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Testimony Before the House Oversight Subcommittee on Economic Growth, Energy Policy, and Regulatory Affairs
Hearing on "Kitchen Table Economics: How Failed Biden-Harris Policies Continue to Hurt Consumers"
September 25, 2024

Thank you, Chairman Fallon, Ranking Member Bush, and members of the Subcommittee. My name is Brendan Duke, and I am Senior Director for Economic Policy at the Center for American Progress Action Fund.

The Center for American Progress Action Fund is an independent, nonpartisan policy institute and advocacy organization that is dedicated to improving the lives of all Americans through bold, progressive ideas, as well as strong leadership and concerted action.

I'm honored to submit this testimony about the performance of the economy since 2021.

I will make the following points:

- Inflation is now under control–lower than when President Biden took office. In fact, the Federal Reserve lowered interest rates 50 basis points last week.
- Workers are better off today than they were before the pandemic with rising inflation-adjusted wages and continued job growth.
- Inflation was primarily a global phenomenon driven by supply chain disruptions, which first became acute in 2020 as the COVID-19 pandemic took hold.
- Most of the increase in federal spending during the pandemic was locked in in 2020.
- Proposals to enact taxes of 10 to 20 percent on imported goods and to threaten the Federal Reserve's independence would reverse progress the United States has made on reducing inflation.

Workers are better off today than before the COVID-19 pandemic

Inflation has been a challenge for working families over the last few years, but the good news is that the inflation rate has fallen from a peak of 8.1 percent in March 2022 to 2.3 percent in July, just short of the Federal Reserve's target.[1] It is now below the 3.1 percent rate when President Joe Biden took office in January 2021. Inflationary risk is now so subdued that the Federal Reserve cut interest rates by 50 basis points last week.

[1] These calculations are six-month annualized PCE inflation. Federal Reserve Economic Database, "Personal Consumption Expenditures: Chain-type Price Index," https://fred.stlouisfed.org/series/PCEPI

The U.S. economy has weathered an array of once-in-a-generation or even once-in-a-century challenges such as a pandemic, Russia's war on Ukraine, a semiconductor shortage, and more. This recovery is most apparent in the share of workers with a job, which is at a peacetime high and at its 2000 level after accounting for the aging of the population.[2]

The wage of a typical worker grew 25 percent between the fourth quarter of 2019 and July 2024 while prices only rose 22 percent.[3] The wages of low-wage workers—those earning at the 10th percentile of the wage distribution—have grown at an even more rapid pace of 29 percent. The results of the strong economy and comparatively equal wage growth have been most impressive for wealth. The average wealth of households in the bottom 90 percent grew 50 percent between the fourth quarter of 2019 and the second quarter of this year compared to a 22 percent increase in prices.[4]

The president's critics frequently measure wage growth since January 2021, when he took office.[5] This is a sound approach when comparing periods when the labor market is comparably strong, but it is misleading to compare a period when the unemployment rate was about 7 percent to another period when the unemployment rate is about 4 percent.[6] This is because unemployed workers do not count toward most wage growth measures so millions of workers moving from unemployment to employment gets no credit in these wage statistics.

This measure is especially misleading given the nature of the COVID-19 recession: millions of low-wage workers in sectors like leisure and hospitality lost their jobs between February 2020 and January 2021 while white collar workers continued to telework. This artificially increased average wage statistics in the data during that period. The return of those low-wage workers to the labor market during 2021 and 2022 as the pandemic receded and the economy recovered then artificially reduced average wages. Importantly these artificial increases and decreases say nothing about how workers are actually doing as they simply reflect the composition of the workforce.

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[2] Ernie Tedeschi, https://x.com/ernietedeschi/status/1833917090161729764/photo/1, September 11, 2024

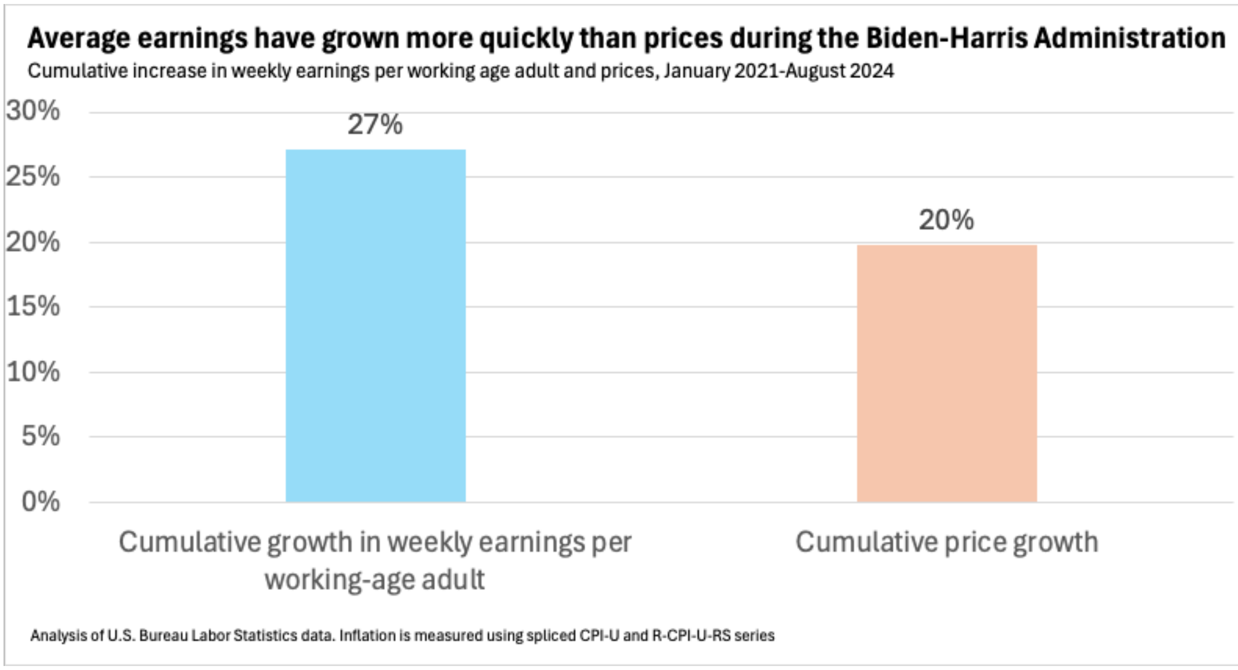
[3] Wages are based on author's analysis of U.S. Current Population Survey microdata and inflation is based on spliced R-CPI-U-RS and CPI-U series using a three-month average for July. Sarah Flood and others, "Integrated Public Use Microdata Series, Current Population Survey Data for Social, Economic, and Health Research: Version 8.0 (dataset)" (Minneapolis: Minnesota Population Center, 2020), available at https://cps.ipums.org/cps/; National Bureau of Economic Research, U.S. Bureau of Labor Statistics, "Consumer Price Index (CPI) Databases," available at https://www.bls.gov/cpi/data.htm; (last accessed September 2024). U.S. Bureau of Labor Statistics, "R-CPI-U-RS Homepage," https://www.bls.gov/cpi/research-series/r-cpi-u-rs-home.htm (last accessed September 2024)

[4] Author's analysis of Federal Reserve Distributional Financial Accounts, https://www.federalreserve.gov/releases/z1/dataviz/dfa/index.html

[5] Republican National Committee, "Despite Absurd Spin From The White House, Costs Are Not Going Down," January 11, 2024, https://gop.com/research/bidenflation-is-still-biting-american-wallets-rsr/

[6] This is adjusted for misreporting of the share of workers on temporary layoff. See U.S. Bureau of Labor Statistics, "The Employment Situation--January 2021," February 5, 2021, https://www.bls.gov/news.release/archives/empsit_02052021.pdf

A better way of evaluating how workers are doing during periods with different unemployment rates is measuring average earnings per working age adult, which have grown 27 percent between January 2021 and August 2024 compared to a 20 percent increase in prices over the period.[7] This measure accounts for the fact that the United States has added jobs during this period–which is welcome news to millions of families–while not letting the composition of employment change the average.



Inflation was a global phenomenon driven by supply chain disruptions
There is no dispute that cumulative inflation over the last four years has been high, frustrating families and making it harder for them to balance their budgets despite even stronger wage growth.

An analysis of when, where, and why inflation surged shows that the vast majority of it is a result of supply chain disruptions that came from unfreezing the parts of the economy that froze during the pandemic. In the pandemic, Americans stopped spending money on services like hotel rooms and started spending money on goods like TVs—this placed downward pressure on the price of hotels and other services while putting upward pressure on the price of TVs and

[7] Author's analysis of the U.S. Bureau Labor Statistics Current Employment Statistics, Current Population Survey, and spliced R-CPI-U-RS and CPI-U series. "Working-age adult" is 16-64 year olds. U.S. Bureau of Labor Statistics, "Consumer Price Index (CPI) Databases," available at https://www.bls.gov/cpi/data.htm; (last accessed September 2024); U.S. Bureau of Labor Statistics, "R-CPI-U-RS Homepage," https://www.bls.gov/cpi/research-series/r-cpi-u-rs-home.htm (last accessed September 2024); U.S. Bureau of Labor Statistics, Current Employment Statistics," https://www.bls.gov/ces/ (last accessed September 2024); U.S. Bureau of Labor Statistics, "Current Population Survey," https://www.bls.gov/cps/ (last accessed September 2024);

other goods.[8] And when Americans got their vaccinations and started spending money on hotel rooms again, those prices went up again. Sectors of the economy could not instantly accommodate these changes, which generated inflation during these transitions.

Most of the excess inflation over the last four years is attributable to supply chain disruptions as demonstrated by separate analyses by the White House Council of Economic Advisers and former Federal Reserve Chair Ben Bernanke with former IMF chief economist Olivier Blanchard. CEA found that, of the 3 percentage point increase in annual inflation between 2018 and 2022, 2.5 percentage points, or 80 percent, is at least partially attributable to supply chain disruptions.[9]

Similarly, Bernanke and Blanchard find that almost all of the surge in inflation in 2021 reflected pandemic-induced shortages and rising energy prices as the economy started back up. High inflation continued in 2022 again mostly driven by energy prices following Russia's war on Ukraine and the accompanying disruptions to global energy markets. Labor demand—which would be the channel that higher federal spending would supposedly lead to higher inflation—played essentially no role in 2021 and a minor one in 2022's inflation.

The fact that so much of inflation was driven by supply chain disruptions is also apparent in how inflation surged among other advanced economies. This is especially relevant given that U.S. fiscal deficits were generally higher than other advanced economies' in 2020 and 2021, which means other countries serve as something of a "control group" for the robust U.S. fiscal response. This suggests the U.S. would have still experienced high inflation with a smaller fiscal response.[10]

Cumulative U.S. core inflation between 2019 and 2024 has been lower than the United Kingdom'sand essentially the same as Germany's.[11] The difference is that our economy grew over 9 percent in inflation-adjusted terms during that period compared to less than 2 percent in the United Kingdom and less than 1 percent in Germany. Inflation has been the common experience among advanced economies, but robust economic growth has been unique to the United States.

Cracks in our supply chains first emerged in 2020

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[8] Economic Report of the President, "The U.S. Economy and the Global Pandemic," 2022, https://www.whitehouse.gov/wp-content/uploads/2022/04/Chapter-3-new.pdf

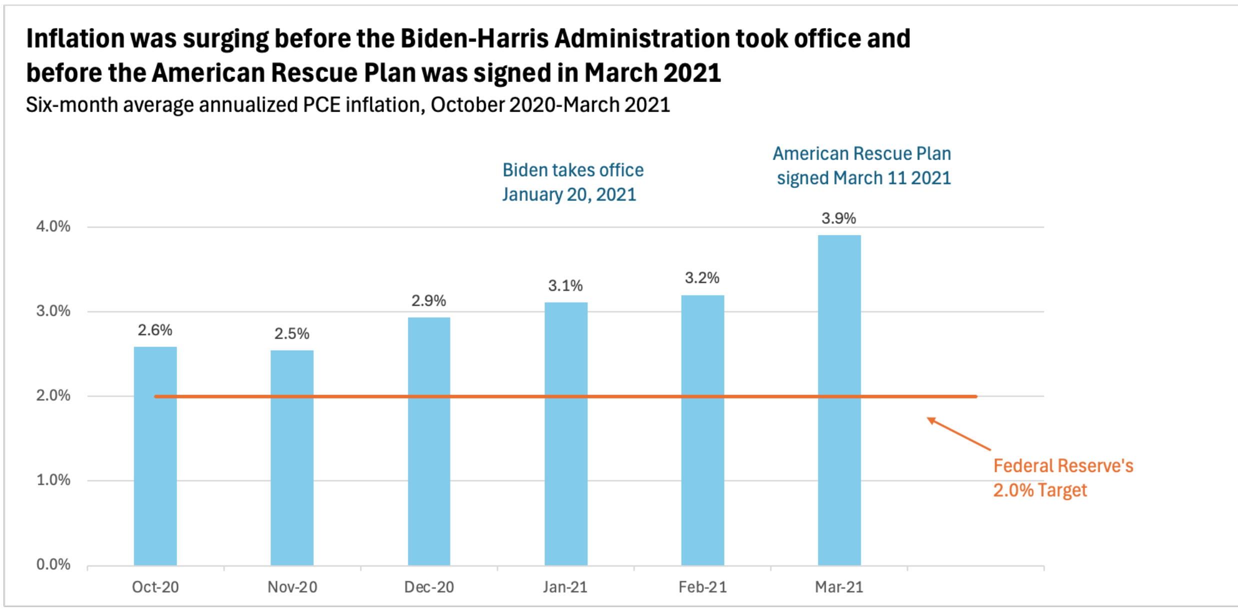
[9] White House Council of Economic Advisers, "Disinflation Explanation: Supply, Demand, and their Interaction," November 30, 2023, https://www.whitehouse.gov/cea/written-materials/2023/11/30/disinflation-explanation-supply-demand-and-their-interaction/; Ben S. Bernanke and Olivier Blanchard, "An analysis of pandemic-era inflation in 11 economies," Peterson Institute of International Economics, Working Papers 24-11, May 2024, https://www.piie.com/publications/working-papers/2024/analysis-pandemic-era-inflation-11-economies

[10] Benjamin Harris, and Neil Mehrotra, "The U.S. Economic Recovery in International Context," U.S. Treasury Department, June 8, 2022, https://home.treasury.gov/news/featured-stories/the-us-economic-recovery-in-international-context

[11] Jared Bernstein, https://x.com/econjared46/status/1829533940920836238, August 30, 2024

Given the role of supply chain disruptions in the post-pandemic inflation surge, it is fair to ask under which administration those disruptions began. A close look at the timing of inflation and supply chain indicators shows that the Biden-Harris administration *inherited* a surging inflation rate and supply chain disruptions. These pressures were apparent well before the Biden administration took office.

The six-month average annualized inflation rate in October 2020—three months before Biden took office—was already 2.6 percent. This exceeded the Federal Reserve's 2.0 percent target and was the third highest six-month average inflation rate since 2011. The inflation rate continued to climb and exceeded 3.0 percent in January 2021 when Biden took office. By March 2021—less than six weeks after Biden took office and the month he signed the American Rescue Plan—inflation was almost 4 percent and at its highest level in 10 years. Inflation continued to rise over the following months, but higher-than-usual inflation had started before Biden took office.



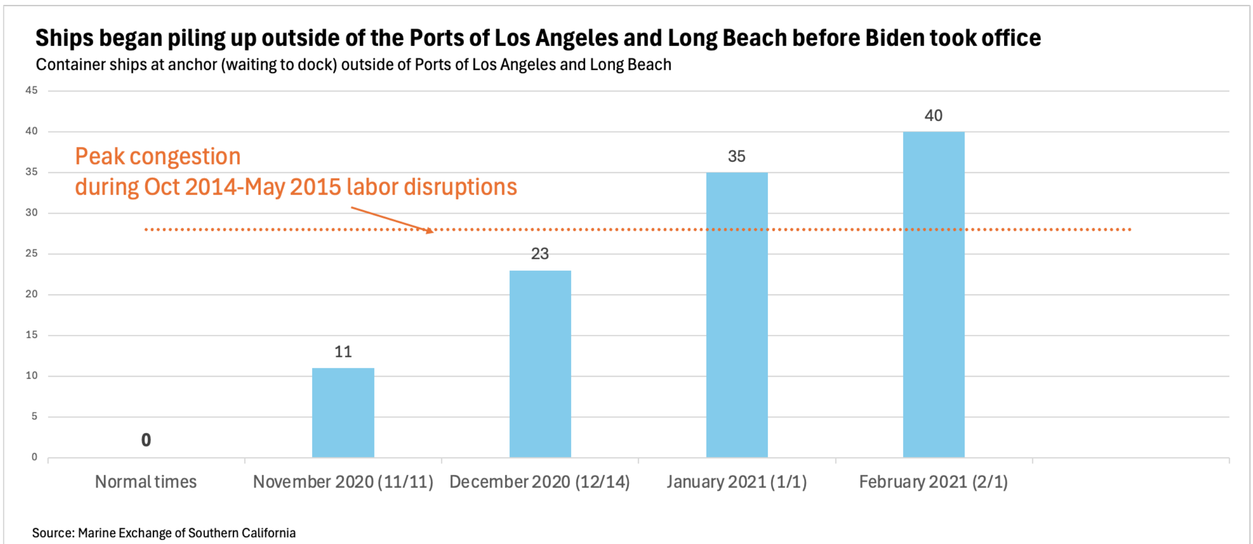
Supply chain indicators also show the Biden-Harris administration inherited upply chain issues that originated back in 2020. The New York Federal Reserve's Global Supply Chain Pressure Index surged in the spring of 2020, but had normalized by October 2020.[12] It quickly began climbing again. In December 2020, one month before Biden took office, it was higher than any month before the pandemic—an upward trajectory that peaked in December 2021 but had clearly begun the year before.

Congestion at the Southern California ports captured the nation's attention in the fall of 2021, but it had actually surged to unprecedented levels the previous year. Normally, there is at most one ship waiting to dock at the ports according to the Marine Exchange of Southern California. By mid-November 2020 there were 11, and by mid-December 2020 there were 23. On January 1, 2020—19 days before Biden took the oath of office—there were 35 container ships waiting to

[12] New York Federal Reserve, "Global Supply Chain Pressure Index," https://www.newyorkfed.org/research/policy/gscpi#/overview

dock, exceeding the record for the Ports of Los Angeles and Long Beach from labor disruptions of 2014-2015. On February 1—weeks before Biden signed the American Rescue Plan—there were 40 container ships waiting to dock.

The Biden-Harris administration took extraordinary steps to keep goods flowing despite the snarled shipping supply chains it inherited. It appointed former Deputy Transportation Secretary John Porcari as port envoy and worked diligently with the port authorities, ocean carriers, retailers, truckers, chassis operators, and more to build clear lines of communication in a fragmented supply chain. It moved the Southern California ports toward 24/7 operations, worked with the ports to institute a fee on shipping lines that left their containers sitting on the docks, and provided funding to the Port of Savannah to set up “pop-up” inland ports to alleviate congestion at the country’s fourth largest container port.



Most of the increase in spending in 2021 was locked in before the Biden-Harris administration

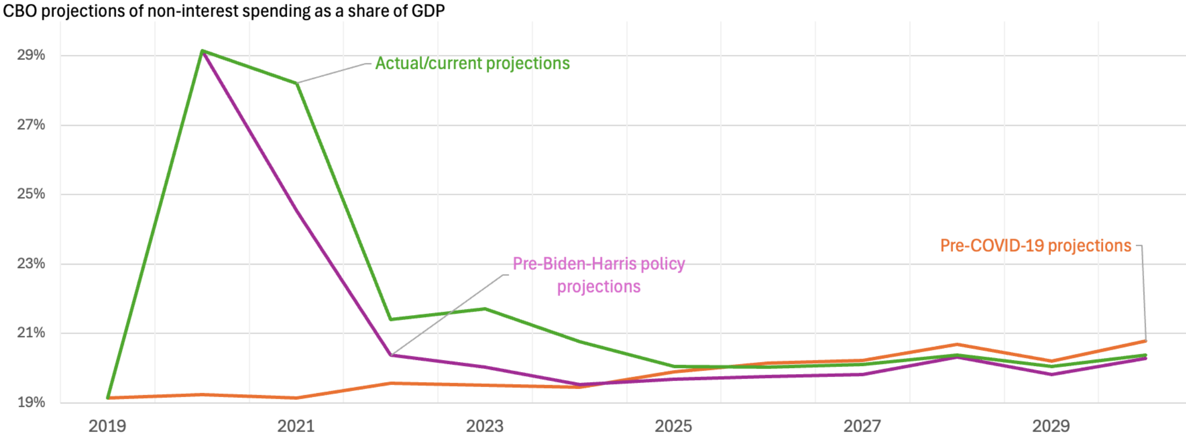
Despite the extensive evidence that broken supply chains emerging from a pandemic were the primary cause of the inflation surge, some people have blamed inflation on additional spending enacted by the Biden-Harris administration. A careful reading of the fiscal data undercuts this.

First and foremost, the supermajority of the increased spending that occurred was locked in before a single new Biden-Harris policy was enacted, through a mixture of laws enacted in the Trump administration and through the automatic stabilizers inherent in our budget. The Biden-Harris administration has actually left both medium-term and long-term non-interest spending lower than pre-pandemic projections.

Importantly, this increase in spending in the short run did not leave the U.S. economy running meaningfully above potential GDP. According to data from the Congressional Budget Office, to the extent the U.S. economy was overheating, it was doing so roughly to the same degree as it was in 2019, before the pandemic hit, when inflation was running below 3 percent.[13]

Most of the increase in spending during pandemic was locked in before Biden-Harris Administration; CBO projects spending will be below pre-COVID projections by 2026

CBO projections of non-interest spending as a share of GDP



Note: Fiscal years 2022 and 2023 have been adjusted to account for the timing shift from student loan cancellation and the following Supreme Court decision ruling striking it down

Source: Bobby Kogan's calculations from Congressional Budget Office, "The Budget and Economic Outlook: 2020 to 2030" (Washington: 2020), available at https://www.cbo.gov/publication/56020; Congressional Budget Office, "The Budget and Economic Outlook: 2021 to 2031" (Washington: 2021), available at https://www.cbo.gov/publication/56970; Congressional Budget Office, "The Budget and Economic Outlook: 2024 to 2034" (Washington: 2024), available at https://www.cbo.gov/publication/59710; Congressional Budget Office, "An Update to the Budget and Economic Outlook: 2024 to 2034" (Washington: 2024), available at https://www.cbo.gov/publication/60039; U.S. Bureau of Economic Analysis, "Table 1.1.5. Gross Domestic Product," available at https://apps.bea.gov/iTable/ (last accessed September 2024).

10 to 20 percent taxes on imported goods would reverse progress on reducing inflation

The U.S. economy's success in bringing down inflation toward the Federal Reserve's 2 percent target without a recession is an astounding policy accomplishment. Policymakers should not seek to immediately undermine that economic stability of American families with policies that will directly contribute to inflation.

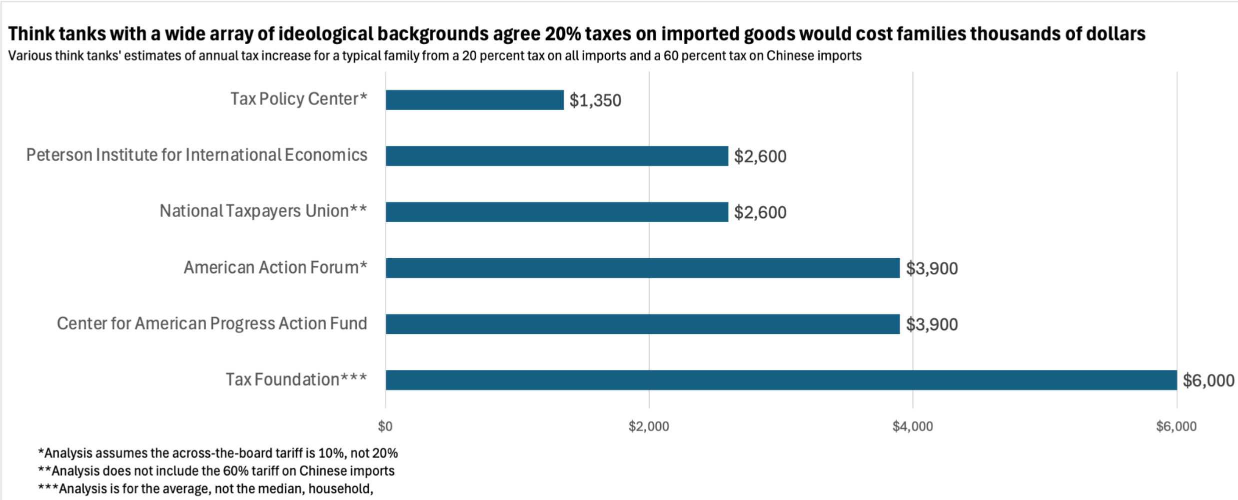
Former President Trump has proposed a 10 to 20 percent tax on every imported good entering the country and a 60 percent tax on every imported good coming from China. I have estimated that this could lead up to an up to $3,900 tax increase for a typical family, including a $200 tax increase on food, a $240 tax increase on oil and petroleum products, a $210 tax increase on pharmaceutical drugs, and more.[14] Importantly, this would more than offset the $1,000 tax cut a middle-income family would get from extending the Trump tax cuts—something both candidates have promised to do.[15]

[13]U.S. Congressional Budget Office, "Budget and Economic Outlook, June 2024, https://www.cbo.gov/data/budget-economic-data

[14] Brendan Duke, "Former President Trump Proposes an Up to $3,900 Tax Increase for a Typical Family," Center for American Progress Action Fund, August 15, 2024, https://www.americanprogressaction.org/article/former-president-trump-proposes-an-up-to-3900-tax-increase-for-a-typical-family/

[15] Tax Policy Center, "T24-0025 - Make Certain Provisions in the 2017 Tax Act Permanent, by ECI Percentile, 2027," July 2024, https://www.taxpolicycenter.org/model-estimates/make-certain-provisions-2017-tax-act-permanent-july-2024/t24-0025-make-certain

My analysis is in line with analyses from several other think tanks, including conservative ones like the Tax Foundation, the American Action Forum, and the National Taxpayers Union.[16]



This tax increase would also lead to a one-time inflationary surge, raising prices for consumers:

- The Capital Group has estimated that Trump's 10 percent across-the-board tariff on partners, allies, and adversaries alike, as well as a 60 percent tariff on Chinese imports would lead to a 2.5 percent increase in prices in 2025. It predicts that the across-the-board tariff alone would trigger a one-time resurgence in inflation (as measured by the Consumer Price Index) to between 3 percent and 4 percent by the end of 2025.[17]

- Bloomberg Economics estimated that a 10 percent across-the-board tariff with a 60-percent tariff on Chinese imports would ultimately raise consumer prices by 2.5 percent, pushing up the inflation rate (as measured by core Personal Consumption Expenditure inflation) up to 3.7 percent by end of 2025. This is compared to expected inflation of 2.1 percent in 2025, according to a Bloomberg survey of economists.[18]

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[16] Jacon Jensen, "Trump's 10 Percent tariffs: Projected Impacts on U.S. Households and Allies," American Action Forum, June 25, 2024 https://www.americanactionforum.org/research/trumps-10-percent-tariffs-projected-impacts-on-u-s-households-and-allies/; Bryan Riley, "Trump Promises "Massive" Tax Increase if Returned to Office ," National Taxpayers Union, August 29, 2023, https://www.ntu.org/publications/detail/trump-promises-massive-tax-increase-if-returned-to-office; Megan Loe, "Yes, Trump's proposed tariffs would raise costs for Americans " VerifyThis, Septemeber 16, 2024, https://www.verifythis.com/article/news/verify/donald-trump/trump-tariffs-explained-costs-for-americans/536-e2317e48-8d75-4fad-b904-773fde008126 Kimberly Clausing and Mary E. Lovely, "Trump's bigger tariff proposals would cost the typical American household over $2,600 a year," August 21, 2024, https://www.piie.com/research/piie-charts/2024/trumps-bigger-tariff-proposals-would-cost-typical-american-household-over

[17] Julian Evans-Pritchard and Zuchun Huang, "Trump tariffs: round two would be more damaging," The Capital Group, February 23, 2024, https://www.capitaleconomics.com/publications/china-economics-focus/trump-tariffs-round-two-would-be-more-damaging

[18] Eric Martin, "Trump's Tariffs Plan Would Raise Prices for Americans, Model Shows, April 3, 2024, https://www.bloomberg.com/news/articles/2024-04-03/trump-60-tariff-on-china-10-elsewhere-to-raise-us-inflation-model

- Goldman Sachs estimated that Trump's economic proposals with a 10 percent tax on all imported goods would lead inflation to surge from a 2 percent baseline rate to 3 percent.[19]

- Moody's projects a Trump presidency would cause inflation to reach 3.6 percent in 2025, but that rate would then begin to fall as the effects of higher interest rates and a recession took hold.[20]

Trump's allies have framed the proposed tax as a way to counter China's nonmarket practices,[21] but 60 percent of the imports it would tax come from six U.S. allies and neighbors: Canada, Mexico, the European Union, the United Kingdom, Japan, and South Korea.[22]

The Biden administration's strategy is different. It focuses trade remedy actions on precisely those goods where it is in the national interest to maintain or build industrial competitiveness and then to align those actions with significant investment in American manufacturing. Moreover, the tariffs are just one part of a larger reindustrialization strategy designed to rebuild the country's productive capacity and sustain American competitiveness well into the future.[23]

The results of the Biden administration's trade approach speak for themselves: The investment agenda has helped spur the creation of 700,000 new manufacturing jobs, pushing the total number of manufacturing jobs above pre-pandemic levels.[24] New factory construction has doubled after adjusting for inflation.[25] The United States' industrial base is now stronger, more resilient, and more competitive.

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[19] Alec Phillips, David Mericle, and Tim Krupa, "The Election and the Economy: Estimating Immigration, Trade, and Fiscal Effects," Goldman Sachs, September 3, 2024

[20] Mark M. Zandi, Brendan La Cerda, and Justin Begley, "Assessing the Macroeconomic Consequences of Biden vs. Trump," Moody's, June 2024, https://www.economy.com/getfile?q=EA99E998-560D-4A12-85DE-3727A7EBE9A8&app=download

[21] "Agenda47: President Trump's New Trade Plan to Protect American Workers," https://www.donaldjtrump.com/agenda47/agenda47-president-trumps-new-trade-plan-to-protect-american-workers

[22] Brendan Duke and Ryan Mulholland, "Trump's Tariff Would Cost the Typical American Household Roughly $1,500 Each Year," Center for American Progress Action Fund, https://www.americanprogressaction.org/article/trumps-tariff-would-cost-the-typical-american-household-roughly-1500-each-year/

[23] Ryan Mulholland and Mike Williams, "The Biden Administration's Targeted, Strategic Tariffs Are Effective Industrial Policy at Work," Center for American Progress, May 29, 2024, https://www.americanprogress.org/article/the-biden-administrations-targeted-strategic-tariffs-are-effective-industrial-policy-at-work/

[24] Federal Reserve Economic Database, "All Employees, Manufacturing," https://fred.stlouisfed.org/series/MANEMP

[25] Brendan Duke and Ryan Mulholland, "Trump's Tariff Would Cost the Typical American Household Roughly $1,500 Each Year," Center for American Progress Action Fund, March 27, 2024, https://www.americanprogressaction.org/article/trumps-tariff-would-cost-the-typical-american-household-roughly-1500-each-year/

Threats to end Fed independence would also mean higher inflation
The Federal Reserve is responsible for setting the nation's monetary policy with a focus on stable prices and maximum employment. It is ultimately accountable to the public and to Congress, but it can best achieve its mission by remaining operationally independent.

Former President Trump has made clear that he has no interest in following the norms of Fed independence we have followed for decades. As recently as six weeks ago, he said "I feel the president should have at least [a] say in there. I think that in my case, I made a lot of money, I was very successful, and I think I have a better instinct than in many cases, people that would be on the Federal Reserve or the chairman."[26]

The Wall Street Journal reported more details about his potential approach to the Fed:

> *Several people who have spoken with Trump about the Fed said he appears to want someone in charge of the institution who will, in effect, treat the president as an ex officio member of the central bank's rate-setting committee. Under such an approach, the chair would regularly seek Trump's views on interest-rate policy and then negotiate with the committee to steer policy on the president's behalf. Some of the former president's advisers have discussed requiring that candidates for Fed chair privately agree to consult informally with Trump on the central bank's decisions, the people familiar with the matter said. Others have made the case that Trump himself could sit on the Fed's board of governors on an acting basis, an option that several people close to the former president described as far-fetched.*[27]

A large body of economic research demonstrates the inflationary risk threats to Federal Reserve independence pose. It shows that both advanced and developing countries whose central banks are not independent face higher inflation, higher inflation expectations, and less predictable inflation than countries whose central banks are independent.[28]

The combination of large, unpaid for tax cuts along with White House intervention in the nation's monetary policy to keep interest rates low is the type of economic policy package that has delivered hyperinflation in countries like Argentina and Turkey.

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[26] Reuters, "Trump signals interest in influencing Federal Reserve decisions if he regains White House," August 8, 2024, https://www.reuters.com/world/us/trump-says-president-should-have-say-fed-decisions-2024-08-08/
[27] Andrew Restuccia, Nick Timiraos, and Alex Leary, "Trump Allies Draw Up Plans to Blunt Fed's Independence," April 26, 2024, https://www.wsj.com/economy/central-banking/trump-allies-federal-reserve-independence-54423c2f
[28] Alberto Alesina and Lawrence H. Summers, "Central Bank Independence and Macroeconomic Performance: Some Comparative Evidence," *Journal of Money, Credit, and Banking*, 1993; Filiz D Unsal, Chris Papageorgiu, and Hendre Garbers, "Monetary Policy Frameworks: An Index and New Evidence," IMF Working Papers, January 28, 2022, https://www.imf.org/en/Publications/WP/Issues/2022/01/28/Monetary-Policy-Frameworks-An-Index-and-New-Evidence-512228

The American economy has weathered a pandemic, global supply shocks from geopolitical events, and more–Americans have come out ahead and it looks like the economy is headed for a soft landing. Policymakers should seek to build on these successes instead of undermine them.