Testimony before the House Budget Committee

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Chairman Yarmuth, Ranking Member Smith, and Members of the Committee,

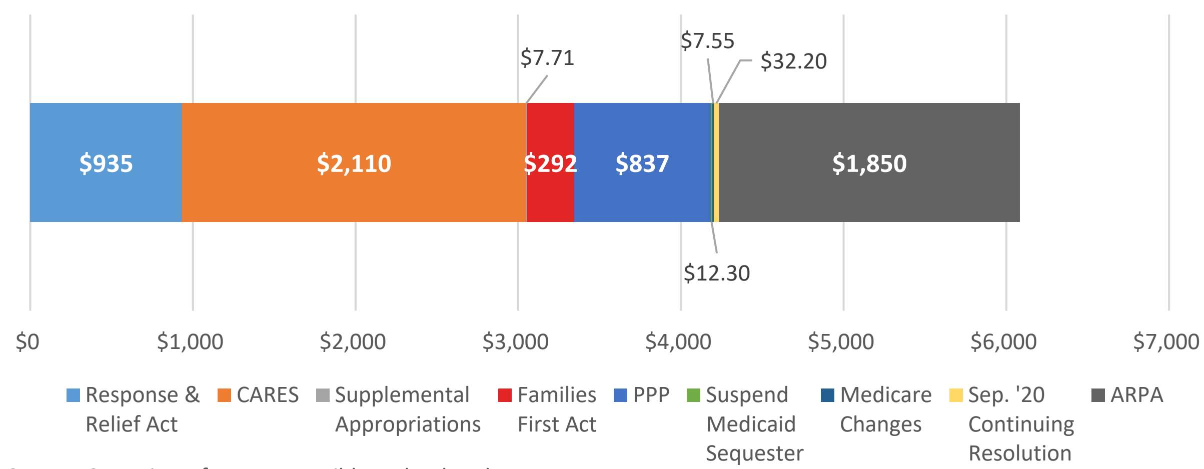
Thank you for the opportunity to speak with you today on the American Rescue Plan.

My name is Steve Moore, and I am the Chair of the Save America Coalition at the America First Policy Institute and Distinguished Fellow in Economics at the Heritage Foundation.

The federal government has now spent roughly $6 trillion in response to the COVID-19 crisis and the economic lockdowns which began in March of 2020. Adjusting for inflation, this was on par with the amount of money spent by the federal government to fight World War II.

Despite the $6 trillion price tag (See figure 1), more than 1 million Americans have died from COVID-19, tens of millions of Americans were thrown into unemployment lines, hundreds of thousands of small businesses have gone bankrupt, our debt has climbed to more than $30 trillion, and inflation is raging.

Figure 1



Source: Committee for a Responsible Federal Budget

We should be asking ourselves as a Nation whether, if we could turn back the clock to March of 2020, and we had simply protected the vulnerable population in our society and warned the other 80% of Americans of the high health risks associated with COVID-19, but NOT shut down society and not spent and borrowed $6 trillion, whether we could possibly have had a worse outcome. The price we pay as a society for the bad choices we made—especially shutting down our schools—will be paid for decades to come.

The Failure of Lockdowns

I salute this Committee for investigating what went wrong and how we can avoid this failed public policy response as we fight pandemics in the future.

It is now well established that economic lockdowns were a catastrophic mistake. We know from the evidence across countries and across states that the impact of mandatory lockdowns, stay-at-home orders, and other government-imposed mandates on health outcomes was small. The seminal research on this was done by the Johns Hopkins University economic/health research team which found that the death rate from COVID-19 was reduced by 0.2% due to lockdowns.

A group that I am involved with, the Committee to Unleash Prosperity, released in the Spring the seminal analysis of state responses to Covid. We examined three policy outcome metrics: 1) the mortality rate among states adjusted for co-morbidity factors, such as age and other health problems; 2) education outcomes (how many days of schooling children missed); 3) and the economic losses in terms of output in unemployment in each state.

Our results are highly relevant to this discussion of why the $1.9 trillion American Rescue Plan was such an economic and fiscal policy failure.

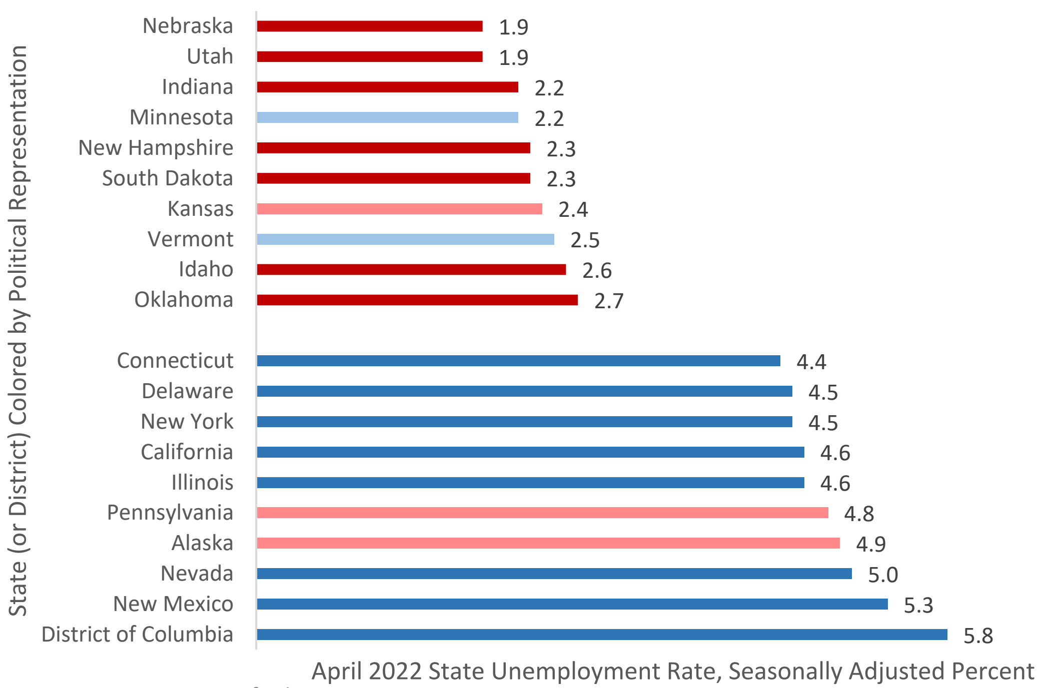
These results shown in Figure 2 indicate that the states which avoided lockdowns and kept their schools, stores, churches, and restaurants open had far superior economic outcomes to the states that locked down, with virtually no worse health outcomes than the states that locked down. For the most part, red states that did not lock down their economies as shown in Figure 3 have had substantially lower unemployment rates for the past two years than blue states that did close down their economies. There were a few blue states including Vermont, Hawaii, and Colorado, which performed well.

Figure 2

Grade	States/DC	Combined Rank	Economy Rank	Education Rank	Health Rank
A+	Utah	1	4	5	8
A+	Nebraska	2	3	6	11
A+	Vermont	3	19	11	2
A	Montana	4	1	7	40
A	South Dakota	5	2	4	44
A	Florida	6	13	3	28
A	New Hampshire	7	18	28	3
A	Maine	8	11	31	4
A	Arkansas	9	10	2	37
B	Idaho	10	5	20	26
B	Iowa	11	16	16	16
B	South Carolina	12	8	12	31
B	North Carolina	13	17	34	7
B	North Dakota	14	20	9	30
B	West Virginia	15	26	27	9
B	Missouri	16	15	22	29
B	Kansas	17	22	21	19
B	Indiana	18	21	15	33
C	Georgia	19	23	13	36
C	Alabama	20	28	17	32
C	Wyoming	21	37	1	45
C	Washington	22	9	47	5
C	Mississippi	23	7	14	49
C	Tennessee	24	24	18	38
C	Texas	25	31	8	43
C	Minnesota	26	30	37	13
C	Rhode Island	27	41	24	17
C	Kentucky	28	14	39	25
C	Louisiana	29	43	10	34
C	Oregon	30	27	49	6
D	Wisconsin	31	35	36	18
D	Ohio	32	34	30	35
D	Alaska	33	39	29	24
D	Oklahoma	34	36	19	41
D	Colorado	35	32	26	39
D	Virginia	36	33	44	12
D	Arizona	37	6	25	51
D	Delaware	38	42	38	14
D	Hawaii	39	51	46	1
D	Michigan	40	44	32	23
D	Massachusetts	41	46	39	15
D	Pennsylvania	42	45	35	21

D	Connecticut	43	49	23	22
D	Nevada	44	12	42	48
D	Maryland	45	38	48	10
F	Illinois	46	47	43	20
F	California	47	40	50	27
F	New Mexico	48	29	45	50
F-	New York	49	48	33	47
F-	District of Columbia	50	25	51	46
F-	New Jersey	51	50	41	42

Figure 3



Source: U.S. Department of Labor

My favorite comparison is California and Florida. In Florida, Gov. Ron DeSantis kept the Sunshine State economy mostly open. In California, Gov. Gavin Newsom shut down businesses for many months. Florida's economy suffered only moderately. California's economy was hit with the policy version of a wrecking ball. And yet when adjusting for co-morbidities like average age, California and Florida had virtually identical death rates.

The states with the best policy responses and best policy outcomes considering education, economy, and health were Utah, Nebraska, Vermont, Florida, and Idaho.

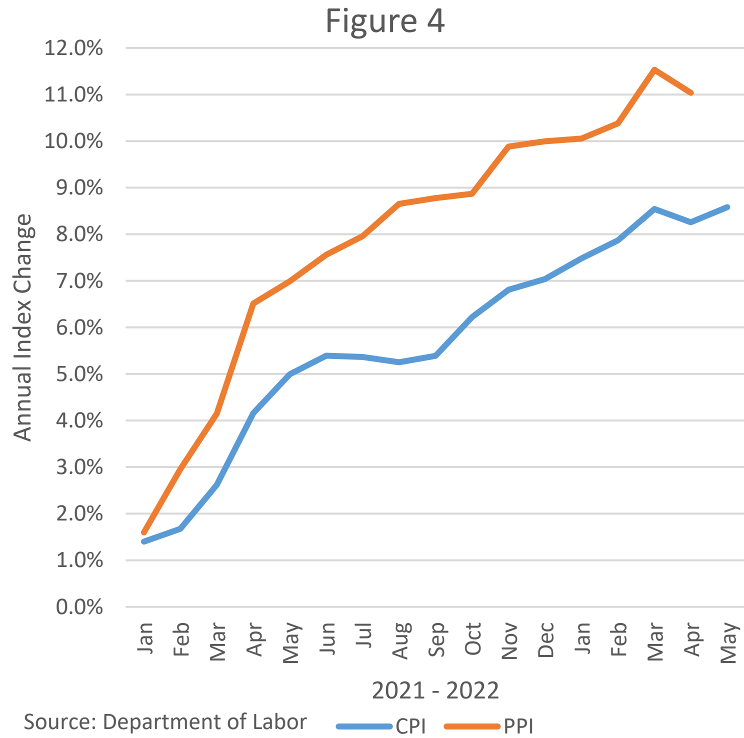
The Negative Economic Impact of the American Rescue Plan

This brings me to an assessment of the highly negative economic and fiscal impacts of the 2021 American Rescue Plan. Here are my conclusions:

1) The $1.9 trillion of spending was entirely unnecessary. The economy was already in recovery that predated the passage of the Recovery Act by at least six months. In the third quarter of 2021, we had the largest increase in GDP on record (particularly assisted by the red states that reopened their economies in the late spring and summer of 2020). The further and overriding stimulus to the economy in 2021 was the vaccine created under President Trump's Operation Warp Speed. This program delivered the vaccine more than a year or two ahead of what almost all experts thought was possible. This saved hundreds of thousands of lives in the U.S. and millions of lives across the planet. It also facilitated even more businesses reopening.

2) There was already more than $1 trillion in the fiscal pipeline from previous COVID-19 relief bills—as even Democratic economists like Larry Summers, who served under Presidents Clinton and Obama, warned.

3) The $1.9 trillion of spending and borrowing has unleashed the cruelest tax of all on American families and businesses: the worst inflation rate in 40 years. Figure 4 shows that the match that lit the forest fire of 8% to 10% inflation was clearly the Recovery Act. It is worth noting that the inflation rate when President Trump left office was 1.4%—even as the recovery was well underway. Economic growth does not cause inflation. Inflation is caused by excessive money and policies that reduce the supply of goods and services.



Because we haven't seen inflation this high since the early 1980s, it is critical for the members of this Committee to understand how destructive a rising CPI can be to American families. In the late 1970s and early 1980s when inflation last hit double digits, real family incomes plummeted. The lowest-income families took the biggest loss in real incomes—which is why inflation is such a regressive tax that increases income inequality.

During the Trump presidency, before COVID-19, the median household income rose by $6,446. This was one of the largest three-year gains in income for middle-class families in American history. The combination of output gains due to deregulation, America first energy, and the Trump pro-growth tax cuts PLUS inflation of less than 2% facilitated these enormous gains in family incomes for all income groups and all races, as well as a highly prosperous period in terms of incomes and wealth creation. As a result, the poverty rate for all races hit their lowest levels on record.

Under President Biden, inflation has cost the average American roughly $1,550 a year in lost real income. It is my prediction based on the cascading inflation levels we have experienced over the last year, that virtually ALL of the income gains delivered under President Trump may be erased as a result of the surge in inflation by the end of President Biden's second year in office.

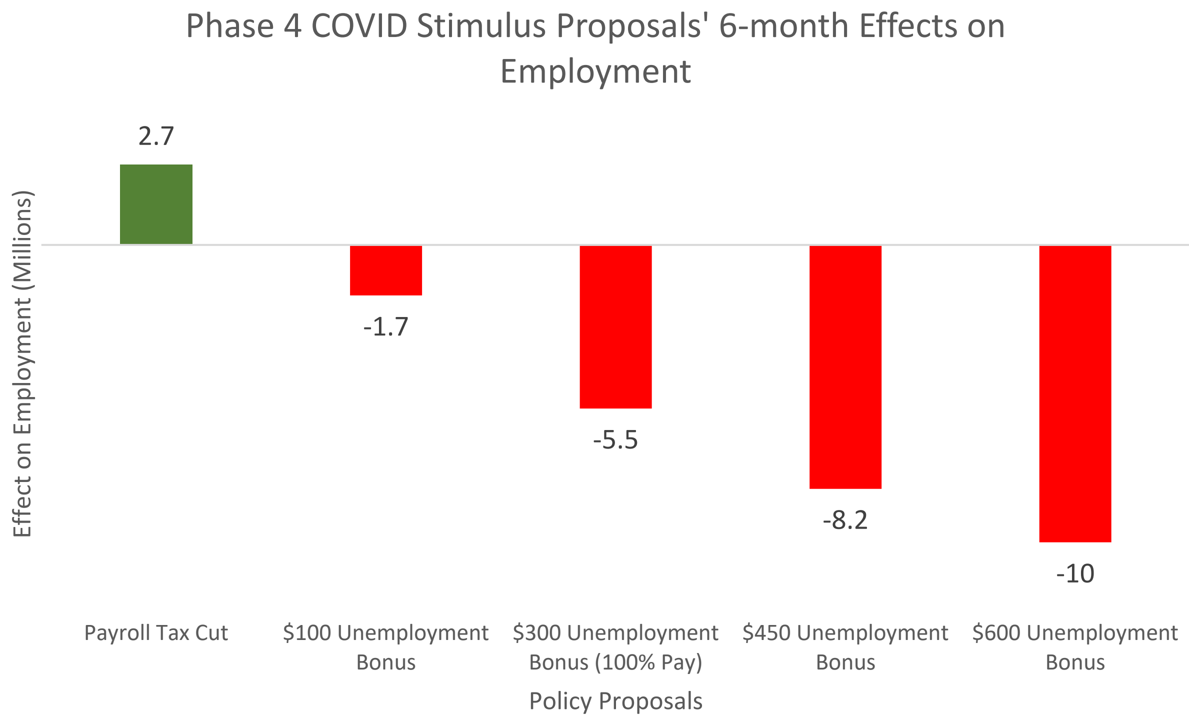
In other words, under President Trump real median income gains were more than $6,000. Under President Biden, real median income losses will be as much as $5,000 to $6,000 when adjusting average wages and salaries for the 8.6% inflation over the last year.

To put it very simply, Americans are getting poorer month after month because of the inflation unleashed by the American Rescue Plan.

Of course, this doesn't even include the highly negative effects of a possible recession later this year that many economists are now forecasting as a result of the high inflation levels that the Federal Reserve is now having to combat with higher interest rates. The American Rescue Plan generated negligible improvements to output and incomes, and those would be entirely negated by a recession.

4) One of the worst mistakes in the Recovery Act was the supplemental unemployment benefits. These supplemental benefits began with a deal between President Trump and House Speaker Nancy Pelosi to increase unemployment benefits by $600 a month. This was later reduced to $300 a month. Our studies at the Committee to Unleash Prosperity showed that with the supplemental UI, plus expanded food stamps, plus rental assistance, plus expanded Medicaid, and the evisceration of the Clinton-era work-for-welfare reforms, families with two unemployed parents and two kids could receive a tax-free income of $100,000 or more—WITH NEITHER PARENT WORKING A SINGLE HOUR. Our analysis also showed that states which canceled the early UI benefits early had much lower unemployment rates. Extended unemployment has deleterious effects on families. Paying people not to work is a REALLY BAD IDEA.

   University of Chicago economist Casey Mulligan and I published a paper last year showing that if we had reduced the payroll tax rather than increased unemployment benefits, we would have had 3 million more Americans working throughout 2020, 2021, and through the first half of 2022.



Worst of all was the rampant and uninvestigated/unpunished fraud in the UI benefits program run by the states. Investigations by the Inspector General at the Labor Department as reported in the Washington Post indicate that between $100 billion and $150 billion of erroneous payments were disbursed through the UI program, with many of the criminals being in Africa, Russia, and South America. The ARPA may have had a stimulus effect—but it wasn't in the United States. Other reports have found additional tens of billions of fraud, waste, and error in other programs such as food stamps, Medicaid, and rental assistance—again with no oversight or investigation.

The error rates for UI benefits under ARPA reached nearly 20%. In private programs, such as credit cards, insurance, and financial services, fraud rates are closer to 2% to 3%.

Congress has been a poor steward of the taxpayers' money when it comes to the ARPA benefits. There needs to be additional investigative work on one of the greatest criminal frauds in history and, in the future, any large disbursements of funds should come with a fraud unit to expose and prosecute fraud.

5) ARPA rewarded states for bad behavior and punished states for good behavior. This was a BLUE STATE BAILOUT BILL. The major purpose of the ARPA program was to provide more than $300 billion dollars to states and localities to help them pay their bills during COVID. But the red states—including Florida, Texas, Tennessee, South Carolina, Iowa, Idaho, Utah, and Nebraska—were NEVER in need of funds. Many of the governors in these states told

Congress they did not need the funding because they had already balanced their budgets and kept their workforces employed. The states that potentially needed federal aid because of their bad policy decisions were blue states: New Jersey, New York, California, Connecticut, Michigan, and Illinois. These were the states that foolishly slashed the wrists of their economies by locking down businesses, stores, restaurants, and hospitals. However, in hindsight, the finances of even those states were never as bleak as their governors claimed publicly.

Red-state governors recognized very early in the COVID-19 experience that lockdowns merely hurt local economies with almost no health benefits. As we have shown, they had much lower unemployment throughout the pandemic. Blue state governors were quick to shut down and kept their economies closed for many months and sometimes close to a year after the red states reopened.

But in Washington, no good deed ever goes unpunished. ARPA took money from red states and gave it to blue states because states with high unemployment rates got a higher share of the revenues. (The only way that the federal government can give money to California and New York is to take the money from residents of the other states. There is no free money in Washington, only redistribution of money.)

This wasn't just unfair to the red states that handled COVID-19 far more professionally than the blue states. It was an incentive program for blue states to keep their economies shut down. Even today, as shown in figure 5, red states have almost all gained the jobs back they lost from COVID-19, but with a few exceptions, it is still blue states without a full jobs recovery. It also enabled blue states to keep their economies closed for even longer periods of time and increased the economic misery of residents of these states.

In conclusion, I find it a bit strange that the title of this hearing is "How the American Rescue Plan Saved the Economy and Saved Lives." Whether these interventions saved lives is for health professionals to debate.

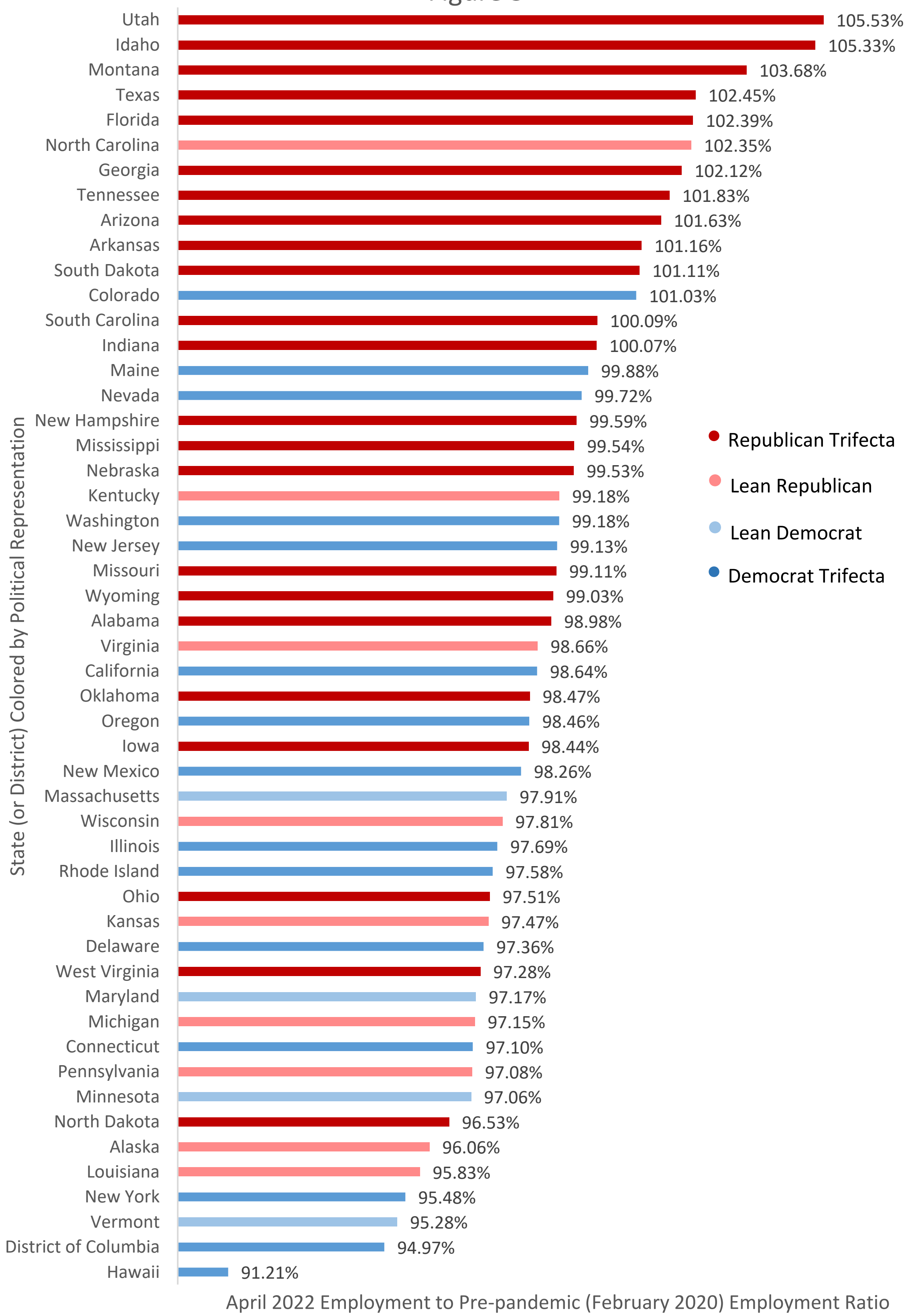
But the Rescue Plan surely did not "rescue" the American economy; it set the table for the economic crisis the nation faces today with only two of 10 Americans rating the economy as good or great, and a complete collapse in consumer and small business confidence.

Inflation has, like a cancerous tumor, metastasized in our economy and is eating away at the paychecks and the savings of American families. The inflation rate was 1.5% the month before the Rescue Plan was passed and now rests at 8.6%. If this is an economic success story, I shudder to think what a failure would look like. The supporters of the Rescue Plan—including more than eight Nobel economists—were simply dead wrong when they predicted there would be no inflationary effect. They should, as Janet Yellen has done, apologize for their erroneous forecasts.

We have a strong labor market for sure. But paychecks are shrinking as are savings—as prices sprint ahead of wages.

Finally, had it not been for the correct strategic decision of red-state governors like Ron DeSantis of Florida, Bill Lee of Tennessee, Greg Abbott of Texas, and Kim Reynolds of Iowa—among others—to keep their economies up and running throughout Covid, the U.S. economy would have capsized. These red states carried the U.S. economy on their shoulders as blue states went into an economic fetal position.

Figure 5



Source: U.S. Department of Labor

What are the five takeaways?

First, there is no free lunch with massive government “stimulus programs.” ARPA’s major stimulus effect was in stimulating more demand and more inflation that could take years to extinguish.

Second, paying people not to work is always and everywhere a misguided economic strategy.

Third, Operation Warp Speed was the program that saved lives and the economy. This was mostly a strategy that involved short-circuiting regulations and federal roadblocks that inhibit and delay innovation and life-saving medications and vaccines.

Fourth, federalism works, and although the Trump Administration made mistakes during the pandemic, Trump’s masterstroke was in letting the 50 states take the lead in combating the health and economic effects of the virus. States became laboratories of democracy and we quickly learned from the governors and state officials what policies worked and which did not. Lockdowns were an expensive mistake from a health, economic, education and civil liberties perspective—and we must never let that happen again.

Fifth, once again we have learned that government spending is not a “stimulus” to the economy, but rather a stimulus to debt, inflation, and aggregate income losses. The best stimulus to the economy going forward would be a plan for dramatic reductions in government spending and debt. I would advise starting with an across-the-board reduction in the budget of nearly every agency by 10 to 15%.

Thank you, Mr. Chairman, for the opportunity to testify before this panel today.