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Testimony Before the House Oversight Subcommittee on Economic Growth, Energy Policy, and Regulatory Affairs
Hearing on "Bidenomics: A Perfect Storm of Spending, Debt, and Inflation"
September 19, 2023

Chairman Fallon, Ranking Member Bush, Members of the Subcommittee, thank you very much for inviting me to testify before you today.

I am currently the senior director of Federal Budget Policy at the Center for American Progress, working to ensure the federal budget prioritizes policies that help the most vulnerable people. Prior to joining American Progress, I served in the Biden-Harris White House as adviser to the director of the Office of Management and Budget, where I assisted with the American Rescue Plan and the Inflation Reduction Act, as well as the president's budget requests, budget concepts, and budget scorekeeping.

Today, I hope to leave you with two main points:

First, the combined investments in the last three-and-a-half years were appropriately sized and led to the strongest economic recovery in more than a generation.

Second, the cuts proposed by the House Appropriations Committee Republicans would harm America by underfunding critical programs.

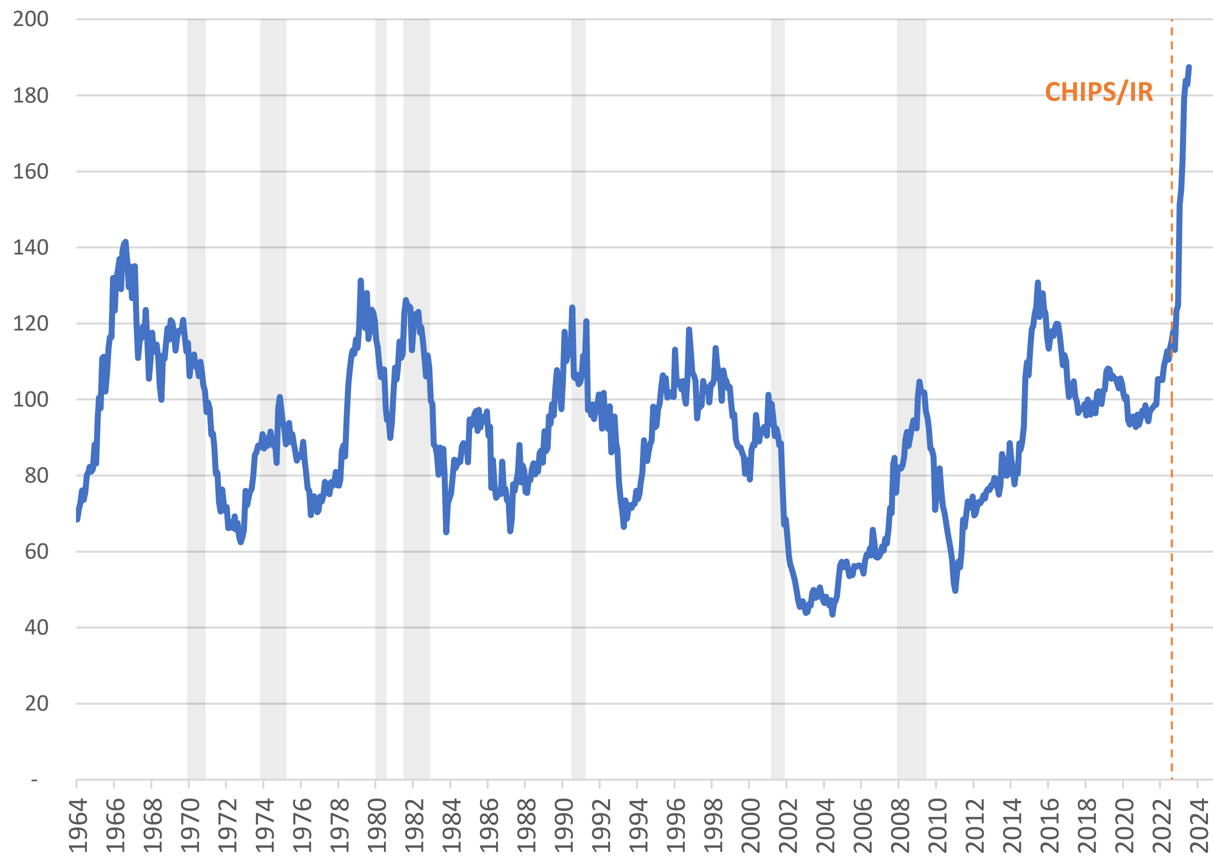
The United States' response to COVID-19 was robust

In response to a once-in-a-century pandemic, American demand plummeted and global supply chains were snarled to an extent unseen in modern history, leaving the American economy more vulnerable than at any time since the Great Depression. The prime-age employment-to-population ratio dropped ten percentage points in two months, as tens of millions of Americans lost their jobs.[2] Within four months, as the economy largely opened up again, prime-age employment still stood roughly as low as the trough of the Great Recession.[3] But rather than taking a decade to recover, our economy did so in under two years.[4]

Our rapid recovery was possible only because of significant investment into the economy and the American people. In 2020, during the Trump administration, five relief bills were passed with overwhelmingly bipartisan support.[5] The Biden administration saw a mixture of partisan and bipartisan bills, intended to provide relief and ensure the American economy was able to invest in the future. The *American Rescue Plan Act* expanded many of the critical bipartisan investments in the previous bills, as well as ensuring funding could reach areas that had been left out.[6] This bill was intended to work both to ensure households could weather a difficult economy and to ensure the economy that we rebuilt would be better and more resilient. Through the *Infrastructure Investment and Jobs Act*, the *CHIPS and Science Act*, and the *Inflation Reduction Act*, the Biden administration made significant investments in the future.[7]

Across these laws, the United States heavily invested in people and places. The laws provided needed support and funded infrastructure, manufacturing, and new and emerging technologies – and will allow us to transition to clean energy and to secure energy independence. To give one concrete early measure of their success: the United States is now investing more in real private manufacturing and industrial construction than at any time since at least 1964.

Real Private Manufacturing/Industrial Construction Put In Place (2022$, Bil)

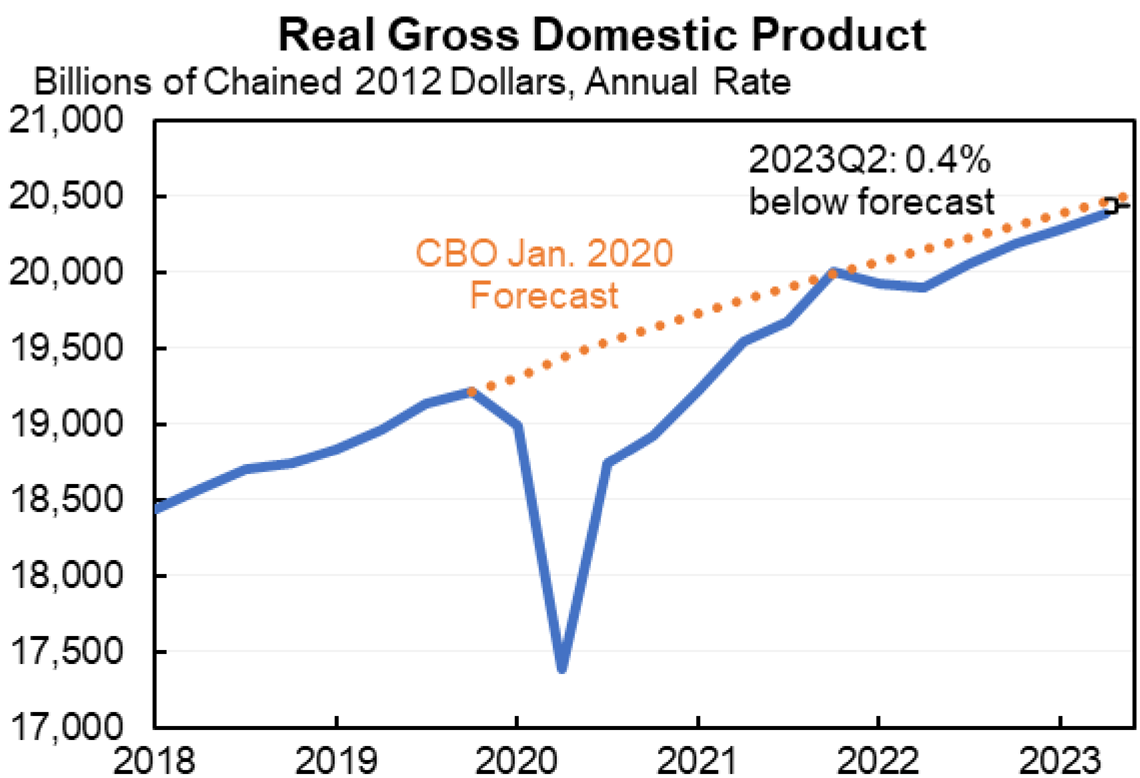


Source: Census, BEA, BLS, CEA analysis. Manufacturing construction after 1993, industrial construction pre-1993. Deflated using the PPI Final Demand Construction for Private Capital Investment (post-2009), the Census implicit price deflator for Private Industrial construction (pre-2003), and an interpolation of BEA's implicit price deflator for private fixed investment in manufactruing structures (2003-2008)

All of this did nothing to increase our long-term trajectory of spending as a percent of GDP. In fact, CBO's most recent long-term budget outlook projects non-interest spending three decades from now to be lower as a percent of GDP than its pre-pandemic long-term outlook did.[8] At the same time, this historic investment kept tens of millions of people out of poverty.

The recovery has been successful

This investment has been a success. Among its peer G7 nations, the United States has had the strongest pandemic recovery, with the highest cumulative real GDP growth, standing 6.6 percent higher than in the third quarter of 2019. The next highest G7 country, Canada, stands only 3.9 percent higher.[9] Even more incredibly, US real GDP has roughly returned to where the Congressional Budget Office (CBO) projected it would be before the pandemic even happened – as if COVID-19 and the ensuing recession had never happened.[10]

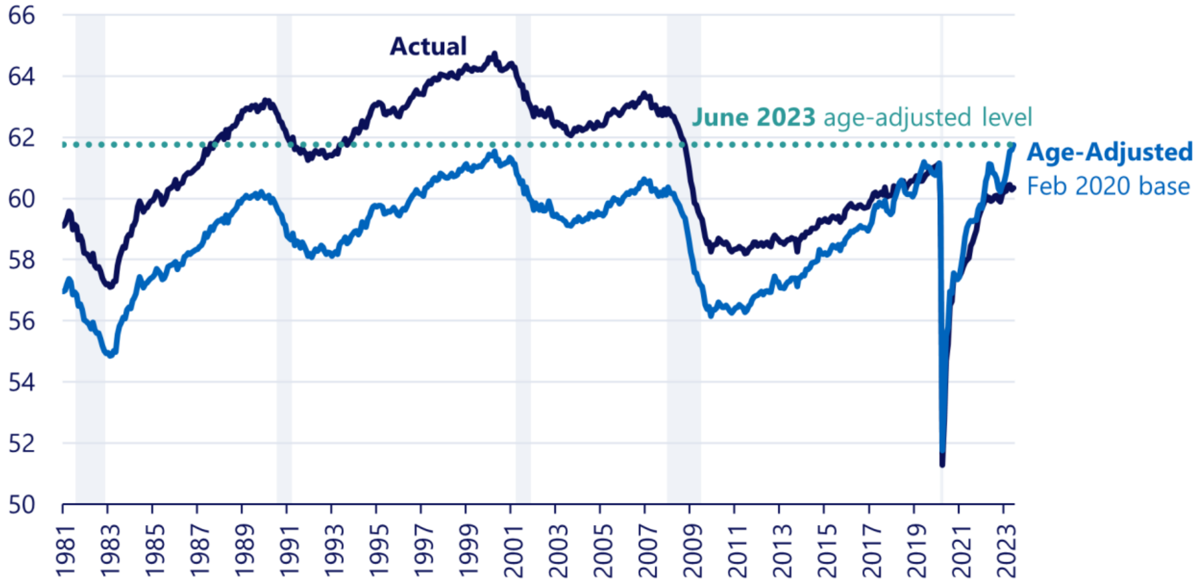


Note: CBO forecast rebased to match latest value for 2019Q4
Source: Bureau of Economic Analysis via Macrobond; Congressional Budget Office; author's calculations.

Our historic recovery has also led to the strongest job market in US history. Adjusting for age and sex, the employment-to-population ratio is at its highest level in US history,[11] and the black prime-age employment-to-population ratio is hovering around its historic high.[12]

Figure 3. U.S. Employment-to-Population Ratio, 1981 - Present

Percent of population, age 16+



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Sources: Bureau of Labor Statistics; CEA calculations.

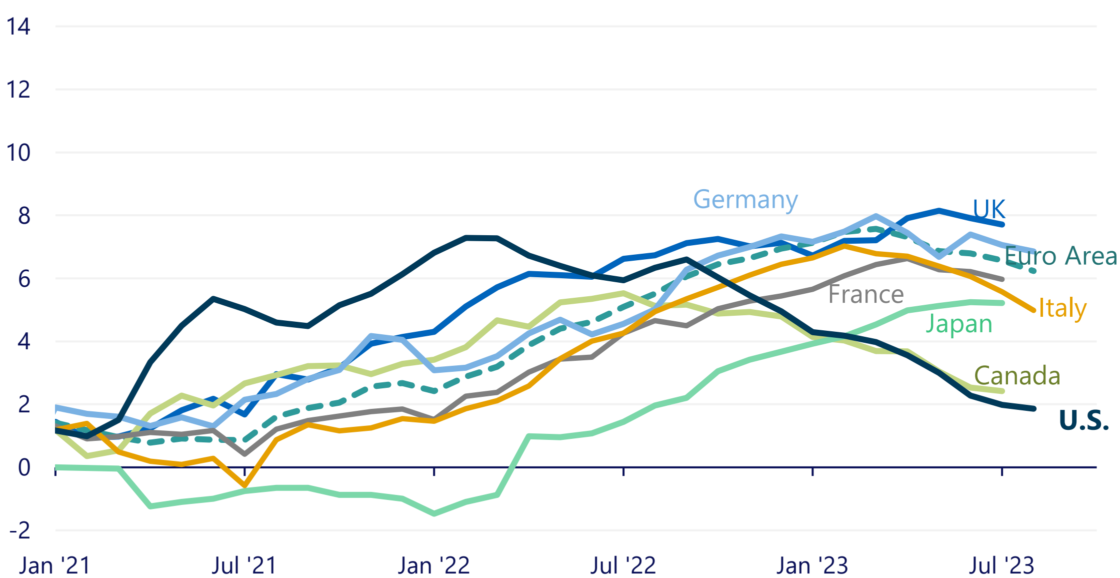
Note: Age-adjusted EPOP chain-weighted by age and sex using the Fisher Index.

As of July 19, 2023 at 6:00pm.

This strong job market has redounded to the benefit of the American people. Real average hourly earnings of production and nonsupervisory employees have matched their pre-pandemic trend, also as if the pandemic had never happened.[13] And gains have been particularly strong among lower-wage workers.[14] Importantly, that has happened because inflation has gone down.[15] Currently, the United States has both the lowest headline and core harmonized inflation among G7 countries.[16] Let me repeat: the US has had the strongest pandemic recovery in the G7, and currently has the lowest rate of inflation, either headline or core. And the inflation path in recent months is very encouraging.

On an apples-to-apples basis, U.S. inflation was the lowest in the G7 in July.

Harmonized core HICP inflation, HICP basis



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Sources: Eurostat; ONS; BLS; Statistics Canada; MEI; CEA calcuations.

Note: Headline and core HICP exclude owner-occupied housing; core HICP excludes energy and food at home/unprocessed food/fresh food. Euro Area data is for the EA20 with the exception of the most recent month, which incorporates the EA11-20 flash estimate.

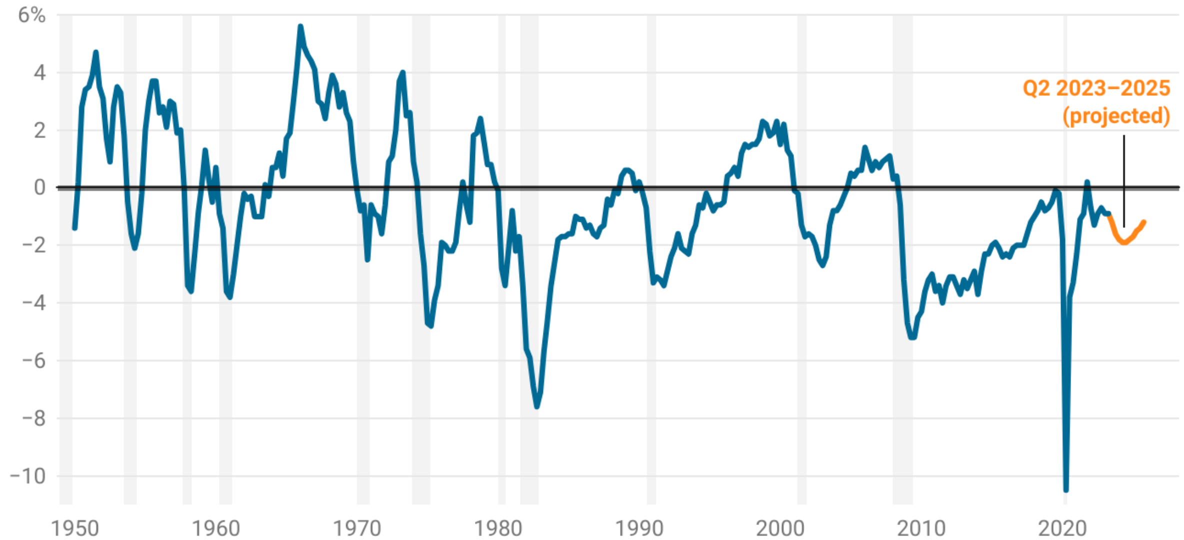
As of September 13, 2023 at 8:30am

Core inflation has returned to being almost entirely composed of core services, as it was prior to the pandemic.[17] Core CPI has been trending down since the spring of 2021, with the three-month annualized average down to 2.4 percent.[18] Its PCE-equivalent adjustment stands at 1.9 percent.[19] Even better, the contribution of housing rents to CPI inflation – which rose due to long-standing supply shortages in the US meeting pandemic shifts in demand – is cooling and approaching pre-pandemic levels.[20]

While inflation rose to uncomfortable levels as the economy largely opened up again, this was not due to the economy overheating, it was not caused by excessive government deficits, and it was not caused by excessive fiscal and monetary stimulus. CBO estimates potential gross domestic product (GDP), which measures how much the economy can produce without creating excessive inflation. And while it used to believe that we overshot our economic stimulus[21], CBO now believes that is not the case. CBO believes that GDP ran 0.2 percent above potential in the fourth quarter of 2021 but that otherwise the economy has run slightly below potential. In other words, our COVID-19 response was appropriately sized.

The United States has largely closed its economic output gap from the COVID-19 recession without overshooting

Percentage difference between gross domestic product and potential gross domestic product, 1950–2025



Source: Author's calculations using data from Congressional Budget Office, "An Update to the Economic Outlook: 2023 to 2025" (Washington: 2023), available at https://www.cbo.gov/publication/59258.

Chart: Center for American Progress

Instead, a global pandemic broke supply chains and caused monumental shifts in demand. It is impossible for inflation to not rise some in the presence of supply chain issues and massive shifts in demand, as we have seen happen all over the world regardless of the country's COVID-19 response. But as supply chain issues subsided and companies shifted their supply to match new habits in demand that reflect a post-COVID-19 world, inflation subsided.

While it is true that, absent any fiscal response, inflation would have been lower, that is purely because we'd still be clawing our way out of a disastrous recession. That approach would not have been useful.

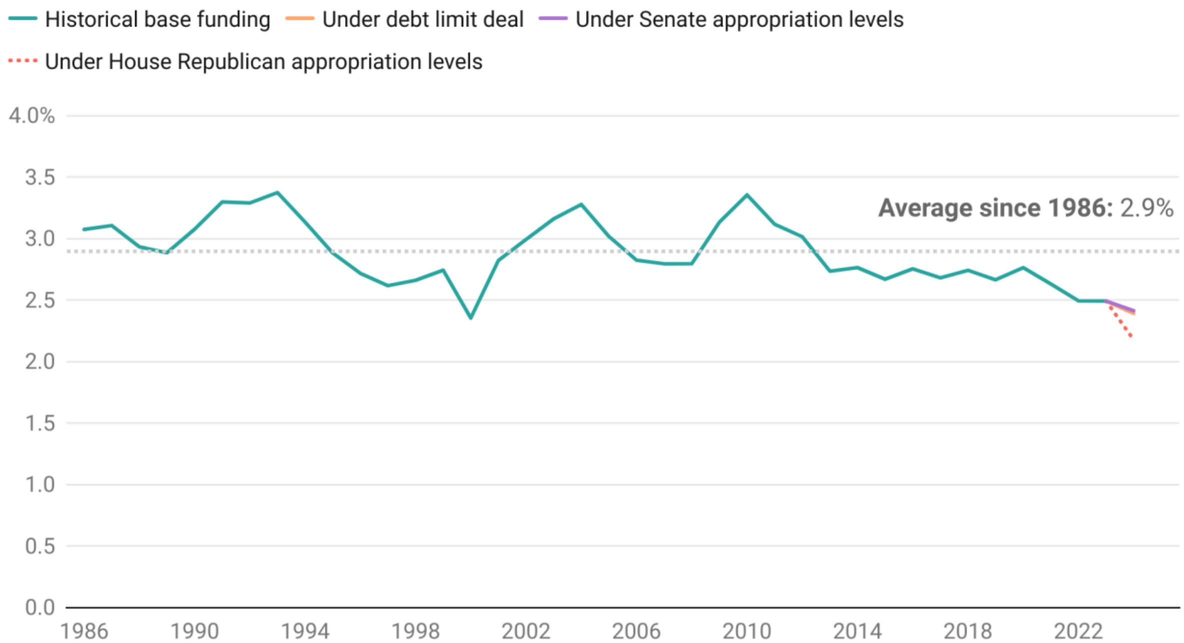
The approach taken by House Republican appropriators endangers this success

This success is being threatened now by the work of the House Appropriations Committee Majority. In June, President Biden signed into law the Fiscal Responsibility Act, which created budget caps in exchange for temporarily suspending the debt limit.[22] Despite rhetoric to the contrary, non-defense discretionary funding excluding Veterans' Affairs medical care – hereafter referred to as NDD* – shrank as a percent of GDP during the first two years of the Biden administration.[23] Further, the funding levels agreed to by Speaker McCarthy and the White House are extremely tight and would lead to NDD* being $49 billion below last year's level, on a current services basis. As a percent of GDP, it would be the second lowest on record.[24] Despite this, House Republican appropriators wrote bills that funded NDD*

$58 billion below the deal, which would leave NDD* at its lowest level on record, going back more than 60 years.[25]

The House Republican appropriators' plan would cut nondefense discretionary funding, excluding Veterans Affairs medical care, to the lowest levels on record as a percentage of gross domestic product

Base nondefense discretionary budget authority



Hover or click to see values.

These figures reflect the "base" amounts under current congressional concepts, with two authors' adjustments: 1) They include $1 billion of additional emergency funding in 2023 for CHIPS and Science Act programs; and 2) They reflect additional nondefense discretionary funding offset by savings from CHIMPs (CHanges in Mandatory Programs). Due to data limitations, data prior to fiscal year 1991 do not use current congressional concepts of base amounts and instead show total amounts of nondefense discretionary funding excluding Veterans Affairs medical care. The authors used fiscal year 1986 as the starting year in this graph because it was the first year of coordinated bipartisan leadership attempts to constrain government spending. Nonetheless, the level proposed by House Republican appropriators would be the lowest on record as a percentage of gross domestic product.

Source: Authors' calculations using data from Congressional Budget Office, "Fiscal Year 2024, U.S. Senate" (Washington: 2023), available at https://www.cbo.gov/system/files/2023-08/FY2024-Senate-2023-07-27.pdf; Congressional Budget Office, "Fiscal Year 2024, U.S. House of Representatives" (Washington: 2023), available at https://www.cbo.gov/system/files/2023-08/FY2024-House-2023-07-27.pdf; Congressional Budget Office, "The Budget and Economic Outlook: 2023 to 2033" (Washington: 2023), available at ; Richard Kogan, senior fellow, Center on Budget and Policy Priorities, personal communication with author via email and phone, 2023, on file with authors; Congressional Budget Office, personal communication with author via email and phone, 2014–2023, on file with authors; U.S. Office of Management and Budget, "Public Budget Database: Outlays," available at https://www.whitehouse.gov/omb/budget/supplemental-materials/ (last accessed August 2023); U.S. Office of Management and Budget, "Table 10.1—Gross Domestic Product and Deflators Used in the Historical Tables: 1940–2028," available at https://www.whitehouse.gov/omb/budget/historical-tables/ (last accessed August 2023); U.S. Office of Management and Budget, "Budget of the U.S. Government, Fiscal Year 2024" (Washington: 2023), available at https://www.whitehouse.gov/wp-content/uploads/2023/03/budget_fy2024.pdf; U.S. Office of Management and Budget, "FY 2017 President's Budget Briefing Book - Summary Tables" (Washington: 2016), on file with authors.

Chart: Center for American Progress

Even worse, the cuts proposed to achieve this low level of funding are extreme. To highlight just five, the House Republican appropriators called to cut[26]:

- Title I education grants by nearly 80 percent
- Money that ensures our drinking water is safe by 59 percent
- Nutrition assistance for newborns
- The National Institutes of Health's (NIH) cancer and stroke research
- The Social Security Administration

These cuts would harm the American people.

Worse still, these cuts seem to be the asking price for not forcing a government shutdown. Immediately during a government shutdown some children with cancer are denied treatment at NIH facilities, some of our food goes without its health and safety inspections from the FDA, and small business loans halt.[27] During a longer shutdown, many other government services could begin to be put at risk, such as WIC, SNAP, SSI, and TANF, as well as funding for school meals, child care, home energy assistance, and housing.

The government is supposed to work for the American people, and neither cutting programs that people rely on nor shutting down the government serves that purpose – in fact, it hurts American growth and American people.

Thank you.

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[1] Huge thanks to Richard Kogan, David Kamin, Michael Linden, and my colleagues at American Progress, including Marc Jarsulic, Lily Roberts, Madeline Shepherd, and Jessica Vela for helpful feedback and assistance.

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[3] Ibid.

[4] Ibid.

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[15] Federal Reserve Bank of St. Louis, "Average Hourly Earnings of Production and Nonsupervisory Employees, Total Private [AHETPI] and Consumer Price Index for All Urban Consumers: All Items in U.S. City Average [CPIAUCSL]," last accessed September 2023, available at https://fred.stlouisfed.org/graph/?g=18Wag.
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