TESTIMONY OF
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CHAIR
COUNCIL OF ECONOMIC ADVISERS
BEFORE
U.S. House Committee on Appropriations
Subcommittee on Financial Services and General Government

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Chairman Womack, Ranking Member Hoyer, Members of the Subcommittee:

Thank you for this opportunity to testify on President Biden's 2025 Budget and, in my case, the economic context within which we propose this budget plan.

I'd like to start by noting that the President's budget, which includes the Biden-Harris Administration's 10-year economic forecast, is the culmination of the work of hundreds of smart, dedicated people, both in the Executive Office of the President and across the agencies, all of whom have put in long hours to produce this document. I offer them all my deep thanks.

As noted, the budget must implement the Biden-Harris vision within the existing and expected future economic context. It is that context I'll briefly discuss this morning.

In his State of the Union speech, the President took us through some remarkable aspects of the current economic expansion, reminding us how far we've come since he took office. The quick passage of the American Rescue Plan got shots in arms and checks in pockets, along the way standing up a highly effective vaccine-distribution program where none had previously existed. This accomplishment proved to be essential to reopening our economy and helping families and businesses get to the other side of the crisis. The A-R-P prevented mass evictions and business losses, supported state budgets, reduced child poverty and ensured that the job market got quickly back to full employment.

Importantly, the US job market did not just quickly get back to full employment; it has stayed there. The unemployment rate has stayed below 4% for 25 months—over two years. You'd have to go back more than 50 years to see a comparable

stretch of such low joblessness. The average of Black unemployment last year was the lowest annual rate on record. Labor force participation for prime-age women—25-54 year-olds—is also near its historic high, with data back to the late 1940s. As CEA shows in our newly released Economic Report of the President, this persistently tight labor market has delivered strong, inflation-adjusted wage gains that have grown faster for low and middle than for high-wage workers.

A key reason for these real wage gains is that consumer inflation has come down by almost two-thirds off of its peak, from 9.1% to 3.2%. That is, we have maintained historically tight labor markets while achieving significant disinflation. Many economists told us this couldn't be done; that to get this much disinflation we'd need to give up many points of unemployment and growth.

President Biden never believed that we could only achieve lower inflation on the backs of working Americans and he was right to hold that line. Virtually every forecast we've seen, including our own, has inflation continuing to ease throughout the rest of this year and next year.

The economic forecast in the budget results from joint work by the three agencies represented here today. Our forecasting team faces a unique challenge in that we must finalize our forecast well before we release it, in this case in early November 2023. This can sometimes render our near-term predictions stale relative to more up-to-date market forecasts. However, the new forecast looks good in this regard, as our near-term optimism about transitioning to steady, stable growth was broadly warranted.

On a q4/q4 basis, we expected real GDP to grow 2.6% last year, when the actual was 3.1%, meaning the expansion was even stronger than we expected. This is above-trend growth, which means it is helping to generate the ongoing strength of job creation, along with real wage and income gains.

On inflation, things also turned out a bit better than we expected. We thought the CPI would be up 3.4% last year but the actual came in at 3.2%, down sharply from north of 7% in '22. On 2023 unemployment and interest rates, we came in very close to the actual results.

Over the longer term, our forecast is largely unchanged, with terminal growth and unemployment rates of 2.2% and 3.8%, respectively. As we show and discuss in today's release, our terminal growth rate is higher than some other forecasters, because we include pro-growth effects of our policies, including investments in human and physical capital, along with affordable child care, which research shows has the potential to significantly increase care-givers' labor supply.

With that, I look forward to your questions.

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