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Before the House Select Subcommittee on Coronavirus

"From Rescue to Recovery: Building a Thriving and Inclusive Post-Pandemic Economy"

March 17, 2021

I want to thank Chairwoman Maloney, Ranking Member Comer, and the other members of the subcommittee for the opportunity to appear today and discuss how to build a thriving and inclusive economy. This is a topic I care deeply about and have dedicated much of my career to advancing, so I am honored to testify today. I in fact first became active in politics supporting civil rights and opposing the Vietnam War in the 1960's.

I also want to thank the Members here today and Congress for the work we did together on the CARES Act last March. That bipartisan legislation, combined with Operation Warp Speed and the pro-growth economic policies of the Trump Administration, has set the economy up for a resumption of strong economic growth – provided that Congress and the Administration pursue sound economic policies.

I want to start with a brief review of the Trump Administration's policy record, and the historic economic gains American workers and families, most especially for forgotten communities, made during the Trump Administration prior to the COVID-19 outbreak. It is important to remember that the Trump Administration's pro-growth policies of tax cuts and deregulation propelled the United States to record levels of economic growth and prosperity for <u>all</u> Americans.

In the three years prior to the pandemic, the United States reached historic levels of employment, with the unemployment rate dropping to just 3.5 percent overall.[1] The Trump economic expansion benefited all Americans, including the highest rates of employment in 50-years for women, African- Americans, Asian-Americans, Hispanic-Americans, and blue-collar workers with no more than a high school diploma.[2]

Further, after years of stagnate wages, median household income rose by $6,500 and real wages increased 10 percent for blue collar and middle-class workers.[3] It was a "Blue Collar Boom." In addition, 6.6 million Americans were lifted out of poverty, and household wealth for the bottom 20 percent of income earners increased 34 percent while household wealth for middle income Americans increased 20 percent. The bottom 50 percent of households saw an astonishing 40 percent increase in net worth. Poverty rates for our African Americans and Hispanic Americans

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[1] https://www.statista.com/statistics/273909/seasonally-adjusted-monthly-unemployment-rate-in-the-us/
[2] https://www.bls.gov/opub/mlr/2020/article/job-market-remains-tight-in-2019-as-the-unemployment-rate- falls-to-its-lowest-level-since-1969.htm
[3] https://www.census.gov/library/publications/2020/demo/p60-270.html

reached record lows. Inequality declined dramatically, a complete reversal from the previous 8 years.

These facts clearly show that the Trump Administration's supply side, pro-growth policies of tax cuts and deregulation benefited lower-income and middle-income Americans the most. They also demonstrate the power of the free market to create an inclusive economy if government barriers that so often disproportionately hinder the advancement of low-income workers are removed. It is also important to remember that the biggest contributor to inequality in U.S. history has been government policy – from discriminatory housing policies to excessive taxes.

Unfortunately, the American economy took a hit when the COVID-19 pandemic emerged and lockdown were mandated. Fortunately, the Trump Administration and Congress passed the CARES Act, the largest economic relief package in American history, which was passed and implemented in record time, and was a resounding success. In particular, the Paycheck Protection Program supported over 5.2 million small businesses and an estimated 51 million jobs with more than $680 billion in critical funds.[4] Because the Federal government directed an economic shutdown, it was only appropriate for the Federal government to support these businesses and ensure that they could be around to lead the economic recovery. In effect, the CARES Act softened the pandemic's hit to the economy, especially for those most economically vulnerable.

Going forward the key to reinvigorating the economy is tackling the pandemic. Operation Warp Speed has been a remarkable success of the Trump Administration. It has resulted in the development of not one, but three vaccines that are being administered across the country less than one year after the pandemic broke out in the United States. The vaccine has allowed for more and more states to open up and let their people and economies return to normal.

Because the fundamentals of the U.S. economy were very sound in the lead up to the pandemic, the economy should be able to return to robust growth, strong job creation, and steady wage increases for all Americans. However, misguided government policy could still stifle a robust recovery and lead to sluggish growth and slow job creation. To avoid this outcome, I strongly recommend three policies.

First, the Biden Administration and Congress should not raise taxes. The Trump tax reform, the TCJA, gave the United States the most competitive corporate tax rate in the world and helped make the United States the premier jurisdiction to do business. Raising the corporate rate, the capital gains rate, or individual income tax rate will reduce critical supply-side incentives and deprive American businesses of valuable resources. Such tax increases will simply make it more difficult for American businesses, which have been through a lot over the last year, to return to normal.

Second, the Biden Administration and Congress should refrain from imposing new complex regulations on the economy. Regulations are the hidden tax on the economy. They are easy for government to impose because government does not have to pay the bill to comply with them. It

[4] https://www.sba.gov/sites/default/files/2021-03/PPP_Report_Public_210307-508.pdf; https://www.sba.gov/sites/default/files/2020-07/PPP%20Results%20-%20Sunday%20FINAL.pdf

is American businesses that have to spend the valuable time and resources required to comply with them. Regulations are particularly problematic for new and small businesses. Big companies can more easily pay the costs of regulation. For small businesses, however, regulations can impose insurmountable barriers to hiring more employees, creating new products, and even staying in business. If you want to have an inclusive economy, you need to ensure that regulation do not create barriers to entry that keep new businesses out of markets.

This is the time when we should be making it easier to do business in America, not harder. This is the time when we should be making it easier for businesses to hire. And this is the time when we should be rewarding hard work and economic risk taking. Imposing new regulations and raising taxes advances none of these goals.

Third, Congress should spend taxpayers' funds wisely. It is well known that I have never been a deficit hawk. However, I do believe that government should spend taxpayers' money responsibly. From an economic perspective, government spending often results in wasteful and inefficient uses of the economy's resources, which would be better put to use by the private sector. Hence, if you want to create good, lasting jobs, keep government spending to a minimum and let the private sector drive the economy.

I would like to make one final observation. I have had the good fortune of serving in two White Houses and closely observing economic policy for more than 50 years, starting as a scribe for the late Paul Volcker at the New York Fed. In my time, I saw how the Reagan and Trump Administrations embraced lower taxes and deregulation and sparked economic booms. I also saw the Clinton Administration eventually embrace a similar view and similarly spark an economic boom. However, I have also seen administrations embrace high taxes and new regulation, usually with the best of intentions, but each time the result has been slower growth, slower job creation, and stagnant wages – especially for lower-income Americans. At this critical juncture in American history, it is worth noting that history has time and again taught us that there is no better engine of economic growth – for all Americans – than free enterprise. Congress would be wise to follow this lesson as it now looks to the future.

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