

# CONGRESSIONAL TESTIMONY

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## Testimony for Hearing on: **A Strong Foundation: How Housing is the Key to Building Back a Better America**

Testimony before the  
**Committee on Financial Services**

U.S. House of Representatives

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Housing is an important component of the American economy. More importantly, housing is often the largest part of a family's budget and a vital factor in their quality of life.

The affordability of housing depends on basic economic factors, including an ample supply of available housing units as well as a growing economy where people can enjoy the fruits of their labor.

So, it is important that we consider housing in the context of economic policy.

Unfortunately, too often government policy erects barriers to opportunity. As President Reagan famously said, "The nine most terrifying words in the English language are: I'm from the Government, and I'm here to help."<sup>1</sup>

It should be no surprise that the sectors of the economy that people express the most frustrations with – such as healthcare, education, energy, and housing - are the ones that feature the most government interference. Government rules, regulations, subsidies, and disincentives all limit consumer choice, stifle innovation, drive up costs, and ultimately make things more difficult and less fulfilling for people around the country.

Congress is currently considering a massive tax and spending package mean to “transform the American economy”<sup>2</sup> and expand government

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<sup>1</sup> President Ronald Reagan, News Conference, August 12, 1986,  
<https://www.heritage.org/ronald->

[reagan/reagan-quotes-speeches/news-conference-1/](https://www.heritage.org/reagan/reagan-quotes-speeches/news-conference-1/)

<sup>2</sup> Speaker Nancy Pelosi, “Dear Colleague on Advancing the Build Back Better Agenda,”

control over the most personal aspects of peoples' lives.

It would put more of the economy's resources under the control of politicians and bureaucrats, rather than the people. It would use the force of government to pick winners and losers, unfairly empowering special interests.

And this will only exacerbate the challenges families and communities are facing as we struggle to emerge from the pandemic.

### **Increasing Government Spending and Debt**

The last two years have seen fiscal policy that is unprecedented during peacetime.

Total government spending in Fiscal Year 2021 was 53 percent higher than in 2019.<sup>3</sup>

Of the roughly \$5.2 trillion of new federal debt added since the beginning of the pandemic, \$2.8 trillion, or 54 percent, was purchased by the Federal Reserve.<sup>4</sup>

Congress should conduct oversight to ensure transparency and understand the consequences of these unprecedented actions.

Even prior to the COVID-19 pandemic, the federal budget was on an unsustainable trajectory.<sup>5</sup> Over the long run, the growth of

spending cannot outpace the growth of the economy.

The Congressional Budget Office's (CBO) current law Long-Term Budget Outlook shows that even though tax revenues are projected to rise above normal historical levels, spending will continue to grow out of control.

This overspending drives inefficiency and waste, threatening economic growth which would lead to a lower quality of life and less opportunity for American families. The first step down the road to fiscal responsibility should be rejecting efforts to further increase government spending.

The CBO says that the current fiscal trajectory would "reduce business investment and slow the growth of economic output," and would "increase the risk of a fiscal crisis." CBO also warns of "significant, adverse effects, such as expectations of higher rates of inflation."<sup>6</sup>

### **Inflation**

Americans have been feeling the tax of price increases. The Consumer Price Index increased 5.4 percent in the last year, among the highest increases since the 1970's.<sup>7</sup>

At \$3.5 trillion, this bill would increase government spending by \$27,000 for every household in the country.

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September 13, 2021,

<https://www.speaker.gov/newsroom/91321-2>

<sup>3</sup> Congressional Budget Office, "Monthly Budget Review: September 2021," October 8, 2021, <https://www.cbo.gov/publication/57476>

<sup>4</sup> Richard Stern, "Clean Debt-Limit Suspension Is a Blank Check for Ever-Expanding Government," Heritage Foundation Issue Brief No. 5214, September 30, 2021, <https://www.heritage.org/debt/report/clean-debt-limit-suspension-blank-check-ever-expanding-government>

<sup>5</sup> Paul Winfree, "Causes of the Federal Government's Unsustainable Spending," Heritage Foundation Backgrounder No. 3133, July 7, 2016, <https://www.heritage.org/budget-and-spending/report/causes-the-federal-governments-unsustainable-spending>

<sup>6</sup> Congressional Budget Office, "The 2021 Long-Term Budget Outlook," March 4, 2021, <https://www.cbo.gov/publication/56977>

<sup>7</sup> Bureau of Labor Statistics, "Consumer Price Index Summary," Economic News Release, October 13, 2021, <https://www.bls.gov/news.release/cpi.nr0.htm>

Pumping so much additional cash into the economy could cause a dramatic surge of price inflation.

Furthermore, Green New Deal climate policies will push up energy prices, on top of the 40 percent hikes already felt at the pump.<sup>8</sup>

### **Supply Chain Problems**

One of the biggest issues on the minds of people are the disruptions to the goods and services they need.

Consumers are seeing shelves bare of goods. While the White House warns that Christmas may be interrupted, some basic goods like bread and dairy are even disappearing from store shelves. Factories have seen work slowdowns or shortages due to interruptions in the supply of vital components.

Meanwhile, throughout the country, help wanted signs are posted in many shops and restaurants. In August, there were 8.3 million unemployed workers – and yet there were 10.4 million job openings. That is 2.1 million more job openings than people who are looking for work.

The economy is facing significant supply side challenges, and the Build Back Better Act threatens to make these worse by increasing regulations and fiscal burdens, especially on small businesses and independent workers like

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<sup>8</sup> Kevin Dayaratna and Nicolas Loris, “Assessing the Costs and Benefits of the Green New Deal’s Energy Policies,” Heritage Foundation Backgrounder No. 3427, July 24, 2019, <https://www.heritage.org/energy-economics/report/assessing-the-costs-and-benefits-the-green-new-deals-energy-policies>  
Bureau of Labor Statistics, “12-month percentage change, Consumer Price Index, selected categories,” Graphics for Economic News Releases, September

truck drivers. This is the exact opposite of what people need. It would restrict the supply of both goods and services. And that hurts real people.

### **Damaging Tax Policy**

The tax proposals provide a case study.

The Build Back Better Act includes more than \$2 trillion in tax hikes. As a share of the economy, it would be the largest tax increase in more than 50 years.

Especially as the economy is struggling to recover from government lockdowns and economic disruptions, such a massive tax increase would reduce wages, cost jobs, harm economic growth, cut investment, increase prices, and harm working American families.

In 2019 Americans spent more on taxes than on food, clothing, and housing combined.<sup>9</sup>

President Biden has repeatedly promised that his massive tax increases won’t hit people earning less than \$400,000. But that promise just is not true.

According to the non-partisan official Congressional scorekeepers at the Joint Committee on Taxation, nearly 6 million taxpayers taking home less than \$100,000 per year would see their taxes go up in 2023 under the Biden legislation. It would even hike taxes on hundreds of thousands of families earning less than \$20,000 per year.<sup>10</sup>

2021, <https://www.bls.gov/charts/consumer-price-index/consumer-price-index-by-category.htm>

<sup>9</sup> Erica York, “Tax Freedom Day 2019 is April 16<sup>th</sup>,” tax Foundation, April 10, 2019, <https://taxfoundation.org/publications/tax-freedom-day>

<sup>10</sup> Matthew Dickerson, “Will Biden’s Spending Bill Hike Taxes on Those Making Less Than \$400,000?,” Heritage Foundation Commentary, October 4, 2021, <https://www.heritage.org/taxes/commentary/will->

By 2027, more than half of all families earning \$75,000 to \$100,000 would see their taxes go up by a total of more than \$3 billion.

Of course, this should surprise no one. It would be mathematically impossible to fund this spending agenda by only raising taxes on high-income individuals.

Even if the government confiscated 100 percent of the income of everyone who earned more than \$1 million in 2018--when the economy was going full throttle--it wouldn't cover half of the proposed government expansion.

The tax increases would harm American competitiveness.

Under the Build Back Better Act, the federal tax rate on U.S. corporations would be raised to 26.5 percent – even higher than the 25 percent rate imposed by the Chinese Communist Party. Adding in corporate taxes these employers have to pay at the state level, the tax rate on U.S. corporations would increase to 30.9 percent, third highest among our OECD competitors.

These taxes will be felt directly by all Americans. Business taxes necessarily show up through reduced wages, through diminished investment in expanding operations and employment, and increased prices to consumers.

One study found that the price increases after a corporate tax hike “are larger for lower-price

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[bidens-spending-bill-hike-taxes-those-making-less-400000](#)

<sup>11</sup> Scott R. Baker, Stephen Teng Sun & Constantine Yannelis, “Corporate Taxes and Retail Prices,” National Bureau of Economic Research, April 2020, <http://www.nber.org/papers/w27058>

<sup>12</sup> Adam Michel and Travis Nix, “5 Myths About the State and Local Tax Deduction’s Cap,” Heritage Foundation Commentary, June 25, 2019,

items and products purchased by low-income households.”<sup>11</sup>

There are some tax policies Congress should consider that affect housing affordability.

An important reform included in the Tax Cuts and Jobs Act was to cap the deduction for State and Local Taxes (SALT). The SALT deduction subsidizes high taxes imposed by state and local governments, such as property taxes.

While not currently included in the Build Back Better Act, some are proposing to repeal or increase the cap on the SALT Deduction. This proposal would benefit wealthy taxpayers in high-tax states. Instead, Congress should finish the job and repeal the SALT deduction which would put pressure on municipalities to reform property taxes.<sup>12</sup>

Tax policy is also biased against new investments in buildings where people live.

Under current law, investments in residential rental property must be deducted over a 27.5 year schedule. That means if someone wants to build new housing in your local community, they will be forced to recover those costs over decades.

Allowing businesses to deduct the cost of making investments immediately rather than waiting for years encourages them to invest as soon as possible, reduces the cost of capital, improves productivity, creates more jobs, and substantially improves wages.<sup>13</sup>

<https://www.heritage.org/taxes/commentary/5-myths-about-the-state-and-local-tax-deductions-cap>

<sup>13</sup> Marie Fishpaw et al, “Being a Parent Is Hard Enough: It’s Time for Congress to Help Families Thrive,” Heritage Foundation Backgrounder No. 3647, August 12, 2021,

<https://www.heritage.org/marriage-and-family/report/being-parent-hard-enough-its-time-congress-help-families-thrive>

To fix the tax treatment of investment in structures, Congress should either allow full and immediate write-offs or allow for neutral cost recovery with the deduction taken over time but adjusted for inflation and the time value of money. The Tax Foundation has estimated that neutral cost recovery for structures would result in 231,000 more jobs, increase wages by 1 percent, and increase the capital stock by 2.3 percent.<sup>14</sup>

### **Conclusion**

Congress could make housing more affordable by tearing down government barriers to opportunity, rather than increasing government spending, higher taxes, and piling on new rules, regulations, and mandates.

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<sup>14</sup> Tax Foundation, “Implement Neutral Cost Recovery for Structures,” Options for Reforming America’s Tax Code 2.0, April 19, 2021,

<https://taxfoundation.org/tax-reform-options/?option=8>

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