup> This application of both corporate and individual tax rates would result in an effective tax rate of 56.5 percent for some investors (see Figure 4-2). Nor does this happen in a vacuum. In an environment where other countries are lowering taxes on investment and capital is increasingly internationally mobile, decreased returns on investments in the U.S. may well motivate domestic and foreign investors to look for greener, and more profitable, pastures.

Figure 4-2: Double Taxation on Corporate Profits



*Corporate Tax Changes Motivate New Tax Avoidance Strategies*  
 The importance of effective tax rates (and their interactions) is seen in the difficulty that governments have in taxing corporate profits. While behavioral economics has challenged the idea that individuals solely practice rational analysis, economically rational behavior is readily observable in corporate decision making. Tax increases motivate increased lobbying by special interest groups

to either defend against the threat of increased costs or to position themselves for a bigger portion of subsequent government handouts. Business leaders' motivation to maximize profits leads to innovative tax minimization strategies, such as moving operations to lower-tax environments or by changing production methods.

This tendency to quickly respond to tax changes (and often to preemptively begin adapting to anticipated changes) helps explain why economic research finds that corporate income taxes are one of the most economically harmful forms of taxation. Not only do business leaders swiftly develop strategies to minimize their effective tax rate, but the actions they take in doing so often lead to lower relative rates of aggregate economic growth.

In short, higher corporate tax rates mean higher costs and therefore lower returns to investment. Decreased incentive to invest in businesses that operate in the higher-tax country leads to a decline in GDP growth, reducing total future tax revenues.<sup>266</sup>

*Raising Corporate Taxes Will Likely Harm Economic Growth*  
Economic growth is sensitive not only to the overall level of taxation but also to which kinds of taxes are used and how the tax burden is distributed. Contrary to their stated desire for economic growth, the Biden Administration's proposals to increase taxation of corporations and higher income households will have an adverse impact on the economy. This is especially likely when such taxes target the types of income (e.g., investment) that are the font of new job creation, and which are highly mobile and sensitive to variations in rates of return.

Taxation—like any change in payoffs—intrinsically distorts incentives and changes behavior. Taxation of corporations and capital reduce the incentive to invest. Taxes on income reduce the incentive to work. And the progressivity of tax systems reduces

the entrepreneurial incentive to take greater risks in pursuit of higher returns. The extent to which any tax policy inhibits the corresponding economic activity is an empirical issue, but the direction of the effect is well-established.

For example, a study by Jens Arnold and Cyrille Schwellnus reports that a shift of one percent of tax collections from corporate and income taxes to property or consumption taxes would increase GDP per capita by between 0.25 percent and 1 percent over the long-run.<sup>267</sup> Compared to the current economy, their estimates suggest there may be up to \$265 billion more economic activity, \$1,600 increased income per household, and a \$48 billion increase in Federal tax receipts—meaning that a simple shift of the target of taxes could increase tax collections by 1.5 percent. The authors also find that this boost in growth is partially determined by the level of tax progressivity.

Prior to the passage of the 2017 Tax Cuts and Jobs Act, the Council of Economic Advisers produced a survey of the academic research that illustrated the negative relationship between the corporate income tax rate and companies' decisions to invest or expand.<sup>268</sup> While there is not a consensus on the specific degree to which corporate income taxes affect businesses' decision on where to locate their operations, there is ample evidence showing that lower rates are associated with higher probabilities of opening new manufacturing plants. The results of those studies showed a wide range of estimated effects of corporate taxation on business investment, with the average results suggesting that a one percent increase in the effective corporate income tax was associated with a three to four percent decrease in the rate of plant openings.<sup>269</sup>

**Box 4-2: High Corporate Tax Rates Reduce Growth**

Most academic studies have found strong negative correlations between economic growth and income and corporate tax rates. Young Lee and Robert Gordon found that a reduction in the

corporate tax rate by 10 percentage points would raise the annual economic growth rate by one to two percentage points.<sup>270</sup> Similarly, Karel Mertens and Morten Ravn find that a reduction of just one percent in the average corporate income tax rate would raise real GDP per capita by 0.6 percent after a full year, with the effect persisting over time.<sup>271</sup> They also find changes in corporate tax rates are approximately revenue neutral, meaning that higher rates of taxation do not bring in meaningful additional tax receipts. This suggests that adjusting corporate tax rates is a poor tool to achieve deficit reduction goals.<sup>272</sup> Robert Barro and Charles Redlick use almost a hundred years of data to show that not only does taxing corporate income reduce economic growth, but that the net effect on economic growth is negative even when paired with public spending enabled by the tax.<sup>273</sup> In other words, the Biden Administration's intent to increase corporate taxes and use the resulting revenue for government-led investments in particular industries is likely to lead to slower economic growth.<sup>274</sup>

The impact of changes in corporate income taxes vary from industry to industry and from firm to firm. For example, evidence shows that corporate income taxes reduce total factor productivity, and that this effect is more pronounced in industries that are characterized by high corporate profitability.<sup>275</sup> Similarly, increases to the marginal personal income tax rates for higher-earning households are found to impede long-run productivity. This effect works by inhibiting entrepreneurial activity and is estimated to increase in strength in conjunction with the level of entrepreneurial activity in an industry. For example, Jens Arnold and Cyrille Schwellnus find that a change in corporate taxes from 35 percent to 30 percent would yield a substantial increase (0.4 percentage points higher) in the annual total factor productivity growth rate over 10 years for firms in industries with median profitability relative to firms in industries with the lowest level of profitability.<sup>276</sup>

*Raising Corporate Tax Rates Hurts Wages, Investment Returns, and Savings*

President Biden and the White House have repeatedly declared that no person earning less than \$400,000 would experience a tax increase under their proposed policies.<sup>277</sup> This amounts to an unrealistic attempt to finance a vast expansion of government spending through only 2 percent of the population. Meanwhile, due to the surge of inflation since President Biden took office, that \$400,000 income today has lost \$64,000 worth of value.

While it is true that households earning less than \$400,000 would not see any *direct, statutory* increase in their tax rates, the proposed reforms will indeed affect their wages and their investments/savings. The latter (pensions, Individual Retirement Accounts, etc.) will be reduced by the higher corporate income tax rate. In part, this is because if the government takes a larger cut of corporate profits, there is necessarily less to be disbursed as dividends.

As widely recognized in economics, the incidence of a particular tax—those who bear the burden of the tax because of pass-through effects—is dependent on the market structure; it is rare for any tax to be borne fully by the entity responsible for paying the tax. The specific impacts of raising corporate income taxes depends on many factors, with the asymmetry in mobility between capital and labor being particularly important. As the mobility of investment capital to move to higher-return opportunities increases, the share of corporate income tax increases that is borne by workers also increases. Employees at companies that can make organizational changes to avoid part of the tax increase may be relatively less affected (see Boxes 4-3 and 4-4).

**Box 4-3: Recent Research on Corporate Tax Incidence**

Research on the effect of corporate tax increases on wages is less straightforward than the research on corporate and economy-wide

growth rates. Consequently, there is less consensus among economists on the degree to which wages or employment decrease because of corporate income tax increases. For example, separate meta-analyses by Stephen Entin and James Nunns estimate the pass-through effect of corporate taxation on labor to be 40–70 percent and 20 percent, respectively.<sup>278</sup>

In addition, not all employees of a company are necessarily affected in the same way. Recent research by William G. Gale and Samuel Thorpe suggests that when rent sharing is concentrated among high-income workers, the corporate tax can remain quite progressive in most plausible models of rent sharing, meaning that low-wage workers are relatively unaffected by changes to the corporate income tax.<sup>279</sup> As before though, other recent research suggests the opposite, showing that lower-skilled, young, and female employees bear a larger share of the tax burden.<sup>280</sup>

**Box 4-4: The Administration’s Agenda Will Harm the Recovery**

The Biden Administration’s corporate and high-earner income tax proposals are not new. Most of the proposed tax code changes have been circulating since 2020, meaning that research on the likely effects of these policies is already available.

Kevin Hassett and his coauthors estimated that full economic agenda proposed by President Biden while he was campaigning for office would reduce full-time equivalent employment per person by about 3 percent, the capital stock per person by about 15 percent, real GDP per capita by more than 8 percent, and real consumption per household by about 7 percent.<sup>281</sup> However, not all of the proposals they analyzed match the tax code changes proposed for the FY2024 Federal budget. Some regulatory provisions (those regarding the energy and electric vehicle industries) have already been passed as part of the Infrastructure Investment and Jobs Act of 2022. Similarly, bonus depreciation

began phasing out in 2022, while the expensing of research and development has already phased out.

On the other hand, Hassett and his coauthors did not analyze for the more recent proposals of a 4 percent tax on stock buybacks or the 25 percent minimum income tax on households with over \$100 million of wealth. This means that their research likely underestimates the harmful effects on employment, capital, household consumption, and economic growth.<sup>282</sup>

Casey Mulligan conducts a similar analysis to Hassett et al., finding that the real GDP per capita would decrease by 4 to 5 percent over the long run (equivalent to a permanent decrease of \$8,000 per household). He concludes that policies contained in President Biden's economic agenda would reduce productive capital by 7 to 12 percent over the long-run and cause the loss of about 3 million jobs.<sup>283</sup>

Kyle Pomerleau also provided an analysis and included a comparison of the marginal effective total tax rate included in President Biden's campaign proposal with the projected tax provisions in 2030 (that is, based on the law as it was in 2020, allowing temporary provisions to expire).<sup>284</sup> He finds that by 2030 the marginal effective tax rate for overall business investment under the president's campaign proposal would have increased by more than 7 percent, while that for corporate investment would increase by more than 12 percent. His analysis also showed that when looking at the source of financing investment, Biden's campaign proposal would raise taxes by 8.8 percent for equity-financed investment but only 0.6 percent for that financed with debt.

Researchers at the Tax Foundation have analyzed the effect of many of the tax changes proposed in the FY2024 Budget using a general equilibrium model.<sup>285</sup> They estimate that, because of these

proposed changes, GDP would decrease by 1.3 percent over the long run, caused in part by a one percent decline in wages and a loss of 335,000 full-time equivalent jobs. Most of the negative economic impact they project is attributable to the increase of the corporate income tax rate from 21 percent to 28 percent. While the Tax Foundation's estimates are somewhat more modest than the prior analyses, their estimates are focused on the higher probability tax code changes, leaving out of the modelling some provisions whose implementation is more uncertain.<sup>286</sup>

*There Will Be No Relief Valve from the Biden Administration's Business Tax Proposals*

Projecting the specific effects of corporate income tax changes is often difficult because there are multiple factors affecting causality, multiple paths through which the effects can flow, and often simultaneous implementation of other taxes that can either exacerbate or reduce the effects. For example, Thornton Matheson and his coauthors find that the surge in foreign direct investment in the U.S. following the 2017 Tax Cuts and Jobs Act (TCJA) appears to have been driven largely by contemporaneous macroeconomic factors rather than the reduction in corporate tax rates.<sup>287</sup> They also found that the increased retention of profits was attributable to the reduction of tax rates. However, the authors also highlight that their research cannot be generalized as an argument against the use of lower corporate taxes to enhance economic growth, since by 2018 the U.S. economy had been expanding consistently for eight years, so corporate investment may already have peaked.

**Box 4-5: Without Profit Shifting, U.S. Capital Investment Will Fall**

Changes in corporate taxation can lead to “profit shifting” within multinational companies. This is the practice of transferring intangible assets (such as patents) between subsidiaries so that the

assets accrue most of their profits in low-tax countries. According to the CEA, by 2016 U.S. multinationals reinvested 70 percent of foreign profits overseas, rather than repatriate it to the U.S.<sup>288</sup> Gabriel Zucman et. al. calculated that the share of foreign profits booked in tax havens remained stable at around 50 percent between 2015 and 2020.<sup>289</sup> They further estimated that the percentage of profits booked abroad by multinational companies only fell 3–5 percent after the 2017 Tax Cuts and Jobs Act was passed.<sup>290</sup> They primarily attributed the decrease to substantial changes by six large corporations, most likely due to repatriation of intellectual property to the United States.

Josh Heckemeyer and Michael Overesch synthesize the findings of 27 studies, predicting that the tax semi-elasticity for pre-tax profit is about 0.8. This means that a given 1 percent arbitrage opportunity between two different countries, the profit realized in the higher-tax country will decrease by 0.8 percent.<sup>291</sup>

According to Tim Dowd and his coauthors, this elasticity depends on whether the country is a high-tax or low-tax country.<sup>292</sup> They found that a 1 percent reduction in the statutory corporate income tax rate has a much bigger impact when the country is considered a low-tax country than when its tax rate is high. Applying this to the 2017 corporate tax rate reductions from 35 percent to 21 percent, which can be modeled as 14 one percent cuts applied simultaneously, means that most of the positive effects on profits occurred on the last steps when the country became an average-tax country. This implies that raising the rate to the halfway point of 28 percent would be almost as bad for businesses as going back to the pre-TCJA corporate income tax rate of 35 percent.<sup>293</sup>

The effect of profit shifting is also important when measuring the effect of taxes on capital accumulation. Fatih Guvenen et al. estimate that 38 percent of the income attributed to U.S. direct investment abroad is re-attributable to the United States, resulting

in an understatement of U.S. GDP and productivity growth rates in the late 1990's and early 2000's, as well as overestimation of labor's share of income.<sup>294</sup>

Guvenen et al.'s research findings are important when analyzing the changes proposed by the Biden Administration as it attempts to maximize the tax receipts from corporations by raising taxes on their foreign income and closing the possibility of using low tax countries to shift profits abroad. Their research suggests that the Biden Administration's approach could cause a much deeper drop in capital intensity and productivity than previous estimates. Supporting this concern, Suarez Serrato finds that firms with limited access to tax havens could see an increase in the cost of domestic investment, leading to a decrease in both in capital accumulation and domestic employment.<sup>295</sup>

#### **Box 4-6: Long-Run Estimates for the Corporate Sector**

A comprehensive estimate of the effect of the president's tax proposals is a complex task that would require an analysis as long as the *Response* itself. Each sector is affected in different ways, investors can substitute ways to raise capital, and changes in regulations can have an impact in the cost of doing business. Moreover, there are also future external factors to include when simulating the output of the economy in the short and medium term. Nevertheless, while simple, the Neoclassical Growth Model is a good tool to predict the impact of changes in tax policy in the long term.<sup>296</sup>

The model in equilibrium is derived from the basic firm problem where output is defined as:

$$Y = TFP * F(K, L)$$

where, Y is the total output, TFP is the total factor productivity, K is a measurement of capital employed, and L is the amount of labor

used in production. The function  $F$  represents the transformation of inputs into final production.

The model predicts that changes in the total output can be explained from either a change in the use of the factors, or by technological change.

$$\Delta Y = \Delta TFP + (S_L \Delta L + S_K \Delta K)$$

Where  $\Delta$  represents a percent change of a variable ( $\Delta X = \partial X/X$ ), and  $S_K, S_L$  represent the share of revenue attributable to the cost of each input factor. Another way to represent this is as a marginal change of the costs which, in the case of constant returns to scale can be rewritten as:

$$\Delta TFP = S_L \Delta \frac{W}{P} + S_K \Delta \frac{R}{P} = S_L \Delta w + S_K \Delta r$$

where  $W$  represents nominal wages ( $w$ , real),  $R$  represents the nominal return to capital ( $r$ , real), and  $P$  is the price of the final product. Now, suppose that capital-based income is taxed by a fraction,  $\tau$ .<sup>297</sup> Since the Neoclassical Growth Model assumes that capital is perfectly elastic in the long-run, any change in the after-tax income has to be counteracted by a similar change in the return to capital.<sup>298</sup> This means that,  $\Delta r = -\Delta(1 - \tau)$ , where  $(1 - \tau)$  is the after-tax portion of the returns to capital.

If the total factor productivity remains constant ( $\Delta TFP = 0$ ), then one can rewrite the equations above into three equations summarizing the effects of tax change:

- Changes in real wages:  $\Delta w = \frac{S_K}{S_L} \Delta(1 - \tau)$
- Capital intensity:  $\Delta K - \Delta L = \frac{1}{S_L} \sigma \Delta(1 - \tau)$
- Average labor productivity:  $\Delta Y - \Delta L = \frac{S_K}{S_L} \sigma \Delta(1 - \tau)$

See this chapter's appendix for additional details on the derivation.

Under the current legislation, an investor's average post-tax dividend  $(1 - \tau_{corp})(1 - \tau_{divd})$  would be 67.4 cents for every dollar in C-type corporate profits. Under the new legislation, it would be 59.4 cents, which implies a drop of 8 cents or 12 percent of the original income. Replacing the equations defined above:

- Changes in real wages:

$$\Delta w = \frac{S_K}{S_L} \Delta(1 - \tau) = \frac{2}{3} (-0.1196) = -0.0797$$

- Changes in capital intensity:

$$\Delta K - \Delta L = \frac{1}{S_L} \sigma \Delta(1 - \tau) = \frac{5}{3} (-0.1196) = -0.199$$

- Changes in average labor productivity:

$$\Delta Y - \Delta L = \frac{S_K}{S_L} \sigma \Delta(1 - \tau) = \frac{2}{3} (-0.1196) = -0.0797$$

That is, JEC economists estimate that the Biden Administration's proposed tax increases would decrease wages and labor productivity by 8 percent, in combination with nearly a 20 percent reduction in capital intensity.

The relationships presented above are not a perfect model of the Budget for FY2024. A more accurate predictive model would need a more complex set of equations, including more variables like depreciation rates and inflation, and taxes directly affecting employment. Also, the model limits the analysis to the case of C-corporations that finance through selling corporate equity. Changes in taxes imply changes in relative costs, provoking a migration of entrepreneurial activity towards pass-through entities, and C-corporations using debt instead of equity to raise capital. Moreover, the results do not include unanticipated future shocks, in the same way that TCJA could not anticipate the effects of the global pandemic of 2020, nor future changes in tax policy.

However, the high elasticity of capital, in combination with the closure of legal provisions of alleviating the corporate tax burden, makes it plausible that the impact to the economy of the Biden Administration's tax proposals would be larger than the sum of individual changes.

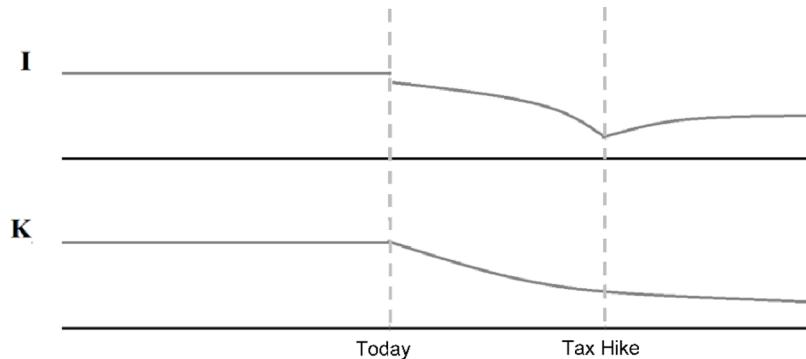
### **Anticipated Tax Hikes Have Negative Effects Today**

The price theory model in Box 4-6 estimates the long-run outcome of the Biden Administration's tax hike, modeling the taxes as an unexpected economic shock. But when a change in tax policy can be anticipated, rational economic agents will often start adjusting before that new policy is implemented.

For example, if businesses anticipate a tax increase next year, they will start reducing investment today, which means that the availability of investment capital will begin to decline as it will depreciate faster than the new capital created. Once the new corporate tax policies are implemented, the system will continue evolving towards the new steady state.<sup>299</sup>

If the tax policy legislation fails, economic agents will incorporate this revised expectation of the future and the economy will gradually return to its previous state. However, if these investors (or some portion of them) believe that the tax policy will be approved at some point in the future, the original equilibrium will not be reattained, as shown in Figure 4-3.

Figure 4-3: The Dynamic Effect of Anticipated Taxes



The public has seen the Biden Administration advocate for its preferred tax changes over the last three years. These are not small changes, and if investors believe their implementation to be somewhat probable, long-term corporate investments would be lower than in a scenario absent such a threat. In other words, it is possible that the incomplete post-pandemic recovery is partially attributable to reduced levels of investment due to these tax policies that have been proposed, but not implemented.

This scenario would also imply that if the Biden Administration's preferred tax reform is passed, the reduction in wages and productivity would be somewhat smaller than projected in Box 4-6, because rational investors are already hedging their bets about the potentially reduced stock of investment capital in the future.

The scenario also serves as a lesson of how political rhetoric about taxes can affect economic growth. Even if the tax increase never materializes, the mere potential of its passage can be enough to reduce economic growth.

Moreover, the stock of capital available to invest would change not only quantitatively but also qualitatively, disfavoring the long-term tangible investments that help stimulate structural growth. This is one of the reasons that countries in Latin America, where

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changes in governments have led to abruptly different tax policies, find it hard to attract long-term foreign investment. The possibility that the next election could render the investments worthless decreases the expected payoff for investing.

### **The U.S. Tax System is not “Unfair”**

#### *The U.S. Tax System is Highly Progressive*

As it describes the Biden Administration’s proposed tax reforms, the President’s Budget for FY2024 repeats the term “fair share” nineteen times. The rhetoric that the U.S. tax system is unfair has been taken up by many political figures, arguing that the wealthy do not contribute a sufficient portion of taxes. The argument implies that the working class is burdened with paying more taxes than is appropriate to make up the difference.

The data do not support this view. While exceptions to the rule exist, higher income households account for an increasingly disproportionate amount of total tax collections. When net taxes are considered (accounting for government redistribution of income), the situation becomes even more lopsided.

Figure 4-4 shows the proportion of total Federal taxes paid by each income quintile of households from 1979 through 2019. The taxes collected from the top 20 percent of households went from 55 percent of all Federal tax receipts in 1979 to almost 70 percent by 2019. This share is even higher when focusing on income tax liability (see Figure 4-5). The top quintile accounts for 90 percent of all income tax receipts, while the lowest two quintiles experience a net negative tax liability due to government transfers.

Figure 4-4: Shares of Household Federal Tax Liabilities

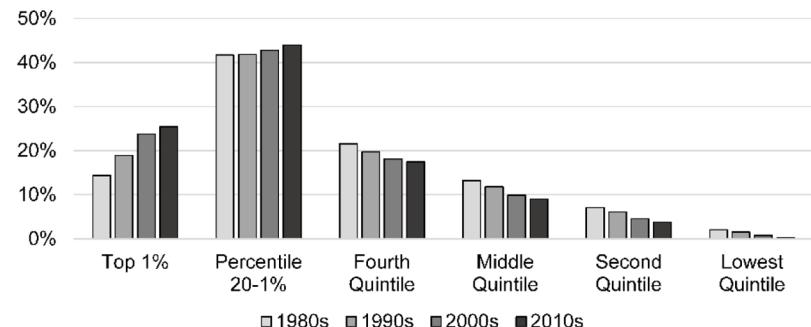
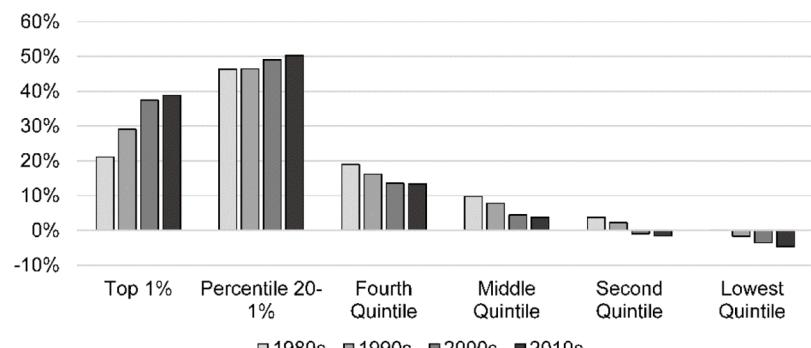
Source: CBO (November 2022 report *The Distribution of Household Income, 2019*)

Figure 4-5: Shares of Personal Income Tax Liabilities, Accounting for Transfers

Source: CBO (November 2022 report *The Distribution of Household Income, 2019*)

While a large part of the U.S. population appears to believe that the top 1 percent of households find ways to avoid paying any taxes, the reality is that these households have consistently contributed a disproportionate and increasing share of tax collections. Notably, this steady increase in the share of total government revenues contributed by the top quintile has occurred *despite* multiple large-scale tax reforms in recent years.

- Tax Reform Act of 1986
- Taxpayer Relief Act of 1997
- Economic Growth and Tax Relief Reconciliation Act of 2001

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- Jobs and Growth Tax Relief Act of 2003 plus extensions
- Tax Cuts and Jobs Act of 2017

Another oft-repeated accusation against the modern U.S. tax system is that modern Federal deficits are caused by improperly low marginal income tax rates, especially on the highest income households. This argument may seem superficially accurate because *statutory* personal income tax rates were indeed higher in the past. The highest marginal tax rate exceeded 90 percent in the 1940s and 1950s before being lowered to 70 percent from 1964 until 1982.<sup>300</sup> The top marginal income tax rate was decreased to 50 percent in 1982 and to 28 percent in 1986, before being increased to between 35–39.6 percent from the early 1990s until today.<sup>301</sup> Throughout this period, however, the *effective* tax rate on the highest earners has been fairly consistent, suggesting that arguments premised on prior statutory tax rates are irrelevant (see Figure 4-6).<sup>302</sup> This is another indication that Federal deficits are a spending problem, not a revenue problem.

Figure 4-6: Revenue and Outlays as a Percent of GDP

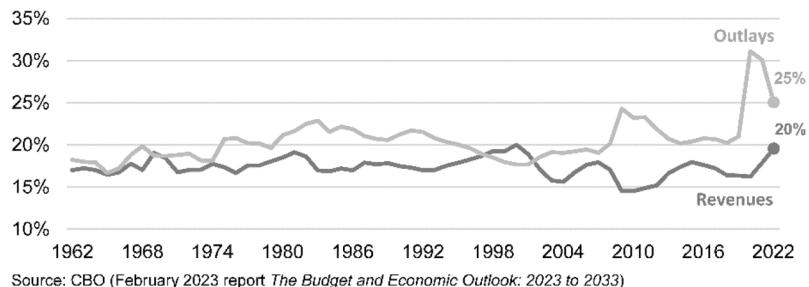


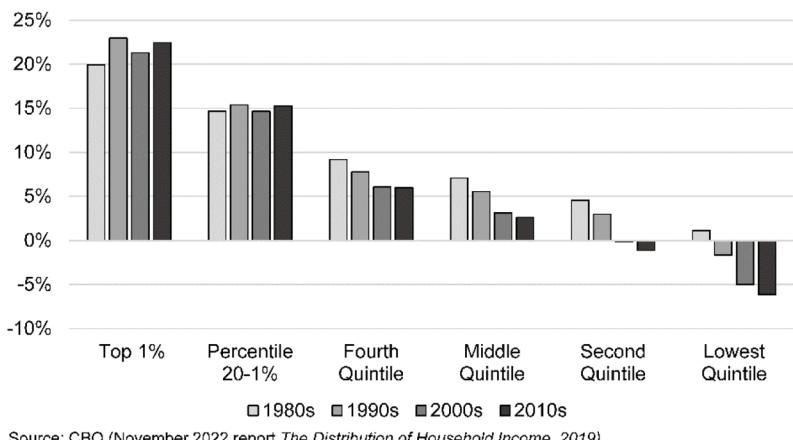
Figure 4-7 illustrates that the average individual income tax rates (15 percent for the top quintile and 20–25 percent for the top 1 percent of earners) have been consistent since at least 1979, despite the multiple substantial changes in tax brackets that have

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occurred since then. In comparison, the average individual income tax rates for the lower four quintiles have trended lower, with the second-highest quintile currently paying about 5 percent of their income in taxes while the lowest two quintiles effectively experience negative income tax rates (see Figure 4-7).

Figure 4-7: Average Federal Individual Income Tax Rate, Including Tax Credits and Deductions



Source: CBO (November 2022 report *The Distribution of Household Income, 2019*)

### *The U.S. Tax System Is More Progressive Than Most Other Advanced Economies*

Another common argument in favor of raising taxes is that the United States does not tax wealthy households as much as some other OECD countries. While it is true that the top marginal personal income tax rates are higher, especially in Europe, there are several additional factors to consider.

First, most comparisons only consider taxes levied by the central government, meaning they omit sub-national (e.g., state) tax collections which have a larger role in U.S. government finances.<sup>303</sup> For example, under President Biden's FY2024 budget proposal, the combined Federal and state top marginal personal income tax would exceed 54 percent and 52 percent in New York and California respectively.<sup>304</sup> Nor is this the whole story, since

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multiple states omit income taxes entirely, preferring to primarily fund government operations on sales, property, or severance taxes.

Moreover, this class of argument completely ignores that the same countries often have a less progressive tax structure than the United States. As shown, the lower income quintiles in the U.S. effectively receive a negative income tax—their counterparts in the OECD generally face positive tax rates, especially in countries that use VAT (Value-Added Taxes).<sup>305</sup>

Furthermore, despite having low top marginal income tax rates, the United States is in the top half of countries in terms of revenue collected from distributionally-progressive taxes (like personal and corporate income) while near the bottom in tax collection from distributionally-neutral taxes (like VAT and sales taxes).<sup>306</sup>

Finally, U.S. corporate tax policy is not an outlier compared to other advanced economies. The reduction in corporate tax rates in the 2017 Tax Cuts and Jobs Act is best understood as the U.S. catching up to a worldwide trend originating in the 1980s (see Figure 4-8). Its corporate income tax remains above the median of similar taxes across the world (see Figure 4-9). If progressive tax outcomes are the metric that determines fair tax policy, then the U.S. is a world leader in fair taxes.

Figure 4-8: Net Corporate income tax rate in OECD Countries

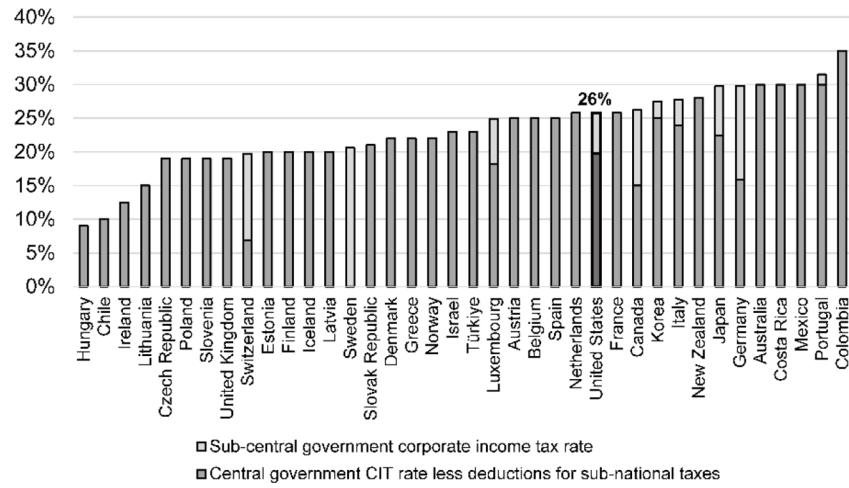
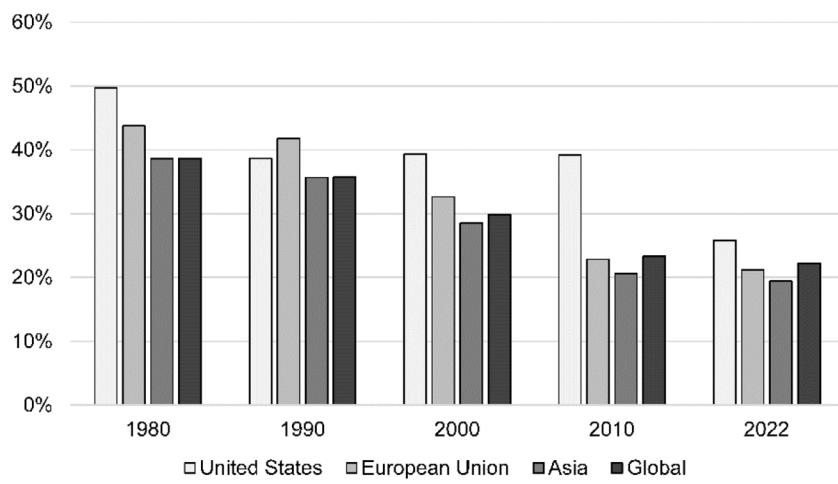
Source: OECD (2022 *National and Subnational Corporate Income Tax Rates*).

Figure 4-9: Comparison of Net Corporate Tax Rates



Source: OECD (Table II.1. Statutory corporate income tax rate)

### Appendix: Deriving the Neoclassical Growth Model

#### *Model*

The basic output function is defined as:

$$Y = TFP * F(K, L)$$

where, Y is the total output, TFP is the total factor productivity, K is a measurement of capital employed, and L is the amount of labor used in production. The function  $F$  represents the transformation of inputs into final production.

When constant returns to scale are assumed, there are two ways to measure changes in the system. First, changes in the factors:

$$\Delta Y = \Delta TFP + (S_L \Delta L + S_K \Delta K)$$

Where  $\Delta$  represents a percent change of a variable ( $\Delta X = \partial X/X$ ), and  $S_K, S_L$  represent the share of revenue attributable to the cost of each input factor. Second, changes in the prices:

$$\Delta TFP = S_L \Delta \frac{W}{P} + S_K \Delta \frac{R}{P} = S_L \Delta w + S_K \Delta r$$

where W represents nominal wages (w, real), R represents the nominal return to capital (r, real), and P is the price of the final product.

Assume that capital is perfectly elastic in the long-run, therefore,  $\Delta R = -\Delta(1 - \tau)$ .

If the total factor productivity remains constant ( $\Delta TFP = 0$ ), the one can derive the equations for changes in the business sector:

#### **Real Wages:**

$$S_L \Delta w + S_K \Delta r = 0$$

$$\Delta w = -\frac{S_K}{S_L} \Delta r$$

$$\Delta w = \frac{S_K}{S_L} \Delta(1 - \tau)$$

**Capital Intensity:**

First, define elasticity as  $\sigma = \frac{(\Delta K - \Delta L)}{(\Delta W - \Delta R)}$

$$\Delta K - \Delta L = \sigma(\Delta W - \Delta R)$$

Replacing  $\Delta W$  with  $\frac{S_K}{S_L} \Delta(1 - \tau)$  and  $\Delta R$  with  $-\Delta(1 - \tau)$

$$\Delta K - \Delta L = \sigma \left( \frac{S_K}{S_L} \Delta(1 - \tau) - (-\Delta(1 - \tau)) \right)$$

$$\Delta K - \Delta L = \sigma \left( \frac{S_K}{S_L} + 1 \right) \Delta(1 - \tau)$$

$$\Delta K - \Delta L = \sigma \frac{S_K + S_L}{S_L} \Delta(1 - \tau)$$

Given the assumption of constant returns to scale,  $S_K + S_L = 1$

$$\Delta K - \Delta L = \frac{1}{S_L} \sigma \Delta(1 - \tau)$$

**Average Labor Productivity:**

Taking the equation representing percentual change in total output and taking  $\Delta TFP = 0$ ,

$$\Delta Y = S_L \Delta L + S_K \Delta K$$

Subtracting  $\Delta L$  on both sides and replacing  $S_L = 1 - S_K$

$$\Delta Y - \Delta L = (1 - S_K) \Delta L + S_K \Delta K - \Delta L$$

$$\Delta Y - \Delta L = S_K \Delta K - S_K \Delta L$$

$$\Delta Y - \Delta L = S_K (\Delta K - \Delta L)$$

Using the form of capital intensity,  $\Delta K - \Delta L = \frac{1}{S_L} \sigma \Delta(1 - \tau)$

$$\Delta Y - \Delta L = S_K \left( \frac{1}{S_L} \sigma \Delta(1 - \tau) \right)$$

$$\Delta Y - \Delta L = \frac{S_K}{S_L} \sigma \Delta(1 - \tau)$$

#### Calibration

We follow the standard literature for the first two components, assuming  $S_K=0.4$ , and  $\sigma=1$ .<sup>307</sup>

The last component to estimate is the changes in taxes. This is a little bit more complex because the income received from investing in C-corporations has two layers of taxation (see Box 4-1).<sup>308</sup> Moreover, not all investors will be affected in the same way. Therefore,  $\Delta(1 - \tau)$  cannot be taken as the simple addition of tax rates. Table 4-3 shows the effective tax rates on capital before and after credits using the latest Internal Revenue Service data.<sup>309</sup> To estimate the change in the after-tax returns, use the second set of columns in the table. The table shows that the overall after-credit tax rate closely follows the rate paid by the largest companies.

**Table 4-3: Average Corporate Income Tax Rates<sup>310</sup>**

RETURNS OF ACTIVE CORPORATIONS, OTHER THAN FORMS 1120S, 1120-REIT, AND 1120-RIC								
Size of business receipts	Percentage income tax over income subject to tax before credits				Percentage income tax over income subject to tax after credits			
	2016	2017	2018	2019	2016	2017	2018	2019
Total	35.1	35.8	20.6	21.5	24.9	26.4	12.5	14.8
< \$25K	33.3	33.0	21.3	21.8	30.1	31.1	16.4	16.6
\$25–100K	20.3	23.8	20.6	—	19.6	23.7	20.1	20.2
\$100–250K	19.9	20.2	20.9	21.4	19.5	19.7	19.6	20.2
\$250–500K	22.8	22.5	21.1	21.1	21.7	22.0	20.4	19.0
\$500–1M	24.5	24.6	21.4	21.3	23.9	23.7	19.3	20.7
\$1–5M	29.1	29.9	21.3	21.4	27.8	28.4	20.3	20.4
\$5–10M	33.7	32.7	21.7	21.3	31.9	31.1	19.9	20.0
\$10–50M	34.6	34.0	21.7	21.5	32.4	31.7	19.7	19.5
\$50–100M	34.8	34.3	21.6	21.3	31.3	32.3	18.9	18.0
\$100–250M	35.3	35.2	21.5	21.3	32.0	30.1	18.4	18.5
\$250–500M	35.2	35.2	21.4	21.4	30.0	31.5	16.8	17.7
\$500–1B	35.3	35.5	21.7	21.7	28.0	30.3	15.9	17.2
> \$1B	35.2	36.3	20.5	22.2	23.8	25.4	11.6	14.2

Note that this data is prior to Inflation Reduction Act's Corporate Alternative Minimum Tax (CAMT), which imposed a 15 percent minimum tax on the net income reported in large corporations' financial statements.

Use the 2019 data from Table 4-3 if corporations in the highest bracket (greater than \$1 billion) pay 15 percent on profits (after credits) while the rest pay their listed tax rate in the rightmost column. Given that companies with receipts over \$1 billion represent around 80 percent of total tax receipts, the corporate income tax rate on taxable income would be 15.5 percent. That is,  $(1 - \tau_c^{pre}) = 0.845$ .<sup>311</sup>

The Biden Administration's proposed tax reform applies a generalized tax increase to domestic and foreign profits, trying to close every provision that companies might use to avoid the tax increase. Therefore, the estimate relies on a simplifying assumption that business see their taxes on profit rise by 7 percent higher across the board, that is  $(1 - \tau_c^{post}) = 0.775$ .

Next, calculate the changes in taxes on dividends. The Biden Administrations tax proposal would restore the top marginal individual income tax rate to 39.6 percent and would also tax qualified dividends as ordinary income for those earning over \$1 million in a year. Using Internal Revenue Service data for personal income tax, JEC economists estimate the rates for ordinary dividends using the amounts reported for each bracket and the average income tax paid over taxable income.<sup>312</sup> Since qualified dividends are currently taxed at a different rate, JEC applied those preferential rates to each corresponding bracket. Using this methodology, the value of the overall pre-reform tax rate on dividends as  $\tau_d^{pre}$  is 0.202.

The post-reform rate is calculated in a similar way but changes the rates of the higher earners to the average rates of 2016, which is the last year before there were discussions about possible tax cuts.<sup>313</sup> JEC estimates  $\tau_d^{post}$  as 0.234.

If the investor pays income tax for each dollar of profit that was also subject to the corporate tax, then the average investor that invests in the average C-type corporation, would see their post-tax share of the corporate profit reduced by more than eight cents for every dollar:

$$\begin{aligned} (1 - \tau^{post}) &= (1 - \tau_c^{post})(1 - \tau_d^{post}) = 0.775 * 0.766 = 0.594 \\ (1 - \tau^{pre}) &= (1 - \tau_c^{pre})(1 - \tau_d^{pre}) = 0.845 * 0.798 = 0.674 \end{aligned} \quad \left. \right\}$$

This represents almost a 12 percent decrease in income received.  
 Replacing the equations defined above:

- Changes in Real Wages:

$$\Delta w = \frac{S_K}{S_L} \Delta(1 - \tau) = \frac{2}{3} (-0.1196) = -0.0797$$

- Changes in Capital Intensity:

$$\Delta K - \Delta L = \frac{1}{S_L} \sigma \Delta(1 - \tau) = \frac{5}{3} (-0.1196) = -0.199$$

- Changes in Average Labor Productivity:

$$\Delta Y - \Delta L = \frac{S_K}{S_L} \sigma \Delta(1 - \tau) = \frac{2}{3} (-0.1196) = -0.0797$$

That is, project that the Biden Administration's proposed tax increases will decrease wages and labor productivity by 8 percent, in combination with nearly a 20 percent reduction in capital intensity.

## CHAPTER 5: GETTING PRIME-AGE MEN BACK TO WORK

Prime-age men's labor force participation has trended consistently downward for 60 years. One in nine men between the ages of 25 to 54 is now a non-participant in the workforce—more than triple the rate recorded during the 1950s.<sup>314</sup>

This reduction in labor supply has had profound socioeconomic and fiscal effects. If 25 percent of inactive prime-age men could be re-integrated into the workforce, JEC economists' projections show that:

- the economy (measured as GDP) would be \$215 billion larger,
- the Federal government would collect an additional \$400 billion from 2024–2033,
- average household income would increase by \$1,325.

There are a variety of explanations for the increase in prime-age men's inactivity, but perhaps the most credible answer is that each factor increasing prime-age men's inactivity tends to reinforce the others.

- Rising participation in state and Federal disability programs, as well as other income support programs and the support of family members, allows inactive prime-age men to avoid destitution.
- The social pressures and self-esteem that kept men in the workforce, such as the potential for marriage and the prospects for a satisfactory job, have decreased.
- Institutional barriers to work, such as occupational licenses, have reduced employment opportunities.

The Bureau of Labor Statistics forecasts that the decline in prime-age men's labor force participation will continue over the next

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decade, constraining economic growth.<sup>315</sup> Two policy proposals that could help reverse this trend are:

- expand employers' ability to invest in worker education and training, and
- protect the supply of independent work opportunities that allow workers to easily reconnect with the workforce.

### **Growth of the U.S. Labor Supply Faces Headwinds**

The U.S. labor market has seen substantial changes in the post-WW2 era. Men's overall labor force participation has trended steadily downward from a peak of 86.6 percent in 1948, while women's overall labor force participation rose to a peak of 60 percent in 1999 (see Figure 5-1). Combined overall labor force participation peaked in the same year. More specifically, men's *prime-age* (ages 25–54) labor force participation peaked at almost 98 percent in the 1950s but has since gradually decreased. Women's prime-age labor force participation rose along with the general trend, and recently exceeded its previous 1999 peak. As of mid-2023, men's labor force participation is roughly 11 percentage points higher than that of women across most age brackets—but the gap is noticeably smaller than the 16-percentage point difference that existed in 2008.

The growth of U.S. labor supply faces headwinds over the next decade, most notably due to the ongoing shift of the baby boom generation from the workforce to retirement (see Figure 5-2), but also from the long-run decreased participation of prime-age men in the labor market (see Figure 5-3). The overall workforce growth rate has gradually slowed due to these demographic trends, which has contributed to recent slower economic growth, reduced tax receipts, increased government spending, and greater social and socioeconomic dysfunction. Importantly, as Congress considers policies to address our ailing workforce, it is important to ensure

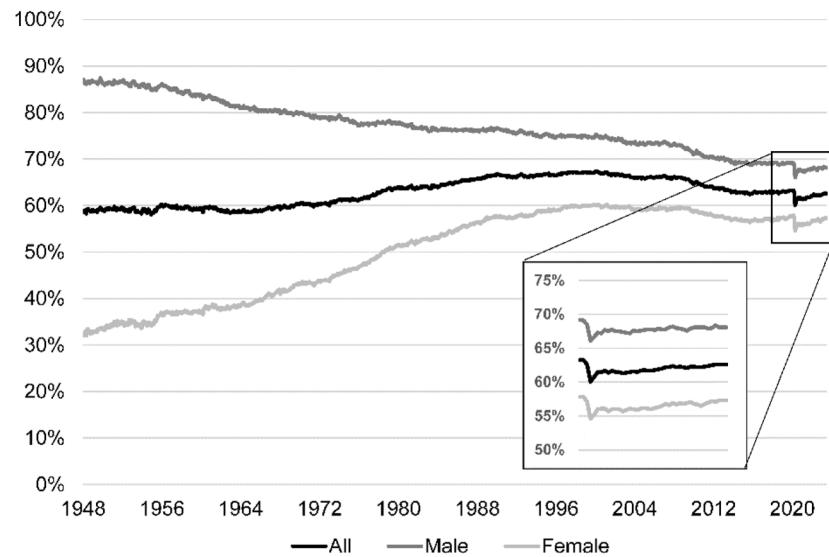
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that those policies do not inadvertently push out productive older workers who would otherwise remain in the labor force.

The retirement of baby boomers was anticipated, but the exit of prime-age men from the workforce has been a surprise. Prime-age men's labor force participation rate (LFPR) is 8 percentage points lower than its 1950s peak—if the same participation rate applied today there would be 5.5 million more participants in the labor market and the economy would be approximately 6 percent (\$1.6 trillion) larger.<sup>316</sup> The phenomenon has motivated much discussion and analysis, including previous research by the CEA (Council of Economic Advisers) and JEC (Joint Economic Committee), but it is difficult to determine the primary cause driving the trend.<sup>317</sup>

Figure 5-1: U.S. Labor Force Participation Rates

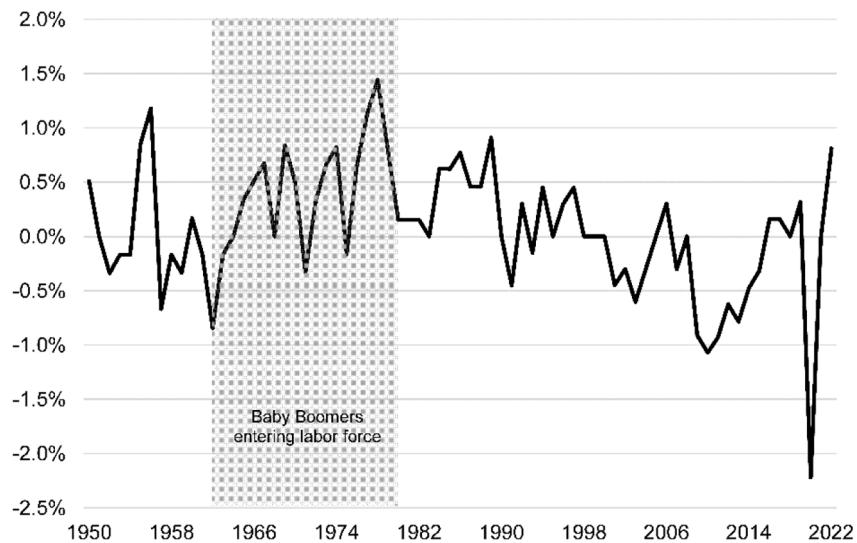


Source: BLS (Series IDs: LNS11300000, LNS11300001, LNS11300002). Magnified section observes January 2020 to June 2023.

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Figure 5-2: Growth Rate of U.S. Labor Force

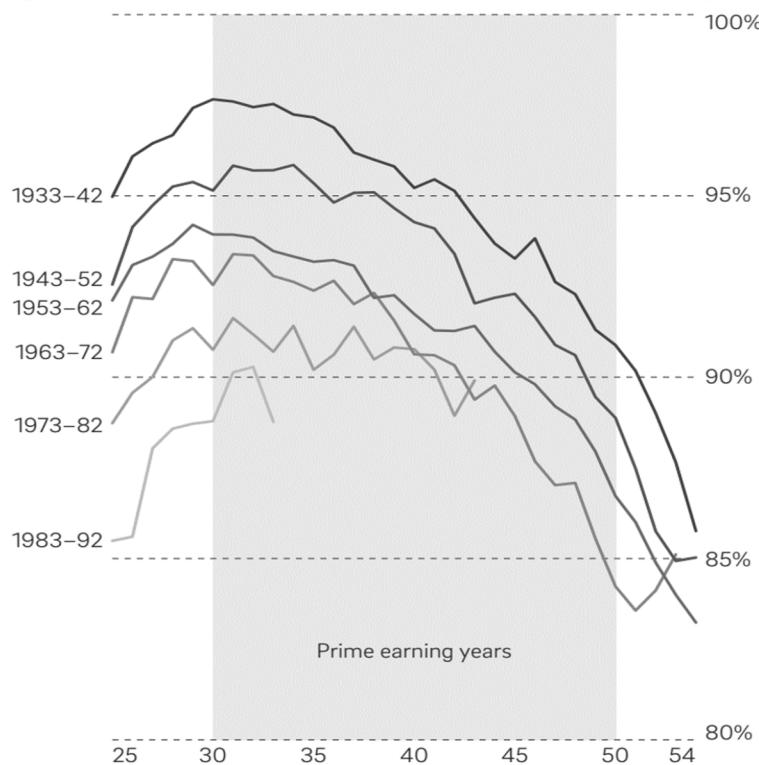


Source: BLS (Series ID: LNS11300000).

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Figure 5-3: Generational Decline of Male Labor Force Participation



Source: Figure taken from the Federal Reserve Bank of Philadelphia, (Fourth Quarter 2017).

### Inactive Prime-Age Men are Heterogenous

Nonparticipation in the workforce (abbreviated as “inactive” or “NILF” for “not in the labor force”) describes the third potential workforce status, alongside workers who are employed and those who are counted as officially unemployed.<sup>318</sup> These statistics are estimated for the “non-institutional population,” meaning the large majority of the population which are not part of the military, incarcerated, or living under supervised medical care.<sup>319</sup> Prior to 1970, less than 4 percent of prime-age men were inactive but as of 2023 this figure is now 11 percent.

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The same Bureau of Labor Statistics survey that provides information on labor force participation also asks the respondents the reason for their inactivity. Based on this self-report, the prime-age men who are inactive can be categorized into 5 groups:

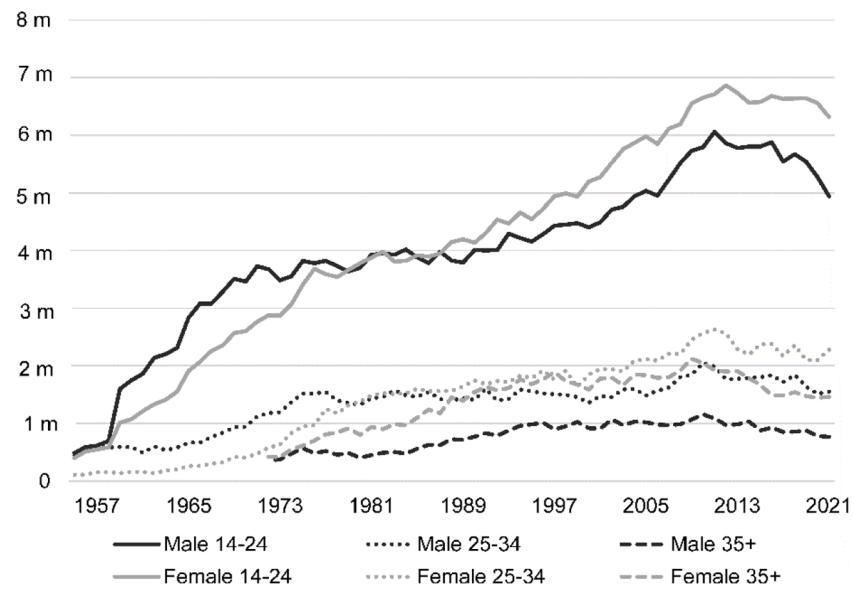
- Students
- Early retirees
- Family care providers
- Those for whom disability prevents work
- Some other reason (or no reason) for inactivity

Students, early retirees, and family care providers make up the smallest categories of inactive prime-age men. Each group has increased in size over previous decades, as higher-education enrollment has expanded (see Figure 5-4), workers have exercised early-retirement options (mostly attributable to government workers and military service members) and men have taken greater roles as family caregivers.<sup>320</sup> Despite the growth of each, these three groups in combination account for less than a third of prime-age inactive men (see Figure 5-5).

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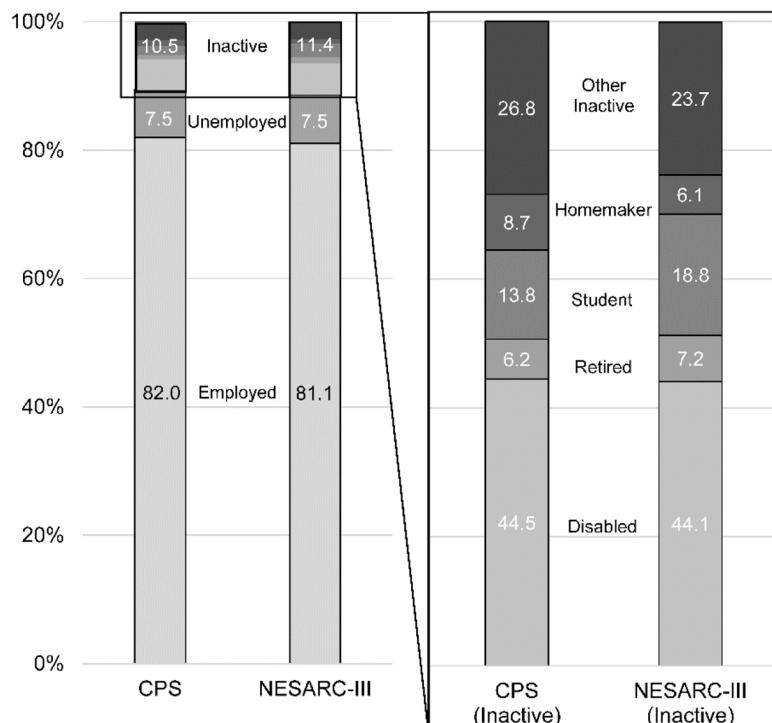
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Figure 5-4: College Enrollment by Age and Sex



Source: U.S. Census Bureau (CPS, *Historical Time Series Tables on School Enrollment, Table A-6*).  
Data for students aged 35 and over not available before 1972.

Figure 5-5: Reason for Male Labor Force Inactivity



Source: Data reproduced from JEC Social Capital Report (SCP) No. 2-18 (*Inactive, Disconnected and Ailing: A Portrait of Prime-Age Men Out of the Labor Force*; Figure 1).

Those reporting that a permanent disability renders them unable to work make up the largest group (approximately 44 percent) of prime-age inactive men.<sup>321</sup> They account for a smaller share of all inactive prime-age men than in prior decades, but still represent almost half of the increase in prime-age inactive men.<sup>322</sup> The sizeable increase of this group is somewhat surprising, given the substantial improvements in workplace safety, physical therapy, and decline in physically-demanding jobs.<sup>323</sup> Growth in the number of men receiving Federal and state disability benefits accounts for most of this increase in inactivity.<sup>324</sup> Interestingly, though perhaps not entirely unexpected, even non-disabled prime-age inactive men are more likely to report being in poor physical

and mental health (see Box 5-1 for a discussion of how telehealth reforms could improve prime-age men's access to healthcare).<sup>325</sup>

**Box 5-1: Improving Access to Telehealth**

State regulations severely inhibit the provision of telehealth services. This is because most state medical licensing regulations stipulate that the provision of medical service occurs wherever the patient is located, not the medical provider. As a result, any telehealth provider who even provides a modicum of service to a patient in another state must be licensed in that state, or else risk legal action for practicing without a license.

This approach to licensing has balkanized the U.S. medical system. In the 1990s, as long-distance phone call rates fell and inexpensive telehealth became a feasible option, it was the threat of action by the Federal government that motivated states to create the Nurse Licensure Compact to allow for mutual recognition of nursing licenses. However, the movement faltered after less than half of states joined the compact.<sup>326</sup> Following expansions in broadband internet availability and the development of Wi-Fi and smartphones that would have enabled telehealth to reach many more patients, the Federal government again began to move toward solving the restrictions on telehealth.<sup>327</sup> This motivated states to replace the NLC with the enhanced Nurse Licensure Compact (eNLC), which as of July 2023 has 41 members (39 states and 2 territories).<sup>328</sup> Multiple other medical licensure compacts have been created to expand the potential of telehealth, as well as facilitate the movement of healthcare providers throughout the country.

While this progress is laudable, it is not sufficient. Many states remain holdouts to the medical licensure compacts. In addition, most states have rolled back their temporary authorizations for out-of-state mental health providers practice under their existing license during the COVID-19 pandemic.<sup>329</sup> Research suggests that

a substantial portion of prime-age men's disengagement from the workforce is attributable to mental health difficulties and other health issues including substance abuse.<sup>330</sup> Such services are easily provided via telehealth, which would substantially reduce the monetary and logistical cost of the counseling sessions that could help inactive prime-age men turn their lives around.

Regulation of interstate commerce is the domain of the Federal government, and the creation of Federal licenses for telehealth providers would vastly expand the availability of such services. These Federal licenses should be limited in application to the specific situations where healthcare workers provide services across states lines—within-state provision of medical services would remain the domain of the state government. The Federal licenses could be patterned after the already-successful compact licenses, and a Federal licensing regime should not overrule states which have signed a compact governing the cross-border provision of medical services with each other. In such cases, the compact should govern such cross-border services rather than the Federal license. In short, the Federal license would only apply to situations where either the telehealth practitioner or the patient is in a non-compact state.

### **The Value of Increasing Prime-Age Men's Activity**

Each of the first four groups of inactive prime-age men arguably has a reasonable rationale for their inactivity, but the fifth group does not fit into any of the previous explanations. Around 25 percent of inactive men belong to this other group, corresponding to approximately 1.8 million potential workers—equivalent to 1 percent of the current workforce.<sup>331</sup> The economic, fiscal, and social value achieved from these individuals' return to the workforce could be considerable (see Box 5-2).

This goal is not impossible. Although many inactive prime-age men seem fully disconnected from the workforce—having neither worked or looked for employment in over a year—this point-in-time snapshot approach misses that there is substantial churn in and out of the workforce for the rest.<sup>332</sup> This means that a typical data analysis would effectively undercount the number of “in-and-outs” and overcount the number of “dropouts” (because each dropout would be counted multiple times across ongoing surveys).<sup>333</sup> The in-and-outs are a prime group to target for policies that would help reconnect them with the workforce.

**Box 5-2: Benefits of Improving Men’s Labor Force Participation**

There are several economic benefits that could be realized by reconnecting a quarter of inactive prime-age men to the workforce.

*Economic Growth*

JEC economists follow the Congressional Budget Office’s (CBO) methodology for estimating the long-run economic effect of an increase to labor supply.<sup>334</sup> The data for the CBO’s “Budget and Economic Outlook: 2023 to 2033” show that their models estimate the projected labor share of income from the nonfarm/business sector is 0.671.<sup>335</sup> This sector accounts for approximately 75 percent of the economy.<sup>336</sup> The labor share of income for the other economic sectors (agriculture, government, non-profit, and household) is close to 1.0.<sup>337</sup>

Using this information, JEC constructed a weighted average that models the elasticity of potential output growth (which corresponds to the long-run growth in real Gross Domestic Product) with respect to increases in labor supply. A 1 percent increase in labor supply, effectively that which would result from reconnecting 25 percent of inactive prime-age men with the workforce, would expand the economy by 0.80 percent. This

corresponds to a permanent increase in annual economic activity worth \$215 billion (2023 dollars).

*Fiscal Effects*

JEC economists follow the CBO's methodology for estimating the effect of long-run economic growth on tax receipts. Federal revenues are projected to average 18.2 percent of GDP from 2023–2033.<sup>338</sup> They use this, in conjunction with CBO's GDP projections and the previous estimate that reconnecting 25 percent of currently inactive prime-age men to the labor force would increase long-run economic activity by 0.80 percent, to estimate that Federal receipts would rise by around \$400 billion over 2024–2033.<sup>339</sup>

*Household Income*

Following the CBO's methodology, JEC economists use the anticipated long-run increase in GDP to estimate the associated increase in average household income. Multiplying the increase in long-run GDP by the derived labor income share of long-run GDP (0.80, see above), produces the long-run anticipated growth in worker incomes, estimate to be \$175 billion annually in 2023 dollars. This is equivalent to a \$1,325 permanent increase in average household income (however, the increase is likely to predominantly occur at the lower end of the income distribution because inactive prime-age men generally have lower education attainment than average).<sup>340</sup>

**Why Are Prime-Age Men Increasingly Inactive?**

There are two general categories of explanations for prime-age men's declining labor force participation: supply-side factors and demand-side factors (see Boxes 5-3, 5-4, and 5-5). To a limited extent, each avenue may influence the other. For example, if some workers reduce their supply of labor due to other sources of

income, employers may increase their investment in labor-saving capital in response to the upward pressure on wages that the labor shortfall causes.<sup>341</sup> This could lead to permanent changes in the demand for labor, as broad application of the new technology may diminish labor demand beyond the original reduction in labor supply.

**Box 5-3: The Structure of Labor Supply**

Looking at the situation from workers' point of view, the most basic model in labor economics evaluates the fundamental tradeoff that workers make between consumption and leisure. According to this model, workers maximize their wellbeing, or utility (U), by devoting a portion of their time to productive activities (Work) that enable consumption (C), and allocate their remaining time to leisure (L, a term that serves as a catch-all to denote non-productive activities, such as sleep, entertainment, socialization, etc.). The ability to maximize utility is constrained by the individual's budget for time and money.

Maximize  $U(C, L)$ , subject to:

Time Budget = Work + Leisure

$Consumption \leq Work * Wage + Other\ Income$

A given worker's response to a change in their wage or other income will depend on their utility function (and where they are on their utility function). In this simplistic scenario, a (rational) worker will allocate their time budget such that the marginal benefit of an additional unit of consumption and leisure are equivalent. At such an equilibrium, and holding all other things constant, a wage increase would likely motivate them to devote more time to work, until the tradeoff between marginal changes in work and leisure again equalizes. Alternately, if their income from other sources increases, they will likely decrease the time they

devote to work until the marginal benefit of consumption and leisure equalizes.<sup>342</sup>

A small but important expansion to this simplistic model would include accounting for the worker's reservation wage. A worker's reservation wage is effectively their opportunity cost of working—the minimum compensation they require to enter the workforce. An individual's reservation wage depends on their other sources of income, such as whether their household contains other workers or receives social welfare benefits, and the value of the time they devote to household production activities.

$$\text{Reservation Wage} = f(\text{Household Production, Other Income})$$

Adding household production transforms the model:

Maximize  $U(C, L)$ , subject to:

$$\text{Time Budget} = \text{Work} + \text{Leisure} + \text{Household Production}$$

$$\text{Consumption} \leq \text{Work} * \text{Wage} + \text{Other Income} + \text{Household Production}$$

Again, a rational individual will tend to allocate their time such that the marginal effect on their utility from consumption and leisure are equal. Like before, an increase to the value of household production would tend to decrease the time allocated to work and leisure. A common example of this is seen when parents make the decision to reduce the amount of time devoted to outside work (and leisure) to provide care for a newborn baby.

Another relevant expansion to the model would be to include the non-pecuniary value of work and household production. This is the utility that an individual derives from a productive activity, or from the indirect benefits it provides, separate from the utility of the consumption it allows. It can be positive if the individual is employed in a job they enjoy, perhaps because of friendly

coworkers that form a supportive community, or because they find meaning in what they produce, or due to the social status the job provides. It can also be negative if the worker feels their skills are improperly matched to their job, or if they lack a sense of autonomy or control over their efforts, or if the job interferes with a healthy work-life balance.

Adding the non-pecuniary value of work and household production transforms the model:

Maximize  $U(C, L, NPV)$ , subject to:

Time Budget = Work + Leisure + Household Production

Consumption  $\leq$  Work \* Wage + Other Income + Household Production

The inclusion of the non-pecuniary value of work adds substantial complexity, because different jobs and different forms of household production will provide different amounts of non-pecuniary value to each person. However, it could be relevant to the issue of prime-age men's inactivity if those who are inactive perceive that the non-pecuniary value of available jobs have changed over time.

#### **Box 5-4: Supply-Side Explanations for Men's Inactivity**

There are several supply-side explanations as to why prime-age men's inactivity has increased. The first suggests that expansions to government income assistance—predominantly Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI)—have increased the other income category, leading to reductions in the supply of labor by those workers (See Box 5-3 for a discussion of how workers make labor supply decisions). For example, reforms to the SSDI program in the 1980s expanded eligibility for mental health conditions, as well as other qualifying criteria, increasing the payoff for workers to exit the labor market

completely to substantiate their request for approval.<sup>343</sup> Furthermore, because income is fungible, a prime-age man's labor force participation can be affected by others in his household who work or have been approved for government income assistance. Inactive prime-age men are substantially more likely than employed prime-age men to live with a relative who heads the household and provides for expenses.<sup>344</sup>

Another supply-side explanation proposes that improvements to the quality of leisure activities have effectively increased prime-age men's reservation wage, leading the workers with the lowest expected income to exit the labor market or delay entering it. Indeed, the American Time Use Survey shows that inactive prime-age men on average spend about 7.5 hours each day on leisure activities.<sup>345</sup>

Third, if the type of jobs available have substantially changed (or if prime-age men's expectations of the benefits that work should provide has changed), then the implicit value provided by employment may have decreased. The gradual ascent of the service economy in the U.S. may have reduced the availability of blue-collar jobs while women overtaking men in college education may have caused the marriage market for lesser-educated men to become increasingly difficult.<sup>346</sup>

Research published by the Federal Reserve Bank of Richmond suggests that the decline in marriage rates is associated with a quarter of the 8.4 percent decline in average annual work hours by prime-age men from 1979 and 2018.<sup>347</sup> If the implicit rewards gained from employment have decreased, it would help explain why, even in the current labor market where there are more than 1.5 jobs for each job seeker, inactive prime-age men are not returning to the labor market in larger numbers.<sup>348</sup>

Lastly, there has been an outsized increase in occupational licensing regulations, rising from covering 5 percent of jobs in the 1950s to 25 percent of current jobs.<sup>349</sup> These changes, as well as the overall increase in higher-educated workers competing for jobs, may have closed off higher-pay and higher-value employment for some men, leading them to exit the labor force completely rather than accept a lackluster job. This phenomenon may also play a role in why so many men have delayed or abandoned attaining higher education.<sup>350</sup>

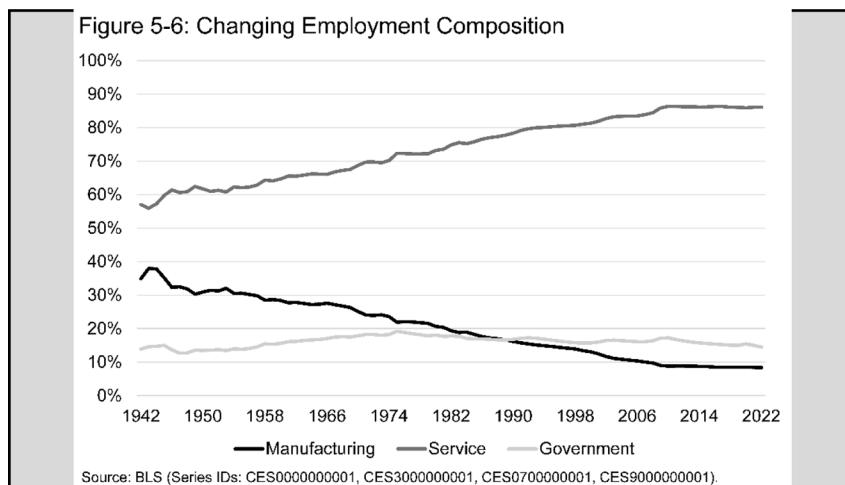
A combination of explanations seems to be the most likely answer to prime-age men's increasing inactivity. Increased access to other sources of income, including government assistance, opens a door to reduced labor force participation. This is exacerbated by higher value entertainment options, which increase a worker's reservation wage. In fact, many modern video games are explicitly structured to reward progress in ways designed to keep the player occupied for longer time periods. Interestingly, in many cases this progression mimics the gradual accumulation of mastery (and in some cases places demands on the players resembling the completion of work-like activities).<sup>351</sup> This perhaps addresses the intrinsic human need to feel productive that might otherwise lead a person to gravitate back toward employment. Furthermore, women have reversed the education gap that existed prior to 1982 and now receive almost 60 percent of bachelor's degrees.<sup>352</sup> To the extent that this dims the marriage prospects for lesser-educated men, they may make a rational (given their reduced expectations) choice to avoid the effort needed to pursue stable employment that would improve their opportunity for marriage.

**Box 5-5: Demand-Side Explanations for Men's Inactivity**

JEC economists take a somewhat simpler approach in looking at the situation from employers' point of view (accounting for shifts in labor demand). Employers use a combination of labor and

capital to produce products and services that customers desire. The specific types of labor and capital used, and the ways that they are combined, depends on which production technology is used, which in turn depends on the location of production (and thereby availability and cost of each potential input), the cost of transportation, access to consumer markets, and customer perception, among other factors. Explicitly modeling these elements is unnecessary to the discussion at hand, however.

The primary demand-side issue relevant to the issue of prime-age men's rising inactivity is the long-term decrease in manufacturing jobs due to increases in automation and international trade (see Figure 5-6). Furthermore, manufacturing today generally requires a more advanced skillset than in previous decades, meaning that lesser-educated workers may have had a harder time finding employment as the industry modernized.<sup>353</sup> Some researchers have argued that these trends are predominantly responsible for prime-age men leaving the labor market—that the subset of prime-age men who previously would have worked in manufacturing-related employment either do not have the necessary skills (or else are unwilling) to work in the service sector, which has accounted for a large share of job growth over the past several decade.<sup>354</sup>



### Reforms to Help Reconnect Inactive Prime-Age Men

#### *Tax Regulations Inhibit Human Capital Investments*

Higher education and trade-specific training are well-documented means for workers to increase their future earnings. In essence, the advanced education improves a worker's productivity (also known as their "human capital"), which then enables access to jobs with higher compensation. This is good for the worker, good for their employer, good for the customers thereby served, and good for the entire economy.

However, current tax regulations force most workers to make this investment themselves, before being hired at a job that would use their skills. This leads to a risky decision, wherein the worker must effectively guess which education option would be most valued by their future employers, and then often go into debt to pay for the education, with the hope that their future earnings will be sufficient to pay off the loan.

Although experience proves that this approach is feasible for many workers, it also showcases that many workers do not have sufficient information to make the right decision about which school or training center to attend, or even which career to select. Meanwhile, employers regularly complain that they face a skills gap, where the workers available for them to hire do not possess the combinations of skills that they desire.<sup>355</sup>

A relatively simple reform to tax law could improve this inefficient paradigm by allowing employers to claim as a business expense the cost of worker training which prepares the worker to practice a new trade.<sup>356</sup> Doing so would put worker-based expenses on equal footing with physical capital-based expenses.

The Federal government currently expends approximately \$20 billion each year on employment and training (E&T) programs.<sup>357</sup> These are intended to improve workers' employability and facilitate career shifts, especially in regions where economic changes have reduced employment in previously strong industries. However, research has shown that these programs generally provide a poor return on investment.<sup>358</sup> A revenue-neutral reform could involve reducing spending on these existing programs and repurposing it to partially cover the cost of employer-directed training programs (via expensing) that would more directly provide workers with the specific skills needed for career success.

#### *Maintaining Access to Independent and Flexible Jobs*

The DOL (Department of Labor) has proposed a substantial change to its worker classification test which would make it meaningfully more difficult for companies to utilize independent contractors.<sup>359</sup> The existing test prioritizes two job characteristics (opportunity for profit or loss depending on managerial skill and the nature and degree of control a worker exercises over their activities) to serve as core factors of whether a worker qualified as an independent contractor. It identified three other factors (the

degree of permanence of the work relationship, the worker's skill and initiative, and whether the work performed was an integral part of the employer's business) that could overrule the core factors in unusual circumstances. This version of the test provides clarity for employers and workers as to the appropriateness of their professional relationship. This clarity then facilitates economic activity and investment for future growth, increasing the number of independent work opportunities available.

The DOL's proposed change to the worker classification test would (among other things) weight the five factors equally and introduce a sixth (whether the worker is economically dependent on the employer). In subsequent legal suits, this framework would allow the presiding judge to declare any factor, or combination of factors, to be the most important, substantially increasing the risk that companies face for business models that utilize independent contractors. Furthermore, the proposed rule change allows additional, unspecified factors to be considered in post hoc worker classification determinations, elevating the risk of using such business models to unseen heights. The proposed DOL rule stifles the ability for businesses to employ a flexible workforce which in turn impedes their ability to expand.

This rule change is relevant to the labor force participation of prime-age men because gig-style and other temporary independent contracting jobs are often the last rung on the economic ladder, both for those on their way up and those on their way down. The ubiquitousness and flexibility of these jobs, especially the self-determined scheduling that many provide, is exactly what those workers need to accommodate whatever life's struggles they are experiencing. The DOL's proposed rule would restrict one of the important ways that prime-age men who are teetering on the brink of exit can maintain their connection to employment, as well as the easiest avenue through which non-participants can rejoin the

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workforce. DOL should reevaluate their proposed rule to provide greater clarity for the worker classification test and to explicitly model the effects it would have on inactive prime-age men in their cost-benefit analysis.

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## ENDNOTES

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<sup>1</sup> 15 U.S.C. 21 § 1021(a).

<sup>2</sup> 15 U.S.C. 21 § 1021(a).

<sup>3</sup> 15 U.S.C. 21 § 1021(a), (e), (f).

<sup>4</sup> 15 U.S.C. 21 § 1021(j).

<sup>5</sup> 15 U.S.C. 21 § 1021(c).

<sup>6</sup> CBO, *Fiscal Responsibility Act of 2023*, 2, Table 1.

<sup>7</sup> CBO, *Projections for Social Security*, 9; CBO, *Outlook*, 18, footnote 17; SSA, *The Distributional Consequences of a "No Action" Scenario: Updated Results*, 2.

<sup>8</sup> See (e.g.) Bartlett, "The Joint Economic Committee in the Early 1980s," 186; Bianchi and Melosi "Inflation as a Fiscal Limit," 2.

<sup>9</sup> See (e.g.) Blanchard and Simon, "The Long and Large Decline in Output Volatility"; Stock and Watson, "Has the Business Cycle Changed? Evidence and Explanations."

<sup>10</sup> 15 U.S.C. 21 § 1024(b)(3).

<sup>11</sup> 15 U.S.C. 21 § 1021(a).

<sup>12</sup> Freeman, "The Biden Era of Greed?"; Freeman, "Another Surge of Greed in the Biden Era?"

<sup>13</sup> CEA, *Report*, p.482, Table B-38.

<sup>14</sup> The Federal Reserve's preferred inflation gauge is the annual change in the personal consumption expenditures (PCE) price index, while the CPI-U is better known by the

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public and policymakers. During the prior decades of low and stable inflation, CPI-U inflation tended to run only slightly higher than PCE inflation, although the difference widened during inflation's surge.

<sup>15</sup> CEA, *Report*, p.482, Table B-38. JEC calculation.

<sup>16</sup> BLS, CUURS48ASA0, CUUSS48ASA0; BLS, CUURS35BSA0, CUUSS35BSA0; BLS, CUURS35DSA0, CUUSS35DSA0; BLS, CUURS35CSA0, CUUSS35CSA0; JEC calculation.

<sup>17</sup> See (e.g.) Bernstein and Tedeschi, "Pandemic Prices."

<sup>18</sup> CEA, *Report*, p.482, Table B-38.

<sup>19</sup> See (e.g.) Boskin, et al., "The CPI Commission."

<sup>20</sup> Unrath, Semega, and Kollar, "The Impact of Inflation Adjustments."

<sup>21</sup> CEA, *Economic Report*, 482, Table B-38.

<sup>22</sup> Board of Governors, "Statement on Longer-Run Goals and Monetary Policy Strategy."

<sup>23</sup> BEA, Table 1.1.4, line 2. JEC calculation.

<sup>24</sup> See (e.g.) Whelan, "A Guide to the Use of Chain Aggregated NIPA Data."

<sup>25</sup> BEA, Table 1.1.4, line 1. JEC calculation.

<sup>26</sup> BLS, CUSR0000SA0; JEC calculation (total growth, Jan 2021 to May 2023).

<sup>27</sup> See (e.g.) Biden, "Remarks by President Biden on the Economy."

<sup>28</sup> If welfare costs are convex, then apply Jensen's inequality. For a statement of Jensen's inequality, see Kreps "Microeconomic Foundations I: Choice and Competitive Markets," 125.

<sup>29</sup> CEA, *Report*, 74.

<sup>30</sup> Kaplan and Schulhofer-Wohl, "Inflation at the Household Level," 20.

<sup>31</sup> Dynan, Skinner, and Zeldes, "Do the Rich Save More?" 434.

<sup>32</sup> Cao et. al., "The Welfare Cost of Inflation Revisited."

<sup>33</sup> BLS, CES0500000003; BLS, CUSR0000SA0; JEC calculation.

<sup>34</sup> BLS, CES0500000003; BLS, CUSR0000SA0; JEC calculation.

<sup>35</sup> See (e.g.) Fischer, "Long-Term Contracts, Rational Expectations, and the Optimal Money Supply Rule.," Taylor, "Aggregate Dynamics and Staggered Contracts.," and Hall, "Employment Fluctuations with Equilibrium Wage Stickiness."

<sup>36</sup> See Friedman, "The Role of Monetary Policy"; and Phelps, "Phillips Curves, Expectations of Inflation and Optimal Unemployment over Time."

<sup>37</sup> CEA, *Report*, 74.

<sup>38</sup> BLS, CES0500000008; BLS, CWSR0000SA0; JEC calculation.

<sup>39</sup> Hoffman et. al., "Real Inequality in Europe since 1500," 322.

<sup>40</sup> See (e.g.) Solon, Barsky, and Parker, "Measuring the Cyclical of Real Wages."

<sup>41</sup> Crust, Daly, and Hobijn, "The Illusion of Real Wage Growth."

<sup>42</sup> CEA, *Report*, 74.

<sup>43</sup> CEA, *Report*, p.475, Table B-31; p.482, Table B-38.

<sup>44</sup> BLS, CUSR0000SA0; BLS, CES0500000003; JEC calculation.

<sup>45</sup> CEA, *Report*, 66.

<sup>46</sup> Hansen, Toscani, and Zhou, "Euro Area Inflation after the Pandemic and Energy Shock."

<sup>47</sup> See the well-known equation of exchange, formalized by Fisher's *The Purchasing Power of Money*.

<sup>48</sup> CEA, *Report*, 66.

<sup>49</sup> Lipsey, “The Foundations of the Theory of National Income.”

<sup>50</sup> Kant, *The Critique of Pure Reason*, B10.

<sup>51</sup> Friedman, “Methodology of Positive Economics.”

<sup>52</sup> CEA, *Report*, 68–71.

<sup>53</sup> CEA, *Report*, 71–2.

<sup>54</sup> Aristotle, “Posterior Analytics,” 150. See also (e.g.) Kant, “*The Critique of Pure Reason*,” B681.

<sup>55</sup> See (e.g.) Obstfeld and Rogoff, “The Six Major Puzzles in International Macroeconomics.”

<sup>56</sup> McAleer, “Simplicity.”

<sup>57</sup> Sargent, “Six Essays in Persuasion.”

<sup>58</sup> BLS, CUSR0000SA0; JEC calculation (growth from Jan 2021 to May 2023).

<sup>59</sup> Bianchi and Melosi, “The Dire Effects of the Lack of Monetary and Fiscal Coordination,” 34.

<sup>60</sup> The recession ended in April 2020. NBER, “Trough in U.S. Economic Activity.”

<sup>61</sup> de Rugy, “Inflation is Largely a Demand-Side Problem,” 3–4.

<sup>62</sup> Jorda, et al., “Why Is U.S. Inflation Higher than in Other Countries?”

<sup>63</sup> Bianchi, Faccini, Melosi, “A Fiscal Theory of Trend Inflation,” 4.

<sup>64</sup> See Cochrane, *Fiscal Theory of the Price Level*, 5–8.

<sup>65</sup> Renshaw, “Biden’s IRA Climate Bill Won’t Cut Deficit.”

<sup>66</sup> Pager and Stein, “Biden Privately Called Lawrence Summers.”

<sup>67</sup> Miller and Davison. “Biden’s Win on Covid Aid Hobbles Rest of Agenda.”

<sup>68</sup> Ullmann, *Empathy Economics*, 368.

<sup>69</sup> Tankersley, “Rising Prices, Once Seen as Temporary, Threaten Biden’s Agenda”; Rattner, “I Warned the Democrats About Inflation.”

<sup>70</sup> Hendrickson, “Is the Quantity Theory of Money Dead?”

<sup>71</sup> See (e.g.) Cochrane, “Michelson-Morley, Fisher, and Occam.”

<sup>72</sup> Hicks, “Mr. Keynes and the ‘Classics’”; Krugman, “It’s Baaack”; Svensson, “How Should Monetary Policy Be Conducted in an Era of Price Stability?”

<sup>73</sup> Savings identity for the world as a whole: private savings less investment equals gov spending less taxes.

<sup>74</sup> See Barro, “Are Government Bonds Net Wealth?”; Barro and Redlick, “On the Determination of the Public Debt”; Weil, “Is Money Net Wealth?”

<sup>75</sup> See Patinkin’s *Money Interest, and Prices*; Ireland, “The Real Balance Effect.”

<sup>76</sup> See (e.g.) Baker and Krauss, “Biden Accuses Oil Companies of ‘War Profiteering’ and Threatens Windfall Tax”; Smialek, “Democrats Blast Corporate Profits as Inflation Surges.”

<sup>77</sup> CEA, *Economic Report*, 75; Bräuning, Fillat, and Joaquim, “Cost-Price Relationships in a Concentrated Economy.”

<sup>78</sup> As an important auxiliary assumption, these facts are common knowledge to all firms.

<sup>79</sup> Assume that if the lowest price firm is not unique, then consumers randomize between the lowest price firms.

<sup>80</sup> Cf. Arrow, “Economic Welfare and the Allocation of Resources for Invention.”

<sup>81</sup> Clark, “Toward a Concept of Workable Competition.”

<sup>82</sup> Cf. Boushey and Knudsen, “The Importance of Competition.”

<sup>83</sup> See (e.g.) Stigler, “The Theory of Economic Regulation”; Peltzman, “Toward a More General Theory of Regulation.”

<sup>84</sup> Hayek, “The Meaning of Competition.”

<sup>85</sup> Bräuning, Fillat, and Joaquim, “Cost-Price Relationships in a Concentrated Economy.”

<sup>86</sup> Demsetz, “Industry Structure, Market Rivalry, and Public Policy.”

<sup>87</sup> Syverson, “Macroeconomics and Market Power,” 4.

<sup>88</sup> Miller, et al., “On the Misuse of Regressions of Price on the HHI.”

<sup>89</sup> The HHI (Herfindahl-Hirschman Index) is a common measure of market concentration. See (e.g.) Hirschman, “The Paternity of an Index,” 761.

<sup>90</sup> Ali, Klasa, and Yeung, “Limitations of Industry Concentration Measures,” 3839.

<sup>91</sup> Keil, “Trouble with Approximating Industry Concentration from Compustat.”

<sup>92</sup> Bräuning, José, and Joaquim, “Cost-Price Relationships in a Concentrated Economy,” p.4, footnote 4.

<sup>93</sup> Formally, these shocks might be modeled as a stochastic elasticity of substitution among production inputs. See (e.g.) Galí, “Monopolistic Competition, Business Cycles, and the Composition of Aggregate Demand”; Steinsson, “Optimal Monetary Policy in an Economy with Inflation Persistence”; Ball, Mankiw, and Reis, “Monetary Policy for Inattentive Economies.”

<sup>94</sup> See Blanchard and Gali, “Real Wage Rigidities and the New Keynesian Model.” For a related analysis of the NK model’s nonlinear equilibrium conditions, see Alves, “Lack of divine coincidence in New Keynesian models.”

<sup>95</sup> Smets and Wouters, “Shocks and Frictions in U.S. Business Cycles”; Kedia, “Standard Econ Model Bridges the ‘Unfortunate Events’ and ‘Original Sin’ Explanations for Inflation.”

<sup>96</sup> Lucas, “Econometric Policy Evaluation: A Critique.”

<sup>97</sup> For discussion, see (e.g.) Barnichon, Oliveira, and Shapiro, “Is the American Rescue Plan Taking Us Back to the 60’s?”

<sup>98</sup> Cf. Blanchard and Bernanke, “What Caused the U.S. Pandemic-Era Inflation?”

<sup>99</sup> Calculated using CEA, *Report*, 490, Table B-45. “Federal debt held by the public” excludes Federal debt held by government accounts (e.g., the trust funds for Social Security, Medicare, Federal civilian retirement, military retirement, and unemployment insurance). “All else being equal, an increase in government borrowing reduces the amount of money available to other borrowers, putting upward pressure on interest rates and reducing private investment.” CBO, *Federal Debt: A Primer*, 1.

<sup>100</sup> Calculated using CEA, *Report*, 491, Table B-46.

<sup>101</sup> Calculated as the percentage increase in the consumer price index (CPI-U) from 2001 to 2022 (using annual compounding) using CEA, *Report*, 482, Table B-38. The measurement of inflation using economists’ preferred index, the chained consumer price index (C-CPI-U) is similar (62.1 percent increase from 2001 through 2022 versus 70.1 percent using the CPI-U).

<sup>102</sup> CBO, *How the Fiscal Responsibility Act of 2023 Affects CBO’s Projections of Federal Debt*, 2, Table 1.

<sup>103</sup> Historical deficits obtained from CEA, *Report*, 490, Table B-45.

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<sup>104</sup> Calculated using CBO, *The 2023 Long-Term Budget Outlook*, Supplemental Table 1. Multiply “Revenues Minus Total Spending” with “GDP (Billions of dollars)” and divide by -100. N.b., CBO’s long-term projections are adjusted to remove the effects of “timing shifts” when the start of the fiscal year (October 1) falls on a weekend. For this reason, deficit projections obtained from Supplemental Table 1 may slightly differ from those in CBO, *An Update to Budget Outlook: 2023 to 2033*, 2, Table 1.

<sup>105</sup> By one estimate, the April “shutdown” reduced economic output by about 25% below its short-run potential. See Mulligan, “Economic Activity and the Value of Medical Innovation during a Pandemic,” 1–21, <https://doi.org/10.1017%2Fbca.2021.5>.

<sup>106</sup> CBO, *The Budget and Economic Outlook: 2023 to 2033*, 2.

<sup>107</sup> CBO, *How the Fiscal Responsibility Act of 2023 Affects CBO’s Projections of Federal Debt*, 3, Table 2.

<sup>108</sup> CBO, *An Update to the Budget Outlook: 2023 to 2033*, 8, Figure 2.

<sup>109</sup> CBO, *The 2023 Long-Term Budget Outlook*, 7, Table 1-1. For comparison of fiscal policy during the COVID-19 pandemic and the two world wars, see Hall and Sargent, “Three World Wars.”

<sup>110</sup> Laubach and Williams, “Measuring the Natural Rate of Interest.”; Holston, Laubach, and Williams, “Measuring the Natural Rate of Interest: International Trends and Determinants.”

<sup>111</sup> CEA, *Long-Term Interest Rates: A Survey*. 34–39

<sup>112</sup> See Schmelzing, “Eight Centuries of Global Real Interest Rates.”; Rogoff, Rossi, and Schmelzing, “Long-Run Trends in Long-Maturity Real Rates.”; Zhang, “The Real Interest Rate Decline.”

<sup>113</sup> C.f. Furman and Summers, “Who’s Afraid of Budget Deficits?”

<sup>114</sup> There is a near observational equivalence between unit root processes and trend stationary processes. See (e.g.) Cochrane, “A Critique of the Application of Unit Root Tests.”; Faust, “Near Observational Equivalence.”

<sup>115</sup> Keynes, *A Tract on Monetary Reform*.

<sup>116</sup> Rogoff, Rossi, and Schmelzing, “Long-Run Trends in Long-Maturity Real Rates,” 25–26.

<sup>117</sup> Riedl, “How Higher Interest Rates Could Push Washington Toward a Federal Debt Crisis,” 15.

<sup>118</sup> Jiang, Lustig, Nieuwerburgh, and Xiaolan, “What Drives Variation in the U.S. Debt/Output Ratio?”

<sup>119</sup> CBO, *An Update to the Budget Outlook: 2023 to 2033*, 1.

<sup>120</sup> 2 U.S.C. § 907(b)(1). For additional details, see CBO, *CBO Explains the Statutory Foundations of its Budget Baseline*, 3.

<sup>121</sup> Buchanan and Wagner, *Democracy in Deficit*.

<sup>122</sup> Salmon, “The Impact of Public Debt on Economic Growth,” Cato Journal 41, no. 3 (Fall 2021): 503; Salmon, “Personal Communication: Updated Table for Debt and Growth Literature Review,” May 24, 2023; Reinhart and Rogoff, “Growth in a Time of Debt.”; Reinhart, Reinhart, and Rogoff, “Public Debt Overhangs.”

<sup>123</sup> Jack Salmon, “The Impact of Public Debt on Economic Growth,” Cato Journal 41, no. 3 (Fall 2021): 503.

<sup>124</sup> Farren, Michael D. “Conversation on the Economic Growth Effect of the Debt-to-GDP Ratio and the Congressional Budget Office Methodology,”

<sup>125</sup> CBO, *Federal Net Interest Costs: A Primer*, 1.

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<sup>126</sup> See (e.g.) Laubach, “New Evidence on the Interest Rate Effects of Budget Deficits and Debt.”; Engen and Hubbard, “Federal Government Debt and Interest Rates.”; Gamber and Seliski, “The Effect of Government Debt on Interest Rates.”;

<sup>127</sup> Tedeschi, “Deficits are Raising Interest Rates.”

<sup>128</sup> Smith, *Wealth of Nations*, Book II, Chapter II (continuation).

<sup>129</sup> Woodford, “Fiscal Requirements for Price Stability.”

<sup>130</sup> Sargent and Wallace, “Some Unpleasant Monetarist Arithmetic,” 1–15.

<sup>131</sup> Lucas and Stokey, “Optimal Fiscal and Monetary Policy in An Economy without Capital.”

<sup>132</sup> Cochrane, “Inflation in the Shadow of Debt,” 74.

<sup>133</sup> Reinhart and Rogoff, *This Time is Different: Eight Centuries of Financial Folly*.

<sup>134</sup> Anbil, Anderson, and Senyuz, “What Happened in Money Markets in September 2019?”

<sup>135</sup> See (e.g.) Russo, “Tailoring Liquidity Rules Did Not Cause the Failure of Silicon Valley Bank.”

<sup>136</sup> His Majesty’s Treasury, “The Growth Plan 2022.”

<sup>137</sup> Patel and Sordo Palacios, “UK Pension Market Stress in 2022.”

<sup>138</sup> Blanchard, “Public Debt and Low Interest Rates.”

<sup>139</sup> The primary deficit excludes net outlays for interest. See CBO, *The Budget and Economic Outlook: 2023 to 2033*, 6, Table 1-1, footnote c.

<sup>140</sup> Proof: Apply the quotient rule, use the laws of motion  $\frac{d\text{Debt}_t}{dt} = r\text{Debt}_t + p_t$  and  $\frac{d\text{GDP}_t}{dt} = g\text{GDP}_t$ , and simplify the expression.

<sup>141</sup> The value  $g = 1.7\%$  is CBO’s projected real GDP growth rate for 2033. The value  $r = 1.2\%$  subtracts the Federal Reserve’s annual inflation target (2%) from CBO’s projected long-run average interest rate on U.S. debt (3.2%). See CBO, *The Budget and Economic Outlook*, 85, Table B-1; CBO, *The Budget and Economic Outlook*, 20.

<sup>142</sup> The doubling (or halving) time is given by  $\log(0.5)/\log(1-x)$  where  $x$  is the annual rate of growth (or decay). In particular,  $\log(0.5)/\log(1-0.005)$  is about 138.283 years. Alternatively, the doubling (or halving) time can be approximated as  $70/x$  years. See (e.g.) Thornton, “The Rule of 69 in Perspective.”

<sup>143</sup> See (e.g.) Friedman, *A Theory of the Consumption Function*; Hall, “Stochastic Implications of the Life Cycle-Permanent Income Hypothesis.”; Hall and Mishkin, “The Sensitivity of Consumption to Transitory Income.”; Bernanke, “Permanent Income, Liquidity, and Expenditure on Automobiles.”

<sup>144</sup> These proposals (among others) are included in Kelton, *The Deficit Myth*. For reviews, see (e.g.) Mankiw, “A Skeptics Guide to Modern Monetary Theory.”; Bisin, review of *The Deficit Myth*, by Kelton.; Cochrane, “Years of Magical Thinking.” review of *The Deficit Myth*, by Kelton. For an academic analysis, see Françoise and Christian, “The Meaning of MMT.”

<sup>145</sup> Piketty, *Capital in the Twenty-First Century*.

<sup>146</sup> Blahous, “Why Federal Deficits are Skyrocketing and How to Fix Them,” 1–2.

<sup>147</sup> Blahous, “Why Federal Deficits are Skyrocketing and How to Fix Them,” 1–2.

<sup>148</sup> CBO, *CBO’s 2023 Long-Term Projections for Social Security*, 9.

<sup>149</sup> CBO, *The Budget and Economic Outlook*, 18, footnote 17.

<sup>150</sup> E.g., see CBO, *Options for Reducing the Deficit, 2023 to 2032*.

<sup>151</sup> ADA, “The Economic Costs of Diabetes in the U.S. in 2017.”

<sup>152</sup> Helland and Tabarrok, *Why Are the Prices So Damn High?*

<sup>153</sup> March, “The FDA and COVID-19: A Political Economy Perspective.”

<sup>154</sup> Griswold and Salmon, “Lower Barriers to Immigrant Healthcare Workers to Help Combat the COVID-19 Pandemic.”

<sup>155</sup> Mulligan, “How Chicago Economics Helped End a Pandemic.”

<sup>156</sup> Philipson and Durie, “The Impact of HR 5376 on Biopharmaceutical Innovation.”

<sup>157</sup> President Biden has repeatedly pledged not to raise taxes on households earning less than \$400k of annual income. See (e.g.) CEA, *Report*, 4. Using IRS data, Adam Michel estimates that even confiscating every dollar over \$500k earned by households and businesses would be insufficient to close the projected budget deficit. (\$500k is the closest threshold available in the publicly available IRS data.) See Michel, “Biden’s Math of Just Taxing the Rich Doesn’t Add Up.” Moreover, even if the confiscation were perfectly unanticipated, such a tax would only generate a one-time revenue windfall while depressing long-run growth.

<sup>158</sup> de Rugy and Salmon, “Flattening the Debt Curve: Empirical Lessons for Fiscal Consolidation.”

<sup>159</sup> Lynch and Gravelle, “Dynamic Scoring in the Congressional Budget Process.”

<sup>160</sup> For an explanation of regulatory cost-benefit analysis, see Broughel, “A Primer on Regulatory Impact Analysis.”

<sup>161</sup> JEC, “Inactive, Disconnected, and Ailing.”

<sup>162</sup> For background, see Boccia and Bogie, “Reform the Budget Control Act Spending Caps,” 1–11; Boccia, “How a Better Budget Control Act Would Limit Spending and Control Debt.”

<sup>163</sup> Brito, “Running for Cover.”

<sup>164</sup> Gesley, “Switzerland: Implementation of Article 126 of the Swiss Constitution”

<sup>165</sup> Board of Governors, *Financial Stability Report*, 9–10.

<sup>166</sup> See (e.g.) Longstaff, “The Flight-to-Liquidity Premium in U.S. Treasury Bond Prices.”

<sup>167</sup> Cochrane, “A New Structure for U.S. Federal Debt.”

<sup>168</sup> Garbade, “The Emergence of ‘Regular and Predictable’ as a Treasury Debt Management Strategy.”

<sup>169</sup> Selgin, *The Menace of Fiscal QE*, 56–59.

<sup>170</sup> Russo, “Safeguarding the Federal Reserve’s Independence.”

<sup>171</sup> The Federal Reserve “intends [...] to undertake roughly every five years a thorough public review of its monetary policy strategy, tools, and communication practices.” Board of Governors, “Statement on Longer-Run Goals and Monetary Policy Strategy.” The Federal Reserve’s initial review was in 2019–2020, suggesting that its next review will begin in 2024.

<sup>172</sup> U.S. Treasury, “How Much Has the U.S. Government Spent This Year?”

<sup>173</sup> CBO, 10-Year Budget Projections, May 2023. Note that this is without excluding the effect of offsetting receipts.

<sup>174</sup> CBO, 10-Year Budget Projections, May 2023.

<sup>175</sup> John Hopkins Medicine, “Overview of Obesity.”

<sup>176</sup> Whitlock et al., “Body-mass Index and Cause-specific Mortality.”

<sup>177</sup> Sarwer and Polonsky, “The Psychosocial Burdens of Obesity.”; Purnell, “Definitions, Classification, and Epidemiology of Obesity.”

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<sup>178</sup> Whitlock et al., “Body-mass Index and Cause-specific Mortality.”; Kitahara et al. “Association Between Class II Obesity.”

<sup>179</sup> CDC, “Prevalence of Obesity and Severe Obesity Among Adults.”

<sup>180</sup> van den Broek-Altenberg and Holladay, “Changes in Healthcare Spending.”

<sup>181</sup> Cawley et al., “Savings in Medical Expenditures.”

<sup>182</sup> Cawley et al., “Savings in Medical Expenditures.”

<sup>183</sup> Cawley et al., “Direct Medical Costs of Obesity in the United States and the Most Populous States.”; JEC economists updated Cawley et al.’s 2011–2016 estimate of the excess medical costs attributable to obesity (separating estimates for Class I and Class II from Class II and incorporating the projected population shares of persons suffering from each condition) for inflation and the annual trend of obesity-healthcare cost increases.

<sup>184</sup> Cawley et al., “Savings in Medical Expenditures.”

<sup>185</sup> Stierman et al., “National Health and Nutrition Examination Survey.”

<sup>186</sup> NIH, “Severe Obesity May Shorten Life Expectancy Up to 14 Years.”

<sup>187</sup> Cawley et al., “Savings in Medical Expenditures.”; Kitahara et al. “Association Between Class III Obesity.”

<sup>188</sup> Quetelet, “A Treatise on Man and the Development of His Faculties.”

<sup>189</sup> WHO, “Physical Status.”

<sup>190</sup> CDC, “Body Mass Index.”

<sup>191</sup> McKee et al., “Obesity in the Elderly.”

<sup>192</sup> McKee et al., “Obesity in the Elderly.”

<sup>193</sup> CDC, *Promoting Health for Older Adults*.

<sup>194</sup> Whitlock et al., “Body-mass Index and Cause-specific Mortality.”; Kitahara et al. “Association Between Class III Obesity.”

<sup>195</sup> Preston et al., “The Role of Obesity.”

<sup>196</sup> Preston et al., “The Role of Obesity.”

<sup>197</sup> CDC, “Prevalence of Obesity and Severe Obesity Among Adults.”; Calculations by JEC economists.

<sup>198</sup> Finkelstein et al., “Individual and Aggregate Years-of-life-lost Associated with Overweight and Obesity.”

<sup>199</sup> Kitahara et al., “Association between Class III Obesity (BMI of 40–59 kg/m<sup>2</sup>) and Mortality.”

<sup>200</sup> Ward et al., “Projected U.S. State-Level Prevalence of Adult Obesity.”

<sup>201</sup> American Lung Association, “Overall Tobacco Trends.”

<sup>202</sup> Livingood Jr., Allegrante, and Green, “Culture Change from Tobacco Accommodation to Intolerance.”

<sup>203</sup> Darden, Gilleskie, and Strumpf, “Smoking and Mortality.”

<sup>204</sup> United States Census Bureau, “Annual Estimates of the Resident Population.”

<sup>205</sup> Prospective Studies Collaboration, “Body-Mass Index and Cause-Specific Mortality in 900,000 Adults.”

<sup>206</sup> Prospective Studies Collaboration, “Body-Mass Index and Cause-Specific Mortality in 900,000 Adults.”

<sup>207</sup> Kitahara et al., “Association between Class III Obesity (BMI of 40–59 kg/m<sup>2</sup>) and Mortality.”

<sup>208</sup> Finkelstein et al., “Individual and Aggregate Years-of-Life-Lost.”

<sup>209</sup> Xu et al., “Mortality in the United States, 2021.”

<sup>210</sup> CBO, *Update to the Budget Outlook*.

<sup>211</sup> Wolf and Colditz, “Current Estimates of the Economic Cost of Obesity in the United States.”; Finkelstein et al., “National Medical Spending Attributable To Overweight And Obesity: How Much, And Who’s Paying?”

<sup>212</sup> Finkelstein et al., “Annual Medical Spending Attributable to Obesity: Payer-And Service-Specific Estimates.”

<sup>213</sup> Biener, Cawley, and Meyerhoefer, “The Impact of Obesity.”

<sup>214</sup> Biener, Cawley, and Meyerhoefer, “The Impact of Obesity.”

<sup>215</sup> Biener, Cawley, and Meyerhoefer “The High and Rising Costs of Obesity to the U.S. Health Care System”; Tsai, Williamson, and Glick, “Direct Medical Cost of Overweight and Obesity in the USA.”

<sup>216</sup> Biener, Cawley, and Meyerhoefer, “The Impact of Obesity.”

<sup>217</sup> Finkelstein et al., “Annual Medical Spending.”

<sup>218</sup> The future rates of obesity (BMI>30) and severe obesity (BMI>40) is forecast for adults over the age of 19 from 2019–2034 using a linear trend based on 1999–2018 data from the National Health and Nutrition Examination Survey (NHANES). We combined this with a projection of the U.S. population ages 20 (and over) using 2014–2022 data from Series ID LNU00000024 from the Bureau of Labor Statistics. The population in 2022 is projected forward to 2034 by using the average annual growth rate from 2014–2022; The beginning of this time span matches the midpoint of the 2011–2016 data on obesity marginal costs reported by Cawley (2021). Cawley et al., “Direct Medical Costs of Obesity in the United States,” 360.

<sup>219</sup> Stierman et al., “National Health and Nutrition Examination Survey.”

<sup>220</sup> Stierman et al., “National Health and Nutrition Examination Survey.”

<sup>221</sup> Stierman et al., “National Health and Nutrition Examination Survey.”

<sup>222</sup> Stierman et al., “National Health and Nutrition Examination Survey”; Fryar, Carroll, and Afful, “Prevalence of Overweight, Obesity, and Severe Obesity.”

<sup>223</sup> Ward et al., “Simulation of Growth Trajectories of Childhood Obesity into Adulthood.”

<sup>224</sup> Ward et al., “Simulation of Growth Trajectories of Childhood Obesity into Adulthood”; Ward et al., “Projected U.S. State-Level Prevalence of Adult Obesity.”

<sup>225</sup> Note: We derived the per-patient excess annual expenditure from Lopez et al.’s research (\$370 billion in excess healthcare costs in 2018 compared against 95.4 million people qualifying as obese in 2018). Ward et al., “Association of Body Mass Index.”; Lopez, Bendix, and Sagynbekov, “Weighing Down America.”

<sup>226</sup> Cawley et al., “Direct Medical Costs of Obesity in the United States and the Most Populous States.”

<sup>227</sup> John Cawley et al., “Direct Medical Costs of Obesity in the United States,” 357.

<sup>228</sup> We average the excess annual medical costs per obese person due to Class 1 obesity (\$1,882) with those for Class 2 (\$3,277) because our data does not provide separate estimates of the proportion of the population suffering from Class 1 and Class 2 obesity. Cawley et al., 360.

<sup>229</sup> Cawley et al., “Direct Medical Costs of Obesity in the United States,” 360.

<sup>230</sup> Finkelstein et al., “Annual Medical Spending.”

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<sup>231</sup> See Finkelstein, Fiebelkorn, and Wang, “National Medical Spending Attributable to Overweight and Obesity.”

<sup>232</sup> CBO, 10-Year Budget Projections, May 2023.

<sup>233</sup> Five minutes over 260 working days totals 1,300 minutes, or almost 22 hours. 22 hours is equivalent to 1.06 percent of the 2,080 standard working hours in a year.

<sup>234</sup> Biener, Cawley, and Meyerhoefer, “The Impact of Obesity.”

<sup>235</sup> Wolf and Colditz, “Economic Cost of Obesity.”

<sup>236</sup> Peterson, Hoffer, and Millner, “Are Drivers of Air-Bag-Equipped Cars More Aggressive?”

<sup>237</sup> Mass, “Moral Hazard and Adverse Selection in Health Insurance.”

<sup>238</sup> Ogden et al., “Prevalence of Obesity Among Adults, by Household Income and Education—United States, 2011–2014.”

<sup>239</sup> Andreyeva, Tripp, and Schwartz, “Dietary Quality of Americans.”

<sup>240</sup> Edwards, “Farm Bill 2023 and Obesity.”

<sup>241</sup> Mancino, “Nutritional Quality of Foods Acquired by Americans.”

<sup>242</sup> Singleton et al., “Examining Disparities in Diet Quality.”

<sup>243</sup> United States Department of Agriculture, “Food Security and Nutrition Assistance.”

<sup>244</sup> Trantidis, “Government Externalities.”; Coase, “The Problem of Social Cost.”

<sup>245</sup> Peter G. Peterson Foundation, “Healthcare Spending in the United States Remains High.”

<sup>246</sup> Negowetti, “The SNAP Sugar-Sweetened Beverage Debate.”

<sup>247</sup> Garvey et al. “Two-year Effects of Semaglutide in Adults with Overweight or Obesity.”

<sup>248</sup> United States Food & Drug Administration, “FDA Approves New Drug Treatment for Chronic Weight Management.”

<sup>249</sup> Jensterle, Rizzo, Haluzi, and Janes, “Efficacy of GLP-1 RA Approved for Weight Management in Patients With or Without Diabetes.”

<sup>250</sup> Jastreboff et al., “Triple-Hormone-Receptor Agonist Retatrutide.”

<sup>251</sup> Wilson, “How Much Does Ozempic Cost Without Insurance?”

<sup>252</sup> Neuman and Cubanski, “What Could New Anti-Obesity Drugs Mean for Medicare?”

<sup>253</sup> Ward et al., “Benefits of Medicare Coverage.”

<sup>254</sup> OPM, “Prevention and Treatment of Obesity.”

<sup>255</sup> CEA, “Reforming Biopharmaceutical Pricing at Home and Abroad.”

<sup>256</sup> Atlas, “How to Reduce Prescription-Drug Prices.”

<sup>257</sup> CEA “Reforming Biopharmaceutical Pricing at Home and Abroad,” 9.

<sup>258</sup> Biden, “President Biden Delivers Remarks on Bidenomics.” “Bidenomics. We’re turning this around. We’re supporting targeted investments. We’re strengthening America’s economic security, our national security, our energy security, and our climate security.”

<sup>259</sup> Biden, “President Biden Delivers Remarks on Bidenomics.”; CEA, “Report.”

<sup>260</sup> OMB, “Budget of the U.S. Government Fiscal Year 2024.”

<sup>261</sup> York et al., “Biden’s FY 2024 Budget Would Result in.”

<sup>262</sup> We limit our analysis to taxes, but other policies, especially those affecting the regulatory framework, would cause additional reductions in economic growth.

<sup>263</sup> OMB, “Budget of the U.S. Government Fiscal Year 2024,” 44.

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<sup>264</sup> CBO, “Taxing Capital Income.”; Debt-Financed profits are not double taxed because the interests paid over bonds/debt are deduced at corporate level.

<sup>265</sup> While it is uncommon that an investor would end up paying the maximum rate on both, the example is also omitting additional factors that would also reduce the post-tax income, like State levels of CIT and Capital Gains taxes.

<sup>266</sup> Johansson et al., “Taxation and Economic Growth.”

<sup>267</sup> Arnold et al., “Do Corporate Taxes Reduce Productivity and Investment?”

<sup>268</sup> CEA, “The Growth Effects of Corporate Tax Reform and Implications for Wages.”

<sup>269</sup> Part of this disagreement among economists is evaluating the statutory or the effective rate, the FY2024 budget proposal, by trying to close every tax avoidance mechanism to investment, would significantly increase both rates.

<sup>270</sup> Lee et al., “Tax Structure and Economic Growth.”

<sup>271</sup> Mertens and Ravn., “The Dynamic Effects of Personal and Corporate Income Tax Changes in the United States.”

<sup>272</sup> That is, OMB estimates that raising CIT by 7 percent would increase tax revenue by \$1.3 Trillion over 10 years. If long term tax revenue from this tax remains unchanged, almost half of the benefits from the expected deficit reduction would vanish.

<sup>273</sup> Barro and Redlick, “Macroeconomic Effects From Government Purchases and Taxes.”; It is also prudent to take these results with caution, especially since they use data of decades when most economies grew at a faster pace, most countries had higher tax rates, capital was less mobile, and the system of transfer pricing and other tools of tax avoidance were less complex as they became decades later.

<sup>274</sup> Public investment has a lower rate of return than private investment. CBO estimates that productive Federal investment has an average annual rate of 5 percent, which is half of private investments. This is because, while there are positive spillovers on private productivity from public investments, such spending reduces the money available for private investment. Moreover, when adding the usual response by state and local governments of lowering their own investments, \$1 increase in Federal investment reduces investment by the other sectors by one-third of a dollar. And this still doesn’t consider the effects on interest rate and inflation from increasing the ratio of debt over GDP. CBO, “The Macroeconomic and Budgetary Effects of Federal Investment.”

<sup>275</sup> Vartia, “How Do Taxes Affect Investment and Productivity?”

<sup>276</sup> Arnold et al., “Do Corporate Taxes Reduce Productivity and Investment?”

<sup>277</sup> Biden, “President Biden Delivers Remarks on Bidenomics.”; CEA, “Report,” 4.;

OMB, “Budget of the U.S. Government Fiscal Year 2024,” 2, 6, 18, 44, 45, 51.

<sup>278</sup> Entin, “Labor Bears Much of the Cost of the Corporate Tax.”; Nunns, “How TPC Distributes the Corporate Income Tax.”

<sup>279</sup> Gale and Thorpe, “Rethinking the Corporate Income Tax.”

<sup>280</sup> Fuest et al., “Do Higher Corporate Taxes Reduce Wages?”

<sup>281</sup> Hasset et al., “An Analysis of Vice President Biden’s Economic Agenda.”

<sup>282</sup> However, if it is estimated as the cumulative change since 2021, the increase would be higher, as almost all the tax policies analyzed are either included in FY2024 or were implemented in the first two years of Biden’s Administration.

<sup>283</sup> Mulligan, “The Economic Effects of Joe Biden’s Tax Plans.”

<sup>284</sup> Pomerleau, “The Tax Burden on Business Investment.”

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<sup>285</sup> Watson, “Details and Analysis of President Biden’s Fiscal Year 2024 Budget Proposal.”

<sup>286</sup> This includes the 25 percent billionaire minimum tax, the implementation of some of the global minimum tax rules, and drug pricing provisions that are estimated to raise about one trillion dollars over 10 years.

<sup>287</sup> Matheson et al., “The Impact on Foreign Investment.”

<sup>288</sup> CEA, “Corporate Tax Reform and Wages.”

<sup>289</sup> Garcia-Bernardo et al., “Did the Tax Cuts and Jobs Act Reduce Profit Shifting by U.S. Multinational Companies?”

<sup>290</sup> Note that the authors’ calculations only reach to 2020. Revenue from Corporate taxes in 2022 jumped compared to previous years, exceeding the original expectations when TCJA was enacted.

<sup>291</sup> Heckemeyer and Overesch, “Multinationals’ Profit Response to Tax Differentials.”

<sup>292</sup> Dowd et al., “Profit Shifting of U.S. Multinationals.”

<sup>293</sup> OMB, “Budget of the U.S. Government Fiscal Year 2024.” Page 45 states that “The Budget would set the corporate tax rate at 28 percent, still well below the 35 percent rate that prevailed prior to the 2017 tax law.” Both of those rates would put the United States at the top among developed countries, so the incentive to keep profits and operation abroad would be similar.

<sup>294</sup> Guvenen et al., “Offshore Profit Shifting and Aggregate Measurement.”

<sup>295</sup> Suárez Serrato, “Unintended Consequences of Eliminating Tax Havens.”

<sup>296</sup> The following model relies heavily in the one used in Jaffe et al. “Chicago Price Theory,” Chapter 18.

<sup>297</sup> We are simplifying the changes proposed by Biden’s White House imposing the same tax to all sectors of the economy. According to Barro and Furman “Macroeconomic Effects of the 2017 Tax Reform,” the share of net business income going to C-corporations fell by 39 percentage points from 1980 to 2000, in part due to the economy becoming more Service intensive, which are industries dominated by Passthrough entities.

<sup>298</sup> Since it’s neutral on the willingness of people to delay consumption and the ability of producers to make investment goods rather than consumption goods.

<sup>299</sup> Jaffe et al., “Chicago Price Theory,” Chapter 15.

<sup>300</sup> Tax Foundation, “Historical Federal Individual Income Tax Rates.”

<sup>301</sup> Tax Foundation, “Historical Federal Individual Income Tax Rates.”

<sup>302</sup> McClelland et al., “Effective Income Tax Rates Have Fallen.”

<sup>303</sup> OECD, “Revenue Statistics.”

<sup>304</sup> York et al., “Biden’s FY 2024 Budget Would Result in.”

<sup>305</sup> Hodge, “No Country Leans on Upper-Income Households as Much as U.S.”

<sup>306</sup> OECD, “Revenue Statistics 2022,” Chapter 3.

<sup>307</sup> Giandrea et al., “Estimating the U.S. Labor Share.” In this function,  $\alpha = S_K$ .

<sup>308</sup> Note that while President Biden promised not to raise taxes on those earning less than \$400,000, given that most people of all incomes either have investments in corporations (whether direct or through retirement/pension funds), they will be affected by the proposed changes in the tax code.

<sup>309</sup> IRS, “SOI Tax Stats.”

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<sup>310</sup> Percentages are estimated by dividing the respective column of income tax paid by the income subject to tax, using IRS “SOI Tax Stats,” Table 3.3. JEC Calculations

<sup>311</sup> IRS “SOI Tax Stats,” Table 3.3.; Note that we aren’t taking into consideration state level taxation. While including them will increase the impact of the proposed tax change as it lowers the post-tax dividends, we would have to estimate the average effective tax rate at every bracket, weighting for every state. Adding the average state corporate and income tax for top brackets would be an easy solution but it would mix marginal with average rates.

<sup>312</sup> IRS “SOI Tax Stats,” Table 1.4.

<sup>313</sup> Note that the IRS tables don’t have breakdowns for \$400,000, so JEC economists used \$500,000 as the first group seeing their taxes on dividends being raised.

<sup>314</sup> BLS, LNS11300061.

<sup>315</sup> Employment Projections Program, “Table 3.3 Civilian Labor Force Participation Rates by Age, Sex, Race, and Ethnicity, 2001, 2011, 2021, and Projected 2031.”; Dubina et al., “Projections Overview and Highlights, 2021–31.”

<sup>316</sup> See later discussion of the economic effect of labor supply changes.

<sup>317</sup> JEC, “Inactive, Disconnected, and Ailing.”; CEA, “The Long-Term Decline in Prime-age Male Labor Force Participation.”

<sup>318</sup> To be officially counted as unemployed (in the Bureau of Labor Statistics primary unemployment metric, U-3), a person must satisfy 3 conditions: (1) They must be jobless, (2) They must have actively sought employment in a fashion that could lead to a job offer within the last four weeks (for example, passively perusing job advertisements does not count as an active job search), and (3) They must be currently available to start a job. This does leave out some people who report that they want a job, even if they haven’t been actively searching, but only a small proportion of inactive prime-age men fit into this group.

<sup>319</sup> Importantly, the fact that these statistics are tabulated for the non-institutional population means that changes in the number of prime-age men participating in the military, incarcerated, or receiving long-term healthcare don’t directly impact the labor force participation rate of prime-age men.

<sup>320</sup> JEC, “Inactive, Disconnected, and Ailing,” 10.; Winship, “What’s Behind Declining Male Labor Force Participation.”

<sup>321</sup> JEC, “Inactive, Disconnected, and Ailing,” 5.

<sup>322</sup> Winship, “What’s Behind Declining Male Labor Force Participation,” 20, 27.

<sup>323</sup> Winship, “What’s Behind Declining Male Labor Force Participation,” 27–30.

<sup>324</sup> Winship, “What’s Behind Declining Male Labor Force Participation,” 27, 30–32.

<sup>325</sup> JEC, “Inactive, Disconnected, and Ailing.”; Krueger, “Where Have All the Workers Gone?”, Austin, Glaeser, and Summers, “Jobs for the Heartland.”

<sup>326</sup> Evans, “The Nurse Licensure Compact.”

<sup>327</sup> Evans, “The Nurse Licensure Compact,” 13.

<sup>328</sup> Interstate Commission of Nurse Licensure Compact Administrators, “NLC States.”

<sup>329</sup> Zencare, “COVID-19: Teletherapy Across State Lines.”

<sup>330</sup> JEC, “Inactive, Disconnected, and Ailing.”

<sup>331</sup> The BLS estimates that 7.2 million prime-age men were inactive in 2022 (Data Series LNU05000061). 1.8 million is 25 percent of this number. 1.8 million divided by

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the average size of the U.S. workforce in 2022 (164.3 million) equates to 1.0955 percent. Note, this is equivalent to around 3 years of typical annual workforce growth.

<sup>332</sup> JEC, "Inactive, Disconnected, and Ailing," 8.

<sup>333</sup> Coglianese, "The Rise of In-and-Outs."

<sup>334</sup> While prior research has found that inactive prime-age men tend to be less educated than employed prime-age men, we choose to not incorporate this into our calculations of economic and other benefits, in accordance with CBO methodology. We also recognize that the entry of additional lesser-skilled workers will enable labor reshuffling that will tend to move workers from each skill group slightly higher on the income and output ladder. Shackleton, "Estimating and Projecting Potential Output Using CBO's Forecasting Growth Model."

<sup>335</sup> CBO projects that the capital share of income in the nonfarm/business sector will be 0.329 over the next 10 years. This implies labor share of income is approximately 0.671. CBO, "10-Year Economic Projections," February 2023.

<sup>336</sup> Shackleton, "Estimating and Projecting Potential Output Using CBO's Forecasting Growth Model," 5.

<sup>337</sup> Simulation provided by CBO staff using its Policy Growth Model, June 2023.

<sup>338</sup> CBO, "The 2023 Long-Term Budget Outlook."

<sup>339</sup> Note: Per the long-run nature of our calculations, our methodology assume that inactive prime-age men's labor force reconnection will happen uniformly over a five-year period from 2024-2028.

<sup>340</sup> The most recent Census Bureau estimate is that there were 124 million households in the U.S. from 2017–2021.

<sup>341</sup> Brad Hershbein and Bryan Stuart, *Recessions and Local Labor Market Hysteresis*, [https://research.upjohn.org/up\\_workingpapers/325](https://research.upjohn.org/up_workingpapers/325)

<sup>342</sup> Note, this assumes that both consumption and leisure are normal goods that experience diminishing marginal returns (a common and relatively safe assumption). It is also important to note that in the real world, a worker's utility function will change according to their current circumstances, including home environment, life stage, external factors that increase the value of leisure (such as availability of friends or family), and external factors that affect the value of work opportunities.

<sup>343</sup> No implication is intended that mental health conditions are not legitimate reasons for disability. Prime-age men (and women) have reported increasing rates of ill mental health. Winship, "Declining Prime-Age Male Labor Force Participation," 21; Krueger, "Where Have All the Workers Gone?"

<sup>344</sup> Winship, "What's Behind Declining Male Labor Force Participation?"" 58.

<sup>345</sup> Eberstadt and Abramsky, "What Do Prime-Age 'NILF' Men Do All Day?"

<sup>346</sup> Licher, Price, and Swigert, "Mismatches in the Marriage Market."

<sup>347</sup> Blandin, Jones, and Yang, "Marriage and Work among Prime-Age Men."

<sup>348</sup> As of writing, the Job Openings and Labor Turnover Survey estimated that 10.1 million job openings were available, against 6.1 million unemployed workers. BLS, "Job Openings and Labor Turnover Survey," April 2023. BLS, "Current Economic Situation," May 2023.

<sup>349</sup> CEA "Occupational Licensing."

<sup>350</sup> Reeves and Smith, "The Male College Crisis is Not Just in Enrollment."

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<sup>351</sup> Suderman, "Young Men Are Playing Video Games Instead of Getting Jobs."

<sup>352</sup> National Center for Education Statistics, "Digest of Education Statistics. Table 318.10."

<sup>353</sup> Giffi et al., "2018 Skills Gap in Manufacturing Study.", Wellener et al., "Creating Pathways for Tomorrow's Workforce Today."

<sup>354</sup> CEA, "The Long-Term Decline in Prime-Age Male Labor Force Participation."

<sup>355</sup> Farren, "Bridging The Skills Gap."

<sup>356</sup> Current tax regulations limit employers' ability to claim the cost of worker training as a business expense. Tax-deductible business expenses are restricted to education or training which maintains or improves a workers' ability to perform their current role. It specifically disallows tax deductibility for training or education that meets the minimum requirements for a given role, as well as that which prepares a worker to perform a new role. The only alternative is for the employer to operate a formal education program, available to all employees, which allows them to pursue education opportunities of their own choice. Current tax regulations allow employers to claim the first \$5,250 of such education costs as a business expense, but this amount has not been updated since 1986, when it was sufficient to cover the average cost of tuition, fees, and room and board at the average public university. This allowance would be approximately \$13,000 today if adjusted for inflation. 26 CFR 1.162-5; Sauter, "Here's the Average Cost of College Tuition Every Year since 1971."

<sup>357</sup> Farren, "Solving the Skills Gap."

<sup>358</sup> CEA, "Government Employment and Training Programs.", GAO, "Employment and Training Programs.", GAO, "Multiple Employment and Training Programs.", Bishop, "Landscape Study of Federal Employment and Training Programs."

<sup>359</sup> United States Department of Labor, "Employee or Independent Contractor Classification under the Fair Labor Standards Act."

Mr. YAKYM. Thank you, Mr. Schweikert.  
 The Chair will now welcome Mr. Timmons.

Mr. Timmons, thank you for coming today. You are now recognized for three minutes.

**STATEMENT OF HON. WILLIAM TIMMONS, A REPRESENTATIVE  
 IN CONGRESS FROM THE STATE OF SOUTH CAROLINA**

Mr. TIMMONS. Thank you, Mr. Chairman.

Chairman Arrington, Ranking Member Boyle, and Members of the House Budget Committee, today's hearing cannot come at a more critical time for our Nation's fiscal future. It is past time for leaders of our Nation to come together and solve the tough problems we can no longer ignore.

As Members of this Committee are fully aware, Washington has a spending problem. We currently have \$33.8 trillion in debt, our debt-to-GDP ratio is 122 percent, the highest it has ever been. Next year, for the first time in our Nation's history, our interest payments on the national debt will be our number one expenditure. Social Security will be insolvent by 2033, and our health care system is fundamentally broken. We spend twice as much as the average country per person on health care, and our obesity rate is three times the average, which does not bode well for our future health care spending either.

Our fiscal situation is not the fault of a single political party or Administration. It is the collective shame of generations of politicians who continually kick the can down the road and choose political expediency over what is right for the future of our country, and it is no secret why. Interest groups from both sides of the aisle have preemptively started political attacks alleging the other side wants to take seniors' benefits. This is false. If we do nothing, in ten years, there will be a 23 percent reduction in Social Security benefits across the board due to insolvency. This is clearly unacceptable.

The issue of the national debt affects every American, regardless of political affiliation. No one party, scholar, or economist can solve this problem. Either the fiscal commission is going to be successful or our country's doomed. A historically used tool to bring together the best and brightest to tackle the issues politicians are afraid to go near. By bringing together experts, economists, and Representatives from both sides of the aisle, a fiscal commission will foster bipartisan cooperation, setting aside ideological differences to focus on pragmatic long-term solutions. The structure is intended to transcend the political divide and elevate the public discourse. The creation of this commission is not merely an option, it is a necessity. Such a commission would be tasked with the critical responsibility of comprehensively evaluating our fiscal policies, identifying areas of inefficiency, and formulating strategic solutions to address the root causes of our escalating debt.

As we all know, a root cause of our debt is mandatory spending. Medicare spending grew by 18 percent and Social Security spending grew by 11 percent just this year. These are vital programs and lifelines for millions of Americans, and we must strengthen and preserve them for generations to come without compromising the promises we made to our senior citizens in this country. This is not

about sacrificing the welfare of our citizens, but rather about ensuring that these vital programs remain viable and robust in the face of fiscal challenges. Every day we fail to move forward with this effort represents a theft from seniors, those close to retirement, and future generations of Americans.

If we are truly to address our Nation's fiscal solvency, we must have serious and uncomfortable conversations about the true drivers of our debt. Establishing a fiscal commission will force this body to finally face these issues head on, rather than continually placing more and more of a burden on the American taxpayer.

Again, I want to express my gratitude for holding this hearing today. It is a step in the right direction for us to come together and have a serious discussion about the need for a fiscal commission, its mission, and begin the process of restoring our fiscal solvency and securing our Nation's future.

With that, Mr. Chairman, I yield back. Thank you.

[The information follows:]

**The Honorable William Timmons**

House Budget Committee

December 6, 2023

Budget Process Reform Member Day Hearing

Remarks of Congressman William R. Timmons, IV [R-SC-04]

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Chairman Arrington, Ranking Member Boyle, and members of the House Budget Committee, today's Budget Process Reform Member Day Hearing could not come at a more critical time for our nation's fiscal future. It is past time for leaders of our nation to come together and solve the tough problems we can no longer ignore.

As members of this committee are fully aware, Washington has a spending problem. We currently have \$33.8 trillion in debt. Our debt to GDP ratio is 121.99 percent—the highest it has ever been. Next year, for the first time in our nation's history, our interest payments on the national debt will be our number one expenditure. Social Security will be insolvent by 2033 and our healthcare system is fundamentally broken. We spend twice as much as the average country per person on healthcare and our obesity rate is three times the average—which does not bode well for our future health care spending either.

Our fiscal situation is not the fault of a single political party or administration. It is the collective shame of generations of politicians who continually kicked the can down the road and chose political expediency over what is right for the future of our country. And it is no secret why. Interest groups from both sides of the aisle have preemptively started political attacks alleging the other side wants to take seniors' benefits. This is false. If we do nothing, in ten years, there will be a 22% reduction in benefits across the board due to insolvency. This is clearly unacceptable.

The issue of the national debt affects every American, regardless of party affiliation. No one political party, scholar, or economist can solve this problem. Enter the fiscal commission, a historically used tool to bring together the best and brightest to tackle the issues politicians are afraid to go near. By bringing together experts, economists, and representatives from both sides of the aisle, a fiscal commission will foster bipartisan cooperation, setting aside ideological differences to focus on pragmatic, long-term solutions. The structure is intended to transcend the political divide and elevate the public discourse.

The creation of this commission is not merely an option; it is a necessity. Such a commission would be tasked with the critical responsibility of comprehensively evaluating our fiscal policies, identifying areas of inefficiency, and formulating strategic solutions to address the root causes of our escalating debt.

As we all know, a root cause of our debt is mandatory spending. Medicare spending grew by 18 percent and Social Security spending grew by 11 percent in 2023. These are vital programs and lifelines for millions of Americans, and we must strengthen and preserve them for generations to come without compromising the promises we made to senior citizens in this country. This is not about sacrificing the welfare of our citizens but rather about ensuring that these vital programs remain viable and robust in the face of fiscal challenges. Every day we fail to move forward with this effort represents a theft from seniors, those close to retirement, and future generations of Americans.

If we are to truly address our nation's fiscal solvency, we must have serious and uncomfortable conversations about the true drivers of our debt. Establishing a fiscal commission will force this body to finally face this issue head-on, rather than continually placing more and more of a burden on the American taxpayer.

Again, I want to express my gratitude for holding this hearing today. It is a step in the right direction for us to come together and have a serious discussion about the need for a fiscal commission, its mission, and begin the process of restoring our fiscal solvency and securing our nation's future.

Mr. YAKYM. Thank you, Mr. Timmons.

The Chair will now recognize the gentlewoman from Florida, Ms. Kat Cammack, for three minutes.

**STATEMENT OF HON. KAT CAMMACK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA**

Ms. CAMMACK. All right. Well, thank you, Mr. Chairman. Thank you to all of my colleagues on this wonderful, wonderful Committee. Your work is crucial in charting a path towards fiscal sanity for our Nation, so I thank you in advance for your work.

Now, as we speak, the United States national debt is barrelling towards \$34 trillion. Our window to restore common sense to our Federal budget is slowly closing, and we must act before our kids and grandkids pay the price for our government's abdication of fiscal responsibility.

Now, as one of the youngest Members serving in the House of Representatives today, I am infuriated. I am disappointed. I am very frustrated. The fiscal sins that have been committed in the halls today and continue on are going to be paid by me, by my peers, by my generation. It is Millennials and Gen Z's that will pay the steep price for the lack of courage displayed by Members of this chamber. Continuing resolutions are nothing more than lazy rubber stamps of previous years' spending and priorities that do nothing to course correct the devastating path that we are on.

Of course, no discussion about our Nation's fiscal health is serious unless we address the drivers of our debt, namely mandatory spending, which, as you and everyone in this room knows, is on autopilot. Without reforms immediately we will never be able to honor the commitments made by this government to our seniors and those most vulnerable. It is a conversation that is a much longer one, but a critical one.

That being said, I would like to highlight a handful of proposals that we could implement immediately that would help restore our Nation's fiscal health.

One, creating and implementing a structured national debt repayment plan. Two, realigning our budgeting process to start from zero, or as we all know it, zero based budgeting. Three, including CBO scores on regulatory costs before they are implemented, not when they come off the books, and, four, passing a balanced budget amendment.

So first, a structured debt repayment plan would be a crucial step in tackling the national debt in a meaningful and intentional way. We can no longer leave this issue to chance and just hope it goes away. Eliminating the deficit and balancing the budget would be obviously the first step, but executing the concept of a long-term structured debt repayment plan is largely ignored and could be the trick to getting us back on track. Two variations of this proposal exist, but one that seems to work the easiest and make the most sense would be to peg principal payments of our national debt to a percentage of the GDP. This would allow for payments to ebb and flow amongst the cyclical nature of our economy and our revenues. My belief is that these payments would not be suggestions, but should be made mandatory, as we can no longer treat the fiscal health of our Nation as a discretionary issue. Only under cir-

cumstances such as economic crisis or a declaration of war could these payments be waived. These waivers would be congressionally authorized and only by a supermajority of the People's house.

Furthermore, realigning the budgeting process from our current status quo of year-to-year budgeting to a zero based budgeting process is a no brainer. Every year we approach this appropriation process assuming that the previous year's funding levels are adequate and substantiated. We know that to be false.

Including CBO scores on regulations is also a commonsense step. Regulations have a \$2 trillion annual impact on our economy in enforcement and compliance costs alone. We have no actual figures that demonstrate what the government pays in these enforcement costs on regulations. In fact, when I spoke with the CBO Director, he said that they only score regulations when they come off the books as a cost savings, but no mechanism has been in place when they go on the books.

And, lastly, as I mentioned before, we should pass a balanced budget amendment. In Congress we hold the power of the purse, and like any business, we must maintain a balance sheet where our costs do not exceed our revenues. We will have no path forward in paying down our national debt if we do not make these reforms now. We cannot garnish the wages of our children and our grandchildren. We have to take action immediately.

I appreciate your work and this Committee's work in exploring the ways that we can change the course of our budgetary process for the better and with the American taxpayers in mind first.

Thank you. I yield.

[The information follows:]

**The Honorable Kat Cammack**

**Rep. Kat Cammack (FL-03)**  
**House Committee on Budget Member Day Hearing**  
**December 6, 2023**

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Thank you, Chairman Arrington, Ranking Member Boyle, and members of the committee, for the opportunity to provide testimony today. Your work is crucial in charting a path towards fiscal sanity for our nation.

As we speak, the United States national debt is barreling towards \$34 trillion. Our window to restore common sense to our federal budget is slowly closing, and we must act before our kids and grandkids pay the price of our government's abdication of fiscal responsibility. As one of the youngest members serving in the House of Representatives today, I am infuriated. I am disappointed. I am frustrated. The fiscal sins that have been committed in these halls and continue on today, are going to be paid by me—my peers—my generation. It is Millennials and Gen Z's that will pay the steep price for the lack of courage displayed by members of this chamber. Continuing resolutions that are nothing more

than lazy rubber stamps of previous years spending and priorities do nothing to course-correct the devastating path we are currently on.

With that said, I would like to highlight three proposals that I encourage the committee to consider to restore our nation's financial health:

1. Creating and implementing a structured national debt repayment plan.
2. Realigning our budgeting process to start from zero rather than funding levels from prior years.
3. Passing a balanced budget amendment.

First, a structured debt repayment plan would be a crucial step in tackling the national debt in a systematic manner. Here is my suggestion: First, Congress must balance the federal budget, and become a good steward of taxpayer money. Then, Congress must organize a mechanism for paying down the national debt in years where tax receipts exceed the CBO's yearly projections of revenue. In this way, Congress is not only

responsibly funding the federal government but also incentivizing pro-growth financial policies that would result in higher revenues. We have already seen the 2017 Tax Cuts and Jobs Act, for example, bring average tax collections well above CBO forecasts in the first five years since its passage, according to the Tax Foundation. Using excess revenue in years of economic growth is just one prudent way to begin paying down our national debt in the long run.

Furthermore, realigning our budgeting process from our current status quo of a year-to-year budgeting process to a zero-based budgeting process is another responsible policy change that would curb excessive spending. Every year, we approach the appropriations process assuming that the previous year's funding levels are largely adequate. By making this assumption, we are neglecting to conduct top-down evaluations of government services that would make better use of taxpayer money. Instead, we are left with a piecemeal approach to government funding, where we make incremental changes to our federal budget without a

comprehensive review of which programs provide the most value to American citizens.

Lastly, as I mentioned before, we must consider passing a balanced budget amendment to our constitution. In Congress, we hold the power of the purse, and like any business, we must maintain a balance sheet where our costs do not exceed our revenues. We will have no path forward in paying down our national debt if we do not pass a sensible federal budget year to year. The current administration has already run a \$1.7 trillion deficit in Fiscal Year 2023, and without a reasonable, enforceable mechanism to bring spending under control, our country will be faced with an economic catastrophe that could destroy the future prosperity of our kids and grandkids.

I appreciate the committee's work in changing the course of our budgetary process, and I look forward to working with you all in creating a better financial future for our nation.

Mr. YAKYM. Thank you, Ms. Cammack.

The Chair will now recognize the gentleman from Iowa, Mr. Nunn, for three minutes.

**STATEMENT OF HON. ZACHARY NUNN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA**

Mr. NUNN. Thank you very much. I want to thank the Chair, Mr. Arrington, for his incredible leadership on this, as well as Ranking Member Boyle for providing a forum for non-budgetary Members like myself to share our policy priorities for this jurisdiction.

Mr. Chairman, I also want to commend you for your Committee on advancing a budget resolution for Fiscal Year 2024 that would reduce the national deficit by \$16 trillion and balance our Federal budget within ten years. That alone is a step in the right direction.

In my home state of Iowa, we operate with a commonsense approach. Just like farmers, small businesses, families, we balance our budget and our checkbook at the end of every month, and so does my home state of Iowa every year when it comes to our budget. In fact, in the Iowa legislature, when I have the privilege to lead, we balanced the budget each year when I served there, and it is something that I want to bring to D.C., the Iowa model. The idea that we can balance the budget with a balanced budget amendment, the commitment that we will not spend more than we take in in revenue, that we will not have unfunded mandates, and through the result of bipartisan leadership, both with our governor and our state legislature, we unleash the potential of every Iowan to be able to grow the economy, pay down our debt, and now serve as one of the best managed states in the country because of our fiscal priorities.

My constituents sent me to Washington to bring common sense solutions to an institution that can't stop swiping the credit card and racking up our national debt. In Iowa, we have worked hard to live within our means and I am dumbfounded by a Federal Government that refuses to take this priority seriously. While constituents must balance their checkbook to afford basic necessities, especially with an inflation rate at 19 percent increase since the pandemic, our Federal Government has failed to rein in Federal spending, and I believe it is time to restore a sensible functional government that works for the American people, not one that is irresponsible in using the taxpayers' hard earned dollar.

That is why in my first week of Congress, my very first bill was to introduce the Balanced Budget Amendment. This resolution would have prohibited the total outlays for fiscal years from exceeding our total receipts, i.e., more money coming in than going out. This resolution would also require the President to submit to Congress a balanced budget annually, not one bloated with partisan wish lists.

Let's just look at the facts from the Administration's proposal, this year alone, Mr. Chair. Over the 10-year period, the President's budget would increase spending by \$73 trillion—with a T—or 23 percent of our overall GDP, the highest sustained level in American history. It would increase taxes by \$58 trillion, or 19 percent, also the highest in American history. The deficit under this proposal would also increase by \$16 trillion over ten years or, said a dif-

ferent way for our citizens back home, a \$50,000 increase per American citizen. Let's not forget, this is in addition to the \$100,000 each individual American household currently owes in the national debt, which currently stands over \$33 trillion.

So, Mr. Chair, as I conclude here, I want to highlight that Washington is sacrificing the livelihood of our children, our grandchildren, and national security of our great country to claim partisan victories for reelection.

I urge my colleagues on both sides of the aisle of this Committee to support each of the individual constituents' futures in my district and yours by making Washington fiscally sane. D.C. must live within its means, it must recognize that economic success comes from unleashing the hard work of Americans, and we must also recognize that D.C.'s primary responsibility is to protect Americans' national security, and this truly is the greatest national security threat we face.

Thank you, Mr. Chair, and thank you to the Members of the Committee.

[The information follows:]

**The Honorable Zach Nunn**

**REP. ZACH NUNN TESTIMONY  
MEMBER DAY – COMMITTEE ON BUDGET  
DECEMBER 6 @ 9:30 AM**

- Thank you, Chairman Arrington and Ranking Member Boyle for providing a forum for non-Budget Committee Members like myself, to share our policy priorities within this Committee's jurisdiction.
- Mr. Chairman, I also want to commend you and your Committee for advancing a Budget Resolution for Fiscal Year 2024 that would reduce the deficit by \$16 trillion and balance the Federal budget in 10 years.
- In Iowa, we operate with a commonsense approach. Just like the farmers, small businesses, and families that call Iowa home, the state government balances their budget year after year.
- I was proud to help balance the budget each year when I served in the State House – and it's something I've been fighting to bring to D.C. since I was sworn in earlier this year.
- My constituents sent me to Washington to bring commonsense solutions to an institution that can't stop swiping its credit card putting us further and further into debt.
- In Iowa, we have common sense; we work hard and live within our means. I am dumbfounded that the federal government refuses to do the same.

- While my constituents must balance their checkbook to afford basic necessities, especially with inflation increasing 19% since the pandemic, our federal government refuses to rein in its spending.
- It's time to restore a sensible, functional government that works for the American people, not one that irresponsibly spends money and taxes us.
- That is why, in my first week in Congress, I introduced a balanced budget resolution that would prohibit total outlays for a fiscal year from exceeding total receipts for that fiscal year unless Congress authorizes the excess by a three-fifths majority.
- This resolution would also require the President to submit to Congress a balanced budget annually, not one bloated with a partisan wish list.
- Let's just look at the facts from the Administration's proposal earlier this year.
- Over the ten-year period, the President's budget would increase spending by \$73 trillion or 23% of GDP, the highest sustained level in American history.
- It would increase taxes by \$58 trillion or 19%, also the highest sustained level in American history.
- The deficit under this proposal would also increase by \$16 trillion over ten years, or said a way for our constituents to understand, an additional \$50,000 per American citizen.
- Remember, this is in addition to the one hundred thousand each individual American household currently owes to the \$33 trillion national debt.

- Washington is sacrificing the livelihoods of our children, grandchildren, and the national security of our great country to claim partisan victories that fuel political re-election.
- The last time the US reached this level of indebtedness was after World War II, which took Congress decades to reverse, but because of our persistent belief in reducing the deficit, the US emerged as the leader of the free world.
- Today's lawmakers on both sides of the aisle must use the same fortitude that our colleagues serving in the 1940s possessed to keep America's leading position on the global scale.
- My resolution is an attempt at restoring good public service to every single American, regardless of party or background.
- I urge my colleagues on both sides of the aisle of this Committee to support each of their individual constituents' futures and restore Washington's fiscal sanity.
- I yield back the balance of my time.

Mr. YAKYM. Thank you, Mr. Nunn.

The Chair will now recognize Mr. Mast. Mr. Mast, you are recognized for three minutes.

**STATEMENT OF HON. BRIAN MAST, A REPRESENTATIVE IN  
CONGRESS FROM THE STATE OF FLORIDA**

Mr. MAST. I know this Committee takes very seriously that we work within our means, work within the means of We the People, and one of the places that we consistently do not do this year after year after year, and the numbers bear this out, is with emergency disaster supplemental funding. Whether that be for a volcano, a wildfire, a hurricane, a flood, a tornado, something else domestically in the continental United States of America, Alaska, or Hawaii, or whether we deal with something abroad in Europe, war in the Middle East, or somewhere else, we consistently, for whatever the reason is, we do not account for this. The 20-year average for the amount that we do not account for is \$105 billion on average, every year for the last 20 years, some years a little bit less, some years a little bit more. I think this is something that needs to be accounted for as we are looking, if we are looking at, for example, the Limit, Save, Grow Act. If the Limit, Save, Grow Act was \$1.4 trillion, then as we are accounting what each of the 12 individual appropriation bills should receive, that number should have probably come down to \$1.3 trillion from \$1.4 trillion. Why? Because year after year after year we are spending on average \$100 billion more, \$105 billion more than what we account for. Personally, in my opinion, I think we should create a thirteenth appropriation bill that specifically accounts just for disaster supplemental appropriations, both foreign and domestic. I know this moves into the world of what goes with the Disaster Relief Fund and what happens with State and Foreign Ops appropriations, but given that we are not accounting for this, I think it needs to be addressed.

I would like to see the Budget Committee address this. I think there are a number of ways we could do it, but to not do it is simply irresponsibility against the commitments that we have made. Certainly as Republicans, what we campaigned on, which was strictly fiscal responsibility. We believe in it, we work towards it, and if we don't account for that at least \$105 billion that we are spending every year, not accounting for, then we are not really living up to the fiscal responsibility that we hope to meet.

In that, I thank you for your time.

[The information follows:]

**The Honorable Brian Mast****Rep. Mast Budget Committee Member Day****DATE:** Wednesday, December 6; 9:43 AM**LOCATION:** 210 Cannon House Office Building**TOPIC/FORMAT:** 5-minute remarks on 13th appropriation bill

I know this committee takes very seriously that we work within our means - the means of we the people. And one of the places we consistently do not do this, year after year - and the numbers bear this out - is with disaster emergency supplemental funding.

Whether that be with a wildfire, a hurricane, a flood, a tornado, or something else domestically within the United States...or whether we deal with something abroad, in Europe, or war in the Middle East, or somewhere else, we do not account for this.

The twenty-year average for the amount that we do not account for is \$105 billion, on average. Some years, a little bit less, some years, a little bit more. I think this is something that needs to be accounted for. For example, if we're considering topline numbers set by the Limit Save Grow Act, and it was \$1.4 trillion, then as we're dividing it up for the 12 individual appropriations bills, that number should've come down to \$1.3 trillion. Why? Because year after year, we're spending, on average, \$105 billion more than what we account for.

Personally, in my opinion, I think we should create a thirteenth appropriation bill that specifically accounts for emergency disaster supplemental appropriations both foreign and domestic. I know this moves into the world of what goes into the disaster relief fund and what happens with SFOPS, but given that we're not accounting for it, I think it needs to be addressed, and I'd like to see the Budget Committee address this. To not do it is simply irresponsibility and goes against the commitments that we've made, as Republicans, and what we've campaigned on: fiscal responsibility. We believe in it, we work towards it, and if we don't account for that \$105 billion that we're spending, then we're not living up to the fiscal responsibility we promised.

Mr. YAKYM. Thank you, Mr. Mast.

The Chair will now recognize the gentlewoman from Indiana, Ms. Victoria Spartz for three minutes.

**STATEMENT OF HON. VICTORIA SPARTZ, A REPRESENTATIVE  
IN CONGRESS FROM THE STATE OF INDIANA**

Ms. SPARTZ. Thank you, Mr. Chair, my fellow Hoosier. I will be brief. I think this Committee needs to do a very important job, and unfortunately, we are not. We can talk about balancing something. Congress hasn't even tried to balance anything for a while. Our spending is on steroids and recurring because we are so weak, we are afraid to vote on it and really deal with that, and the rest of it, we cannot touch most of it. We cannot even pass appropriations bills. We keep increasing the amount of unauthorized spending for decades. So it is a very, very serious situation.

Our growth in GDP will not be covering now even growth in interest and how much debt has to be refinanced in the next few years at this interest rate and slow down the economy, we will reach soon the point where half of our spending will be on interest, just interest on debt, and that is going to be the collapse of our economy, and the only way to solve it will be if we continue punting these issues, it is double taxes on the middle class because everyone here is afraid to reform anything. So doubling taxes on the middle class, which paid roughly about, if you add all taxes, 50 percent, now probably you will get to 80 percent. We will have socialism.

Unfortunately, we had lots of discussions, lots of good things, and I appreciate your Committee had a hearing on the debt commission recently. There are a lot of good people here in the House who have been working and I think there are a lot of these proposals. I work with numbers of people and we try to reconcile the differences, but I think at least in the House we do have some bipartisan support, but the Senate is in trouble because the Senate only cares about elections, power, and unfortunately doesn't want to deal with it on a bipartisan basis.

So I would urge my colleagues here, Republicans and Democrats in your Committee, to start really thinking about our country and what we are doing to our country and have at least a conversation. Our credit rating was downgraded just because we are not willing—we are so weak and worthless here that not willing to have a serious conversation that will be destructive for so many people, and inflation will destroy the middle class in our country and opportunities for people on lower income and people on fixed income.

So I think this is a very serious national security crisis. I think the Budget Committee needs to also look at how we can reform. We did some reforms at the beginning of last century, then we did at the end, closer to the end of the century, but realized that it is not working. We are not budgeting here. We do a lot of presentations and hearings, but not really looking, and the number one function given to Congress by We the People is power of the purse and power of war because our founding fathers understood that is the only way American people can have accountability.

I think this is a very, very important thing that we need to try to move the needle, and I hope we will have bipartisan support and

support of this Committee, and I would be happy to help you in any way I can, and I appreciate the Chairman really leading the charge on this issue.

Thank you.

[The information follows:]

**The Honorable Victoria Spartz**

## Written Testimony

Thank you, Mr. Chairman and my fellow Hoosier. I'll be brief and I think this Committee needs to do a very important job and unfortunately, we are not. We can talk about balancing something, but Congress hasn't even tried to balance anything for a while. Our spending is on steroids, and it is recurring because we are too weak to vote on it and really deal with that. And the rest of it we can't even touch most of it. We cannot even pass an appropriations bill. We have kept increasing the amount of unauthorized spending for decades. So, it's a very serious situation. Our growth in GDP will not be covering now even the growth in interest or how much debt has to be refinanced in the next few years. This interest rate has slowed down the economy. We will reach soon the point where half of our spending will go just to our interest on debt and that will lead to the collapse of our economy. The only way to solve it if we continue to punt these issues will be to double taxes on the middle class because everyone here is afraid to reform anything. So doubling taxes on the middle class which currently roughly if you add all old taxes you'll probably get to fifty percent and now probably you'll get eighty percent, and we will have Socialism. Fortunately, we have had lots of discussions and good things, and I appreciate that your committee had a hearing on debt commission recently. There are a lot of good people in the House who have been working and a lot of proposals. I have worked with a number of people to try to reconcile the differences. But I think at least in the House we do have some bi-partisan support. But the Senate is in trouble because the Senate only cares about elections, and power and unfortunately doesn't want to deal with it on a bi-partisan basis. So, I would urge my colleagues here Republicans and Democrats in your Committee to start really thinking about our country and what we are doing to our country and have at least a conversation. Our credit rating was downgraded just because we are not willing, and we are so weak and worthless here that we are not willing to have a serious conversation. This will be destructive for so many people. Inflation will destroy the Middle class in our country and opportunities for people who are low income or have a fixed income. So, I think this is a very serious national security crisis. I think the Budget Committee needs to also look at how we can reform. We did some reform at the beginning of last century then we did at the end of the century. But we realized it's not working; we are not budgeting here. We do a lot of presentations and hearings, but we are not really looking. The number one function given to Congress by we the people is the power of the purse and the power of war. Because our Founding Father understood that it is the only way the American people can have accountability. I think these are very important things that we need to try to move the needle on and I hope we will have bi-partisan support and support from this Committee, and I'd be happy to help you in anyway I can. I appreciate the Chairman really leading the charge on this issue. Thank you.

Mr. YAKYM. Thank you, Ms. Spartz.

The Chair will now recognize the gentleman from the great State of Pennsylvania, Mr. Mike Kelly, for three minutes.

**STATEMENT OF HON. MIKE KELLY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA**

Mr. KELLY. Thank you.

This has been done before. So I have a copy of the Simpson-Bowles, but the cover on it was the moment of truth. This is from 2010. So that moment of truth in 2010 has long passed. We are long past that time, and to be honest about this and listen, guys, I am going to talk to you as a Chevrolet dealer. I am not going to talk to you as a Member of this because I have dealt with debt my whole life. I understand how it can be, and I know exactly where we are. You all know exactly where we are. The question is, do we have the political courage to do what has to be done? And I hear people tell me, this is all you have got to do. Say, that is a great idea. Are you willing to step up and do it? And the question is, well, let me make sure I understand what we are doing before we go any further.

I did bring some charts today, and I know David always brings charts, but we try to talk and I am at the dealership, I usually end up talking to people who are prospective buyers. Ninety-seven percent of what we sell is on time, and what I mean is there is a sales contract for that financial institution. One of the biggest things we have to understand is people's credit score. Now, when people talk to me about cutting the cost of operation, I don't use the figures that we use, like, we have \$5 trillion worth of revenue this year, we are going to spend \$6.9 trillion, and people say, I have no idea what it means. I say this is what it means. Somebody making \$50,000 a year is going to go out and spend \$69,000 a year and they say, oh my God, you can't do that.

Well, we talk about getting this in order. Do you know that out of every single dollar that we take in, \$0.73 cents of it is already spent. That leaves \$0.27 for us to do something about, right? The mandatory is there. What is it? It is Social Security, it is Medicare, it is Medicaid, it is interest on the debt. So when people tell me you guys are going to have to get together and get this done, my answer is, I absolutely agree with you. I absolutely agree with you. Which programs do you think we should cut? And the answer is every program but the one I participate in. We are talking about just not the courage of Congress, we are talking about the courage of the American people to understand where we are right now.

Now, we can sit back and we can talk and talk and talk, but I will tell you what, we are now at a position—in 2010—let me just read from the preamble because this is what they said at that time—if we do not act now, the country will be lost. Thirteen years ago. Trillions upon trillions upon trillions of debt increase since then and we have done nothing. This is not a criticism of the body, by the way, this is a criticism of a culture. We are a culture that likes to spend. The only thing that can rein in spending is strong management. Strong management comes from this body. I would just ask you, as you look at everything we talk about, do you have the political courage to do what needs to be done? The referendum,

what we are going to have to do is going to be drastic and it is going to cause a lot of people a lot of pain because they have been used to it. They have been used to overspending without any responsibility to covering the cost of it.

Mr. Smucker comes from the private sector as I do. There is no way in hell I could run the dealership the way this business is run. There is no business in the world that can be run this way. Not for a long period of time. Our size of our debt is unbelievable. This is a titanic moment for us because most of the debt is below the surface. You don't see it, but when we hit that, it is going to cause the country to go upside down.

I really appreciate what you are all doing. Lloyd and I talk about this stuff a lot, Jodey and I talk about this stuff a lot. Politicians can't fix it. We come up with policy. The question is, we need people of courage that are able to stand up and do it.

So I would just implore you all, listen to what it is we are trying to do. We all agree in the same thing. Is there a moment of truth? Yes, there was 13 years ago. The one today is far more challenging than the one they had then. I don't think we have implemented any of what they did before, and I know if we start talking about cutting, our phones will never stop ringing, our offices will be full every day with people that say, yeah, but, you know, you can't, you can't, you can't, you can't, and the answer is now if we don't, it is over.

So thank you all. It is good to see you. I will see you later on today, but great initiative, great initiative. Let's see what we can do. Let's see if we can all come out of the huddle the same way, run the same play in the same kind.

Thanks so much.

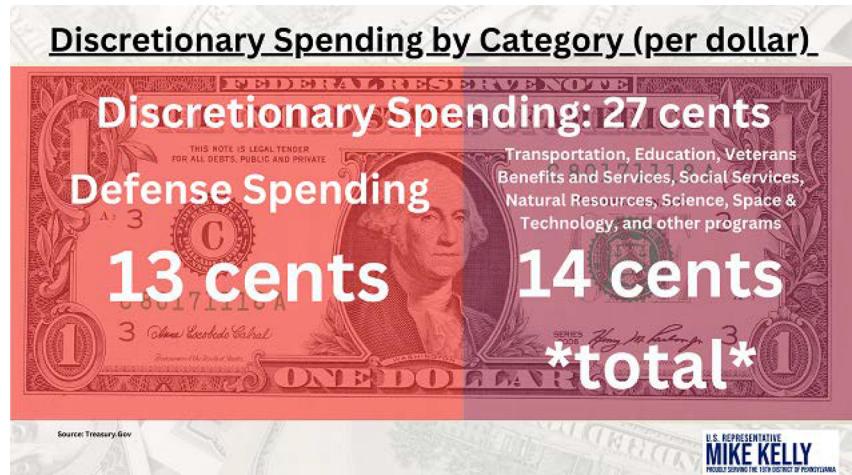
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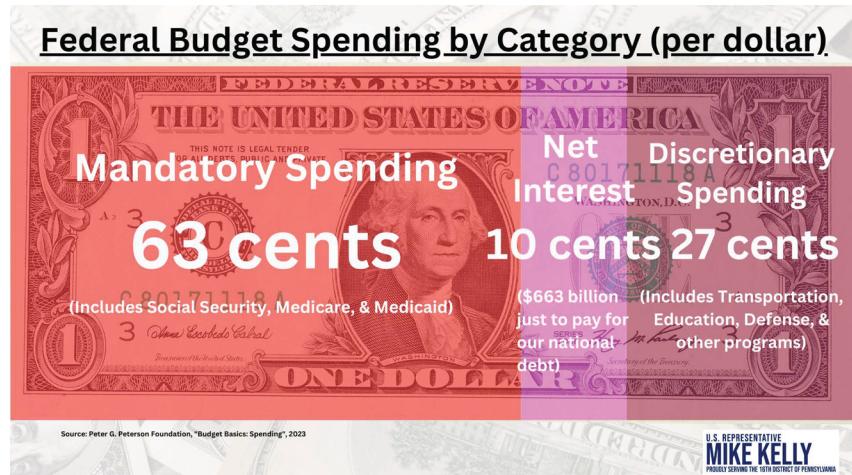
**The Honorable Mike Kelly**

**Rep. Mike Kelly**  
**Budget Committee Member Day Hearing**  
**Re: Support of Fiscal Commission**

- **Chairman Arrington, Ranking Member Boyle and members of this committee – thank you** for organizing today's Member Day hearing to hear from members such as myself on legislation currently in front of this committee.
- I am here to speak on the importance and urgency for passage of H.R. 5779 – the Fiscal Commission Act of 2023.
- **This legislation lays out the guidelines for a bipartisan fiscal commission made up of Members from the House and Senate as well as private sector experts.**
- **This commission is urgently needed in our country. I have served in this body since 2011 and a member of the Ways and Means Committee since 2013. I have seen firsthand our nation's rising debt – and the lack of action to fix the problem in front of us.**

- Our national debt is a threat to our national security.
- **I like to call it "kitchen table economics."** A family makes \$50,000 per year, but they spend \$69,000. They are \$19,000 in debt. The U.S. government does that every year — with your money. **Trillion-dollar deficit spending is unsustainable and irresponsible.**
- Before I came to Congress – as many of you know – I owned and operated my family's car dealership – Kelly Automotives – for 40 years.
- It was there at the dealership I learned all there is to know about debt.
- Lastly – **I would like to applaud my colleagues, Rep. Bill Huizenga and Rep. Scott Peters for leading this critical legislation for the American people.**
- Thank you and I yield back.





Mr. YAKYM. Thank you, Mr. Kelly.

The Chair will now recognize my friend from the great State of Montana, Mr. Rosendale.

Welcome. You are recognized for three minutes.

**STATEMENT OF HON. MATTHEW ROSENDALE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MONTANA**

Mr. ROSENDALE. Thank you very much, Mr. Chair. Appreciate it. Appreciate everybody taking the time to organize this today so that we can help you. So that we can help you.

I appreciate the opportunity to testify. I am here today not to talk about a new legislative proposal or new scheme to fix our broken budget process. Instead, I am proposing that Congress simply follows the law that it passed for itself 50 years ago. After decades of recklessness shown by Congress, America now finds itself nearly \$34 trillion in debt. Our government's fiscal irresponsibility is the single biggest threat to America.

As Congress continues to ignore this threat, the situation only worsens. Earlier this year, the U.S. debt credit rating was downgraded for the second time in a year. This is a direct result of our refusal to address our debt. If we continue this trajectory, the U.S. will have to spend 50 percent of our annual revenue to pay the interest on the debt within five short years. Mr. Chair, I am not pointing fingers at anyone. I have made every attempt to assist in the reduction of our spending. I know how. When I ran my own agency in the state of Montana, I reduced my spending by 23 percent. When I had the authority to make the cuts, I reduced it by 23 percent. It does not require another Committee, it only requires discipline from this body. That is what it requires. Continuing down this path for any longer is completely unsustainable and will cause never before seen financial hardship in our country.

You can see it on the charts here. Everyone is bringing these charts in. We know what the numbers are. Deficit this year: \$1.7 trillion, national debt approaches \$200,000 per household, the national debt is nearly at \$34 trillion. We just cannot sustain this.

Since 1974, Congress has only passed the appropriation bills on time four times. Congress has not passed the 12 appropriation bills by the required deadline at all in the last 26 years. No one can function that way. We need to simply follow our own mandates, and here it is, and we have heard some recommendations about how to change the timelines, but the fact of the matter is, if we followed this timeline and we produced the budget and then had the Appropriations Committees turn their work in—and they are prepared to do so, they are able to do so, they are capable—then we would be able to accommodate that. Although the Republican majority in the House took much needed steps to reduce wasteful spending this year—I have listened to everybody come before us, but 86 percent of the proposed spending reductions were prevented on the House floor, not by Democrats, but by Republicans.

So please, install a mirror in this room so that the people could look at themselves in the eye and see what is causing this problem. Eighty-six percent of the reductions that we brought forward were defeated by Republicans. We struggled to get 75 to 125 Republicans vote for those reductions time and time again. Even if we elimi-

nated 100 percent of the discretionary spending, we would still be adding roughly \$500 billion to the national debt each year, and that is all we are dealing with, the discretionary. Call it \$1.6 trillion, okay? If we eliminated 100 percent of that, we would still be accumulating \$500 billion a year to the debt every year.

This unprecedented debt crisis means that going forward Congress will have to take the tough votes to lower our debt and restore our country's financial independence. The apparent unwillingness from some of the Republican Party to act in the interests of the American people and pay us 12 appropriation bills that spend within our means will only prolong and worsen the struggles the American people are facing every day. Additionally, we must address the mandatory spending, which has been on autopilot for far too long, and I know that the Members that are sitting here agree with that.

Americans across the country balance their budgets and ensure their spending is within their means, and it is past time the Federal Government does the same.

Mr. Chair, I am willing to do my part. This does not take another Committee. It does not take another Committee, it takes discipline. It takes commitment and public service that we all signed up to be here for, and that is to make sure that we preserve this Republic. We can do it. We must do it. I am here just to say that I will help you do it.

Thank you so much for your time today. Thank you for your interest. I yield back.

[The information follows:]

**The Honorable Matthew Rosendale****Budget Committee Member Day hearing**

Thank you, Chairman Arrington, for giving me this opportunity to testify. I am here today not to talk about a new legislative proposal or a new scheme to fix our broken budget process. Instead, I am proposing that Congress simply follows that law that it passed for itself 50 years ago.

- After decades of recklessness shown by Congress, America now finds itself over 33 trillion dollars in debt. Our government's fiscal irresponsibility is the single biggest threat to America.
  - As Congress continues to ignore this threat, the situation only worsens.
  - Earlier this year, the U.S. Debt credit rating was downgraded for the second time in our nation's History.
  - If we continue this trajectory, the U.S. will have to spend 50% of revenue to pay the interest on debt.
  - Continuing down this path for any longer is completely unsustainable and will cause never before seen financial hardship in the United States.
  - The American people deserve a responsible and transparent budget process with 12 individual appropriations bills. Congress has a statutory obligation from the Budget Act of 1974 to pass 12 individual appropriations bills.

- Since 1974, Congress has only passed the appropriations bills on time four times. Congress has not passed the twelve appropriations bills by the required deadline at all in the last 26 years.
- Although the Republican majority in the House took much-needed steps to reduce wasteful spending this year, 86% of proposed spending reductions were prevented on the House floor not by Democrats but by Republicans
- This unprecedented debt crisis means that going forward Congress will have to take tough votes to lower our debt and restore our country's financial independence.
- The apparent unwillingness from some in the Republican Party to act in the interest of the American people and pass 12 appropriations bills that spend within our means will only prolong and worsen the struggles the American people are facing every day.
- Americans across this country balance their budgets and ensure their spending is within their means, and it is past time the Federal government does the same.
- Thank you, Chairman Arrington; I look forward to any questions the Committee may have.



## CONGRESSIONAL BUDGET ACT OF 1974 TIMETABLE

ON OR BEFORE:	ACTION TO BE COMPLETED:
FIRST MONDAY IN FEBRUARY	PRESIDENT SUBMITS BUDGET
FEBRUARY 15	CONGRESSIONAL BUDGET OFFICE SUBMITS REPORT (ON THE ECONOMIC AND BUDGET OUTLOOK) TO BUDGET COMMITTEES
NOT LATER THAN 6 WEEKS AFTER PRESIDENT SUBMITS BUDGET	COMMITTEES SUBMIT VIEWS AND ESTIMATES TO BUDGET COMMITTEES
APRIL 1	SENATE BUDGET COMMITTEE REPORTS CONCURRENT RESOLUTION ON THE BUDGET (BUDGET RESOLUTION)
APRIL 15	CONGRESS COMPLETES ACTION ON CONCURRENT RESOLUTION ON THE BUDGET
MAY 15	ANNUAL APPROPRIATION BILLS MAY BE CONSIDERED IN THE HOUSE
JUNE 10	HOUSE APPROPRIATIONS COMMITTEE REPORTS LAST ANNUAL APPROPRIATION BILL
JUNE 15	CONGRESS COMPLETES ACTION ON RECONCILIATION LEGISLATION
JUNE 30	HOUSE COMPLETES ACTION ON ANNUAL APPROPRIATION BILLS
OCTOBER 1	FISCAL YEAR BEGINS



SOURCE: SECTION 300 OF THE CONGRESSIONAL BUDGET ACT OF 1974, CODIFIED AS AMENDED AT 2 U.S.C. 863

Mr. YAKYM. Thank you, Mr. Rosendale.

Chairman ARRINGTON. Mr. Chairman, may I have a 30 second comment to my friend, Mr. Rosendale? May I comment on his remarks?

Mr. YAKYM. Please do. You are recognized.

Chairman ARRINGTON. I couldn't agree more, and I am encouraged and inspired by the passion of you and many Members that it is discipline and political will ultimately that must prevail in order for us to turn the tide of this deluge of debt that is going to bankrupt the country, to put it mildly and succinctly.

I would say there is one big advantage of a debt commission that is bipartisan, and here is what it is. I don't think there is enough pressure from the electorate in any district in any part of this country on Democrat and Republican Members to come up here and follow through on what they say they are going to do with respect to spending and the debt. If we can have bipartisan agreement on the numbers and the projections and we can sound the alarm together and have a national campaign that wakes everybody up to this. As Abraham Lincoln said, without public sentiment, you can do nothing; with it, you can do anything. We need more pressure from the citizens of our country on the knuckleheads here in Congress that just apparently live in a different world altogether.

So I see education and awareness as a valuable outcome of a bipartisan commission, but you are right, ultimately got to have the political courage.

I thank you for your input.

Mr. ROSENDALE. Thank you. Thank you very much.

Mr. GOOD. Mr. Rosendale, would you like to sit behind this a little bit longer?

Mr. ROSENDALE. You just want to use my charts.

Mr. YAKYM. The Chair will now recognize Mr. Good from the great state of Virginia.

My friend, Mr. Good, you are recognized for three minutes.

**STATEMENT OF HON. BOB GOOD, A REPRESENTATIVE IN  
CONGRESS FROM THE STATE OF VIRGINIA**

Mr. GOOD. Thank you, Mr. Chairman, and thank you to our Committee for holding this opportunity for Members to come and talk about one of the, I would suggest two greatest threats to our country along with our open border.

We all know that the budget process has been broken for a long time and the American people are suffering the consequences. The days of no consequence spending are long over with record inflation, 40-year high inflation, 20-year high interest rates, gas prices, grocery prices, housing prices, utility prices, just breaking regular income Americans. Congress has not, unfortunately, demonstrated the intestinal fortitude to approach the budget with the necessary resolve to cut spending, to rein in the bureaucratic state, or remain accountable to the established budget process, let alone think about addressing the mandatory spending disaster on the horizon. I find it just very interesting so many of our Members in the Republican Conference even will say, gosh, it is not the discretionary, it is the mandatory, we have got to go after the mandatory, and they don't

have a willingness to deal with the discretionary to earn the right, quite frankly, to reform mandatory spending.

Currently, the national debt—we all know this—is at a historic high at \$34 trillion, which equates to \$260,000 per taxpayer, \$100,000 per citizen. Interest on the debt has doubled under Biden, totaling \$663 billion this past fiscal year. By 2027, it is projected interest payments on the debt are going to surpass defense spending. The national deficit this year is over \$2 trillion. We are on track for a 12 month, \$2.5 trillion. Worse, the Biden border crisis is costing us \$150 billion annually on top of that, and yet assistance to Ukraine has topped \$113 billion, with no oversight for that, and we have got the President and the Senate Majority Leader asking for another \$60 billion for Ukraine and they don't want us to pay for it or have any offsets for that. You would hope that no Republicans, Mr. Chairman, would support supplementals without offsets, because that would demonstrate that the Republican Conference, the Republican majority, doesn't take serious the greatest fiscal crisis we ever have faced that we are under right now.

Democrats broke the bank last Congress by spending over \$550 billion in the name of environmental justice, and the President continues to ignore the established process of checks and balances by putting forth 850 Executive actions which have allowed his Administration to unilaterally enact \$1.5 trillion in additional spending. Congress must approach the budget process reform with a commitment to cut spending, a demonstrated commitment to do so.

A couple of suggestions. I would offer my nickel plan, which should be included as a guiding principle for the budget process because it requires the Federal Government to reduce its budget by one nickel for every dollar that it spends annually, and it would balance the budget in five years. This upfront cut would allow the budget process to address the excessive spending enacted by prior Congresses. My Article I Regulatory Budget Act would help Congress account for and address the out of control bureaucratic state. It is nearly impossible to balance the budget when unelected bureaucrats issue costly rules and spend money without proper oversight. For this reason, the budget process must include a framework, like my bill, again the Article I Regulatory Budget Act, that would require a regulatory budget detailing regulatory costs similar to the annual budget for taxes and government spending. It would ensure that all bureaucratic spending is accounted for in any future budget process. This tool would allow those working on the budget to have a comprehensive understanding of all federal spending, not just that which is enacted through regular order.

Some additional reforms, the budget process should ensure that if a budget is not passed by April 1, then Congress is required to remain in D.C. until the job is done. We ought to also not allow the President to give a State of the Union address unless he has done his budget, as required by the first Monday in February. We ought to change the requirement for the congressional budget resolution to include requiring a 10-year debt service projection. How are we going to balance a budget or effectively address the budget process if the debt payments are not adequately accounted for? We need to change the requirement of the congressional budget resolution to include a baseline and a target debt-to-GDP ratio. What is

acceptable, what is our target there? And change the requirements of the congressional budget resolution to require a markup of the budget within two months of the President's budget being published.

I am proud of the work that our Chairman and our Committee has tried to do on this issue. I think that a debt commission is a good thing to do, but it is only as strong or as valid as the willingness of Congress to enact the reforms that we all know are needed. This is not easy, but it is also not complicated.

Thank you, Mr. Chairman. I yield back.

[The information follows:]

**The Honorable Bob Good****House Budget Committee – “Budget Process Reform Member Day”**

Wednesday, December 6, 2023, at 09:00 AM  
 210 Cannon House Office Building

**Testimony for Congressman Bob Good (R-VA):**

- Thank you, Mr. Chairman.
- And thank you to our Committee for holding this opportunity for members to come and talk about what I would suggest is one of the greatest threats to our country along with our open border.
- We all know the budget process has been broken for a long time and the American people are suffering the consequences.
- The days of no consequence spending are long over with 40-year high inflation, 20-year high interest rates, gas prices, grocery prices, housing prices, and utility prices just breaking regular income Americans.
- Congress has not unfortunately demonstrated the intestinal fortitude to approach the budget with the necessary resolve to cut spending, to rein in the bureaucratic state, or remain accountable to the established budget process, let alone think about touching mandatory spending disaster on the horizon.
- I find it just very interesting that so many of our Members in the Republican Conference even say, “Gosh, it’s not the discretionary spending, it’s the mandatory spending, we have to go after the mandatory spending and they don’t have a willingness to deal with the discretionary to earn the right, quite frankly, to reform mandatory spending.”
- Currently:
  - The national debt, we all know this, is at an historic high at \$34 trillion which equates to \$260,000 per taxpayer, \$100,000 per citizen.
  - Interest payments on the debt has doubled under Biden – totaling \$663 billion this past fiscal year;
  - By 2027 it is projected these interest payments on the debt are projected to surpass national defense spending;
  - The national deficit this year is \$2 trillion;
  - We are on track for a 12-month two and a half trillion.
  - Worse, the Biden Border Crisis is costing the US \$150 billion annually;
  - And yet, assistance to Ukraine has topped \$113 billion with no oversight for that;
  - And we have got the President and the Senate majority leader asking for an additional \$60 billion and they don’t want us to pay for it or have any offsets for that;
    - You would hope that no Republicans, Mr. Chairman, would support supplementals without offsets because that would demonstrate that the Republican Conference doesn’t take serious the greatest fiscal crisis that we ever face – that we are under now.

- Democrats broke the bank last congress by spending over \$555 billion in the name of environmental justice, and
- The President continues to ignore the established process of checks and balances by putting forth 850 executive actions which has allowed his administration to unilaterally enact \$1.5 trillion in spending.
- Congress must approach the budget process reform with a commitment, a demonstrated commitment, to cut spending.

### **The Nickel Plan**

- A couple of suggestions I would offer:
- My Nickel Plan should be included as a guiding principle for the budget process because it requires the federal government to reduce its budget by one nickel for every dollar it spends annually and would balance the budget in 5 years.
- This up-front cut will allow the budget process to address the excessive spending enacted by prior Congresses.

### **Article I Regulatory Budget Act**

- My Article I Regulatory Budget Act would help Congress account for and address the out-of-control bureaucratic state.
- It is nearly impossible to balance the budget when unelected bureaucrats issue costly rules and spend money without proper oversight.
- For this reason, the budget process must include a framework like my bill, the Article I Regulatory Budget Act that would require a regulatory budget detailing regulatory costs similar to the annual budget for taxes and government spending.
  - It would ensure that all bureaucratic spending is accounted for in any future budget process.
  - This tool will allow those working on the budget to have a comprehensive understanding of all federal spending – not just spending which is enacted through regular order.

### **Additional Reforms**

- Some additional reforms:
- The budget process should ensure that if a budget is not passed by April 1<sup>st</sup> then Congress is required to remain in DC until the job is done.
- We ought to also not allow the President to give a State of the Union Address unless he has done his budget request as required by the first Monday in February.
- We ought to change the requirement for the Congressional Budget Resolution to include requiring a 10-year debt service projection.
  - How are we going to balance the budget or effectively address the budget process if debt payments are not adequately accounted for?
- We need to change the requirement of the Congressional Budget Resolution to include a baseline and target debt to GDP ratio.

- What is acceptable, what is our target there?
- And change the requirements of the Congressional Budget Resolution to require a markup of the budget within 2 months of the President's Budget being published.
- I am proud of the work that our Chairman and our committee has tried to do on this issue.
- I think that a debt commission is a good thing to do but it is only as strong or as valid as the willingness of Congress to enact the reforms that we all know are needed.
- This is not easy, but it's also not complicated
- Thank you, Mr. Chairman. I yield back.

Mr. YAKYM. Thank you, Mr. Good. I certainly appreciate not only your friendship but also our shared passion for restoring fiscal responsibility to the Nation's capital.

I also want to thank our full Committee Chair, Chairman Jodey Arrington. As you well know, it has been 50 years since we have even looked at or evaluated or reformed any of our budget processes. I think this Task Force is an important step in doing that on a bipartisan basis, and doing so in a series of phases that allows us to get to a much better budget process that works not only for Washington and for the lawmakers, but more importantly, for the American people as we work together to restore fiscal responsibility.

So I really want to take this opportunity to thank you for asking me to Chair this Task Force as we go through and reform our budget processes.

Chairman ARRINGTON. Mr. Chairman, will you yield me one minute?

Mr. YAKYM. At the discretion of the Chair, I will yield you one minute, yes, sir.

Chairman ARRINGTON. Well, you are the Chair for this purpose and it is a righteous mission and it is a very important endeavor. Fifty years, the results of the last 25 have been horrible, tragic really, and while ultimately it does come down to now the party in power in the House, but both sides have just failed to live up to the discipline and political courage that has been talked about today. We don't have any more runway left. I don't know how much longer, but within this decade I believe, if we don't change course in a meaningful way with respect to our rising deficits and unsustainable debt, we are going to lose the country, and we can't kick the can down any further. I think your leadership and the efforts of our colleagues under your leadership to make sure that the incentives are right to motivate us through carrots and sticks, to get us to responsible budgetary outcomes to save this country, is critical, and so you have come to Congress at just the right time. It was clear to me that you had the leadership skills and the passion and the respect from your peers to lead this charge, and I expect big things from you, not only in this endeavor but in your future here in Congress. Thank you for your willingness to lead it and I am excited about the results of this and all of our efforts to restore fiscal sanity in our citizens' capital here in Washington, D.C., and I yield back.

Mr. YAKYM. Thank you, Mr. Chair.

That completes the Committee's business for today.

I would like to thank all the Members who shared their ideas and recommendations before the Budget Committee. We appreciate your perspective and feedback.

The Committee stands adjourned.

[Whereupon, at 10:18 a.m., the Committee was adjourned.]

**House Budget Committee  
Budget Process Reform Member Day Hearing  
December 6, 2023**

**Testimony of Congressman Blake Moore (UT-01)**

Chairman Arrington, Ranking Member Boyle, and members of the House Committee on the Budget, thank you for the opportunity to provide written testimony for the Budget Process Reform Member Day hearing.

I am honored to serve on this committee with each of you, and I remain committed to working with members to improve our nation's fiscal outlook.

The theme of today's Member Day hearing is Congress's budget process. Like many members of the Committee, I believe our budget process is broken and in dire need of comprehensive reform.

I applaud the chairman for establishing the Budget Process Reform Task Force that my friend, Rep. Rudy Yakym (R-IN), is chairing. The Task Force will provide an important forum for the Budget Committee to discuss ways to improve the effectiveness of the congressional budget process.

I would like to take the opportunity to raise two important legislative priorities on which I am working. These are the *Fiscal State of the Nation Act* and *Comprehensive Congressional Budget Act of 2023*, both of which I expect to introduce soon.

The *Fiscal State of the Nation Act* would require the Comptroller General of the United States to address a joint meeting of the House and Senate to present information on the Fiscal State of the Nation. Additionally, the legislation would require the budget resolution to include a statement of findings on the Fiscal State of the Nation.

As members of this committee know well, our national debt and deficit are out of control. I believe that requiring an annual, joint meeting of Congress at which the Comptroller General could provide an outlook of the nation's finances will appropriately raise the visibility and profile of our budgetary pitfalls, as well as the stakes of not addressing our country's debt and deficit crisis.

I am also excited to be introducing the *Comprehensive Congressional Budget Act of 2023*, an overhaul of the budget process that will empower Congress and its committees to engage with *all* of nation's revenues and outlays.

Our current appropriations process only meaningfully addresses discretionary spending through the House Appropriations Committee. This leaves a vast percentage of federal outlays, as well as the revenue that funds it, without a consistent and predictable method by which to enact reforms.

Today, ensuring Congress has a process incorporating the full scope of federal outlays and revenues is even more critical than in past decades. According to Historical Tables from the Office of Management and Budget, in fiscal year 1965, discretionary spending represented 65.8 percent of total outlays by the federal government, compared to the 26.9 percent that was spent on mandatory programs and net interest. By fiscal year 2022, discretionary spending had decreased to 26.5 percent of total outlays, while mandatory and net interest spending reached 73.5 percent of federal outlays.

Simply put, Congress cannot, and should not, consistently ignore approximately three-quarters of spending, as well as the federal government's revenues.

As our national debt continues to climb and the percentage of mandatory spending continues to increase relative to discretionary spending, it is clear that our current budget process is inadequate.

The *Comprehensive Congressional Budget Act of 2023* would establish a truly unified budget for the federal government—one that incorporates our discretionary spending through the Appropriations Committee, as well as authorizing committees' proposed or potential reforms to revenues and direct spending accounts. The House Budget Committee would still adopt a concurrent resolution on the budget and allocate 302(a)s to jumpstart this process.

If enacted, this bill would ultimately foster a process by which Congress can consider *all* spending accounts and *all* revenue sources through a transparent and policy-neutral process. These reforms would empower members on both sides of the aisle and from every committee to contribute to our nation's financial outlook and the solvency of trust funds, as well as shape the policies that touch every Americans' lives.

I believe this is a critical time in our nation's history. We must get our fiscal house in order, and that can start right here in the Budget Committee. I look forward to working with my colleagues on these and other budget process reforms.

Thank you, again, Chairman Arrington and Ranking Member Boyle, for the opportunity to provide testimony today.

**Rep. Warren Davidson  
H.R. 1492, CBO Show Your Work  
Talkers for Member Day in House Budget Committee**

**Bill Summary:**

- This bill requires the Congressional Budget Office (CBO) to make available to Congress – and the public – each fiscal model, policy model, and data preparation routine that the agency uses to estimate the economic effects of legislation.
- For each analysis, CBO must also disclose the data, programs, models, assumptions, and other details of the computations used to prepare the estimate.
- For any confidential data, CBO must provide a list of data variables, descriptive statistics, contact information for the individual who has unrestricted access to the data, and a reference to the statute preventing disclosure of the data.

**Talkers:**

- Good data makes for good legislation. CBO has an incredibly important role in providing budgetary and economic analysis for legislation in Congress. Each year, the agency produces dozens of reports and hundreds of cost estimates for proposed legislation.
- Given the weight these scores have on the ability for Members of Congress to make policy decisions, it should be a top priority that CBO's standards are of the highest possible quality. When CBO fails to accurately predict the impact of policies, legislators lack the resources to make educated decisions.

- A couple of previous examples for the committee:
  - In 2010, CBO estimated the federal student lending programs in the “Health Care and Education Reconciliation Act” would save taxpayers \$40 to \$62 billion through 2020. A decade later, CBO issued a new projection and said the program would cost taxpayers \$31.5 billion over the next decade. The Department of Education contradicted them after conducting a full internal analysis and concluded taxpayers would actually be left with a \$435 billion tab from the federal student lending programs.
  - In 2022, CBO claimed the “Inflation Reduction Act” would result in an \$18 billion reduction in the deficit through 2026. One month later, CBO released an updated score showing the bill would actually add roughly \$25 billion in deficits during the same timeframe. They also downsized the bill’s overall impact on deficit reduction by roughly \$55 billion during the full 10-year window of the bill.
  - This month, CBO claimed Speaker Johnson’s Israel supplemental would add \$12.5 billion to the federal deficit over a decade due to lost tax revenue. As we all know, that bill was completely paid for by clawing back massive spending increases to the IRS under Democrats last year.
- On behalf of Congress, and by extension the American taxpayer, we deserve better than this. My bill simply requires transparency. We deserve to have clarity about the metrics, models, and assumptions that the CBO uses to arrive at its conclusions.

- The heart of the scientific method is reproducibility of results, and as it stands now there is no way for Congress to verify or examine the CBO's methods and conclusions beyond taking it as an article of faith.
- I hope every member of this committee will cosponsor this legislation, and I look forward to working with each one of you to move it through his committee.

