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# THE ECONOMIC AND FISCAL BENEFITS OF PRO–GROWTH POLICIES

## HEARING

BEFORE THE

## COMMITTEE ON THE BUDGET
## HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTEENTH CONGRESS

FIRST SESSION

HEARING HELD IN WASHINGTON, D.C., JUNE 7, 2017

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# THE ECONOMIC AND FISCAL BENEFITS OF PRO–GROWTH POLICIES

**WEDNESDAY, JUNE 7, 2017**

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
*Washington, D.C.*

The Committee met, pursuant to call, at 10:00 a.m., in Room 1334 Longworth House Office Building, Hon. Diane Black [Chairman of the Committee] presiding.

Present: Representatives Black, Rokita, McClintock, Sanford, Renacci, Lewis, Faso, Gaetz, Arrington, Smucker, Brat, Ferguson, Woodall, Palmer, Westerman, Grothman, Jeffries, DelBene, Khanna, Jayapal, Carbajal, Wasserman Schultz, Schakowsky, Jackson Lee, and Lujan Grisham.

Chairman BLACK. The hearing will come to order. Welcome to the Committee on the Budget hearing, which will focus on the economic and fiscal benefits of pro-growth policies.

Good morning, and thank you everyone for being here, and I especially want to thank our great panel that is here with us today, our witnesses, for being willing to come in this morning and provide their thoughts on this important topic. We are having this hearing today in preparation for the upcoming release of our 2018 budget resolution. An important component of that resolution is an analysis of our economic conditions and our projects of future economic growth.

Over the last 8 years, we have seen stagnant economic growth, leading economists and the CBO to consistently downgrade their growth projections. As recently as 2012, the CBO projected our economy would average a 3 percent growth over a 10-year window.

This year, the CBO is only projecting an average of 1.9 percent growth over the next 10 years. However, it is important to point out that the CBO's projects are based on the assumption of continuing existing law with no changes in the economic policy. There is no question that the policies of the Obama years greatly contributed to the anemic economic growth and the downgraded growth projections. Higher taxes, the disaster that is ObamaCare, an expanded regulatory regime, and more federal spending and debt have held back the American entrepreneurs and small businesses.

The Obama economy left millions of Americans behind. Over 14 million Americans left the labor workforce during the Obama administration's 8 years in office. That is 14 million Americans. And in total, 95 million Americans are now out of the labor force: 95 million.

That is more than one-third of the total working age population, and I think that it is important to emphasize that there are 95 million Americans that are now out of the labor workforce, more than one-third of the total working age population. It has been the working-class Americans in the coal mines of West Virginia or the factories of central Tennessee or the farming communities in Nebraska that have borne the brunt of the liberal agenda over the last 8 years.

The ability and the opportunity to work is a fundamental pillar of the American Dream. Without the stability and self-worth that comes from having a job and providing a better future for one's children, our culture, and our economy, and truly our national morale suffers. Plenty of our friends across the aisle and many in the media have said that a 1.9 percent growth is the new normal. They have a pessimistic view of our Nation's ability to create jobs and build a foundation of greater opportunity for all citizens, especially if the new President and the Congress are successful in enacting a series of pro-growth policies. While I am never surprised by the media's pessimism, I am surprised that our friends across the aisle have such a negative view of Congress' ability to affect real change and to set a new economic standard.

So, I have got a message for everyone here today who thinks America is doomed to a future of less opportunity and potential: take your losing attitude elsewhere. We are the greatest country on Earth. We have got the best workers, the best innovators, and the best companies, and they are not the problem. Washington, D.C. is the problem. Government is getting in their way, and it is about time that we fix that problem.

And that is why the Republicans are committed to reforming the Tax Code, reforming our healthcare system by repealing and replacing ObamaCare, by reducing the regulatory burden on American small businesses, and getting our fiscal house in order, which is our responsibility in this Committee. These policies will spur economic growth and unleash the potential of the American free-market economy.

We would welcome our Democratic colleagues to join us in this effort, but it requires them to no longer be content with the status quo of the Obama years. We have got to put those years behind us, because there is no law that we have to forever accept President Obama's slow-growth policies. We can make changes to improve our economy, and we can start with adopting a budget resolution that puts our country on a sound fiscal path.

Growing our economy is also a vital step to getting our fiscal house in order. Since World War II, 3 percent growth has been the historical average. In the late 1990s, our economy grew by a rate of 4.5 percent, more than twice the rate of our growth today. It is no coincidence that we also balanced the Federal budget during this time period. Strong economic growth combined with spending restraint is how we get our country on a path to balance and how we begin to pay down the national debt without raising taxes.

I believe our economy is on the cusp of a great resurgence. The pro-growth policies of healthcare reform, tax reform, regulatory reform, and deficit reduction will provide the economic freedom and the certainty that our economy needs to grow to create jobs and create the type of opportunity that is the birthright of all Americans. I look forward to hearing from our witnesses today on how we can develop better policies to boost our economy, and it is time for optimism and new ideas, not pessimism and willingness to accept the status quo. And with that, I yield to my Ranking Member, Mr. Yarmuth.

[The prepared statement of Diane Black follows:]

**BLACK OPENING STATEMENT:**

**THE ECONOMIC AND FISCAL BENEFITS OF PRO-GROWTH POLICIES HEARING**

Washington, D.C., Wednesday, June 7, 2017

***As prepared for delivery – House Budget Committee Chairman Diane Black***

Good morning, and thank you everyone for being here. I especially want to thank our great panel of witnesses for being willing to come in this morning and provide their thoughts on this important topic.

We're having this hearing today in preparation for the upcoming release of our 2018 budget resolution.

An important component of that resolution is the analysis of our economic conditions and our projections of future economic growth.

Over the last eight years, we've seen stagnant economic growth, leading economists and the CBO to consistently downgrade their growth projections.

As recently as 2012, the CBO projected our economy would average 3 percent growth over the ten-year window. This year, the CBO is only projecting an average of 1.9 percent growth over the next ten years.

However, it's important to point out that CBO's projections are based on the assumption of continuing existing law with no changes in economic policy.

There is no question the policies of the Obama years greatly contributed to anemic economic growth and the downgraded growth projections.

Higher taxes, the disaster that is Obamacare, an expanded regulatory regime and more federal spending and debt have held back American entrepreneurs and small businesses.

The Obama economy left millions of Americans behind. Over 14 million Americans left the labor force during President Obama's eight years in office.

In total, 95 million Americans are now out of the labor force – that's more than one-third the total working-age population.

It's been the working-class Americans in the coal mines of West Virginia or the factories of Central Tennessee or the farming communities in Nebraska that have borne the brunt of the liberal agenda of the past eight years.

The ability and the opportunity to work is a fundamental pillar of the American Dream.

Without the stability and self-worth that comes from having a job and providing a better future for ones' children, our culture, our economy, and – truly – our national morale suffers.

Plenty of our friends across the aisle and many in the media have said that 1.9 percent growth is the new normal.

They have a pessimistic view of our nation's ability to create jobs and build a foundation of greater opportunity for all citizens, especially if the new President and Congress are successful in enacting a series of pro-growth policies.

While I'm never surprised by the media's pessimism, I am surprised that our friends across the aisle have such a negative view of Congress's ability to affect real change and set a new economic standard.

So I've got a message for everyone here today who thinks America is doomed to a future of less opportunity and potential: take your losing attitude elsewhere.

We are the greatest country on earth. We've got the best workers, best innovators, and the best companies. They are not the problem.

Washington, D.C. is the problem. Government is getting in their way, and it's about time we fixed this problem.

That's why Republicans are committed to reforming the tax code, reforming our health care system by repealing and replacing Obamacare, reducing the regulatory burden on American small businesses, and getting our fiscal house in order.

These policies will spur economic growth and unleash the potential of the American free-market economy.

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The pro-growth policies of health care reform, tax reform, regulatory reform and deficit reduction will provide the economic freedom and the certainty that our economy needs to grow, create jobs, and create the type of opportunity that is the birthright of all Americans.

I look forward to hearing from our witnesses today on how we can develop better policies to boost our economy.

It's time for optimism and new ideas, not pessimism and willingness to accept the status quo.

With that, I yield to the Ranking Member, Mr. Yarmuth.

Mr. YARMUTH. Thank you very much, Chairman Black, and I thank the witnesses for being here. We look forward to hearing from you.

Obviously, economic growth is a critically important issue. Increased economic growth can benefit American families and the Federal budget outlook. But we cannot have a meaningful hearing about economic growth without acknowledging the fact that the level of economic growth projected in the President's budget is totally unrealistic, if not absurd. Any budget that includes that level of growth should not be taken seriously. Americans deserve more than faith-based economics.

We need to be honest with them. Despite all the wishful thinking of the administration and some of my colleagues on the other side of the aisle, long-term economic growth of 3 percent is just not going to happen, particularly given the current economic and labor trends we face.

There are good reasons why CBO is projecting the economy's long-term growth rate as 1.9 percent and why the Blue Chip consensus private sector forecast is only slightly better at 2.0 percent. The entry of the baby boom generation and increasing numbers of women into the workforce helped support economic growth in the 1970s and 1980s. Those demographic trends have ended, and they are not going to return.

But we can take steps to help strengthen our economy, and they are steps that the American people overwhelmingly support. We can raise the minimum wage. We can invest in state-of-the-art infrastructure and innovation to create the next industries: research and science to make the next big discovery, and education and job training to develop a more skilled and productive workforce.

We can end loopholes that allow companies to ship jobs and profits overseas. And we can enact comprehensive immigration reform to increase the size of our workforce and the size of our economy. Those are all things we can do now and should do now.

Massive tax cuts are not the answer, even though we are likely to hear that claim a lot today. We have done that before, actually twice. Instead of sustained economic growth, our deficits exploded. Both of those tax cuts were accompanied by lax regulation that contributed to financial crises and recessions just a few years later. Regulatory reform is not a silver bullet either, but we will likely hear that today as well. Most regulations already must meet a cost-benefit test.

Rescinding regulations without a very thorough understanding of the threat that rescission would cause to both direct economic benefits and non-economic benefits such as improved health, safety, and environmental conditions, would be irresponsible.

Presumably, this is our last hearing before the release of my Republican colleagues' budget. Economic growth will obviously be a big part of their proposal, and it is my hope that it will be far different than the President's budget, that it will use responsible economic growth projections, that it will not rely on debunked claims that massive tax cuts pay for themselves, that it will increase funding for national priorities that will grow our economy, and that it will make investments in our Nation's greatest asset, the American people. We plan to talk about that and more today, and I hope to hear some helpful insights from our witnesses. I look forward to your testimony, and I yield back.

[The prepared statement of John Yarmuth follows:]

**YARMUTH OPENING STATEMENT:**

## ECONOMIC AND FISCAL BENEFITS OF PRO-GROWTH POLICIES HEARING

Washington, D.C., Wednesday, June 7, 2017

***As prepared for delivery – House Budget Committee Ranking Member John Yarmuth***

Thank you Chairman Black. And thank you all for coming to testify before us today. I look forward to hearing from you.

Obviously, economic growth is a critically important issue. Increased economic growth can benefit American families and the federal budget outlook. But we can't have a meaningful hearing about economic growth without acknowledging the fact that the level of economic growth projected in the President's budget is simply absurd. Any budget that includes that level of growth should not be taken seriously.

We need to be honest with the American people. And despite all the wishful thinking of the Administration and some of my colleagues on the other side of the aisle, long-term economic growth of three percent is not going to happen, particularly given the current economic and labor trends we face.

There are good reasons why CBO is projecting that the economy's long-term growth rate is 1.9 percent. And why the Blue Chip consensus private sector forecast is only slightly higher, at 2.0 percent.

The entry of the baby boom generation and increasing numbers of women into the workforce helped support economic growth in the 1970s and 1980s. Those demographic trends have ended and they are not going to return.

But we can take steps to help strengthen our economy – and they are steps that the American people support.

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And enact comprehensive immigration to increase the size of our workforce and the size of our economy.

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We plan to talk about that more today and I hope to hear some helpful insights from our witnesses. I look forward to your testimony

Chairman BLACK. Thank you, Mr. Yarmuth. And Dr. Holtz-Eakin, Dr. Furman, and Dr. Diamond, thank you for being here today and taking time out of your schedule to join us. The Committee has received your written statements, and they will be part of the formal record. You will each have 5 minutes to deliver your oral remarks, and Dr. Holtz-Eakin, we will begin with you today for your 5 minutes.

**STATEMENTS OF DOUGLAS J. HOLTZ–EAKIN, Ph.D., PRESIDENT, AMERICAN ACTION FORUM; JOHN W. DIAMOND, Ph.D., EDWARD A. AND HERMENA HANCOCK KELLY FELLOW IN PUBLIC FINANCE, RICE UNIVERSITY'S BAKER INSTITUTE FOR PUBLIC POLICY; AND JASON FURMAN, Ph.D., SENIOR FELLOW, PETERSON INSTITUTE FOR INTERNATIONAL ECONOMICS**

**STATEMENT OF DOUGLAS J. HOLTZ–EAKIN, Ph.D.**

Mr. HOLTZ-EAKIN. Well, thank you, Chairman Blank, Ranking Member Yarmuth, and members of the Committee. It is a privilege to be here today. Is that better? Apologies. Let me make three points briefly, and then I look forward to answering your questions.

Point number one is that this hearing is on exactly the right topic. Better long-term economic growth is the preeminent policy challenge of this era, and it can be seen by the sharp difference between the performance from the end of World War II to 2007, when GDP rose fast enough that even with the arrival of the baby boom generation GDP per capita rough measured the standard of living doubled roughly every 35 years.

So, in 35 years, you could see the standard of living double, and that was the route to many people's version of the American Dream. Current projections would have GDP per capita doubling every 75 years, and so the capacity to reach dreams is fading over the horizon.

Raising the rate of economic growth would be the single most beneficial policy for all Americans, and so I applaud the Committee for focusing on this. It would also benefit the Federal budget. The CBO estimates that every tenth of a percentage point of sustained increase in economic growth reduces budget deficits by about $270 billion. And so, while not a panacea, you cannot grow your way out of the problems; it is important to have faster economic growth, and it will benefit the fiscal outlook.

The second point I would make is that the kind of economic growth that is needed is the hard kind to get. This is not stimulus, short-run recovery from a recession where there are workers and factories sitting idle that are easily put back into use. This is improving the genuine supply side of the economy, the capacity of workers to produce more. In the end, long-term growth is just growth in workers and growth in output per worker: productivity. And increasing productivity is going to require deep structural changes.

The kinds of policies that are required are, in fact, permanent changes, structural reforms that improve incentive over the long-term, cause American businesses to invest in the United States, innovate in the United States, hire and pay people here, and those are the kinds of policies that are essential. In my written testimony, I highlight essentially a laundry list of the kinds of things that the Congress should be looking at.

I would put at the top of that list something that this Committee should care deeply about, which is the fiscal outlook for the United States. The CBO's baseline, released in January, shows that left on autopilot, the Federal budget will grow to trillion-dollar deficits over the next 8 years. Those will be 5 percent of GDP or greater, far above any safe line.

Of those trillion-dollar deficits, over $600 billion will be interest on previous borrowing, and so the Federal Government is headed to a position where it is borrowing to pay off the interest on previous borrowing. Interest will be the second-largest program in the Federal budget, second only to Social Security. Larger than defense, Medicare, Medicaid, all of the things that we normally think of as what the government would do.

So, if you are an investor on the global stage looking at a country that is running into what is a surefire sovereign debt crisis at some point, why would you want to invest there? Why would you want to hire there? Why would you want to grow there? It is an impediment to our outlook, and it ought to be fixed. That means fixing the entitlement programs. They are the heart of that growing deficit. Those programs deserve to be better on their merits. They should be a social safety net that is financially secure, provides good work incentives for both younger and older Americans, and are pro-growth in their design.

The second thing I would put on your radar screen is tax reform. There is probably no single thing that can happen more quickly and have more durable impacts than fundamental changes to the U.S. corporation and individual income tax. Tax reform, as everyone on the screen knows, is hard. It has not happened for 31 years for a reason. But I would encourage everyone to take a very close look at getting over the finish line and having the kinds of structural changes to tax reform that will give permanently better incentives to firms and workers in the U.S.

And then, I would also highlight the importance of long-term education reforms. There is no substitute for having workers with greater skills, education, and capacity to adapt to future economic conditions. And that is going to be one of the things that can, over the long-term, raise productivity the greatest. There are others on my list: regulatory reform, immigration reforms, infrastructure programs. I would be happy to discuss them, and I thank you again for the chance to be here today.

[The prepared statement of Douglas J. Holtz-Eakin follows:]

# Economic and Fiscal Benefits of Pro-Growth Policies

Testimony to the U.S. House
Committee on the Budget

Douglas Holtz-Eakin, President
American Action Forum*

June 7, 2017

*The opinions expressed herein are mine alone and do not represent the position of the American Action Forum. I thank Gordon Gray for his assistance.

**Introduction**

Chairman Black, Ranking Member Yarmuth and members of the Committee I am honored to have the opportunity to testify on the necessity of a pro-growth policy agenda, and its implications for the economy and the budget. Pro-growth policies are essential to ensuring that current and future American families enjoy the improvements in their living standards that at least match the gains made by previous generations. The strength of the economy and the sustainability of the federal budget are also closely interlinked; going forward better budgetary outcomes will require stronger economic growth and more rapid trend economic growth will depend, in part, on improved budget policies.

In my testimony, I wish to make three simple points:

- More rapid trend economic growth is the most pressing policy issue facing the Congress,
- Improved economic performance will require moving away from a policy regime characterized by high taxes, extensive regulation and temporary, targeted "stimulus" toward permanent structural reforms, and
- Structural reforms to entitlements, taxes, regulations, education, immigration, and trade agreements are the most promising policy mix to restore economic growth, generate rises in the standard of living, and lead to a sustainable budget outlook.

Let me discuss these in turn.

**The Growth Challenge**

More rapid trend economic growth is the preeminent policy challenge. The nation has experienced a disappointing recovery from the most recent recession and confronts a projected future defined by weak economic growth. Left unaddressed, this trajectory will result in failing to bequeath to the next generation a more secure and more prosperous nation.

**Figure 1: Disappointing Economic Growth**

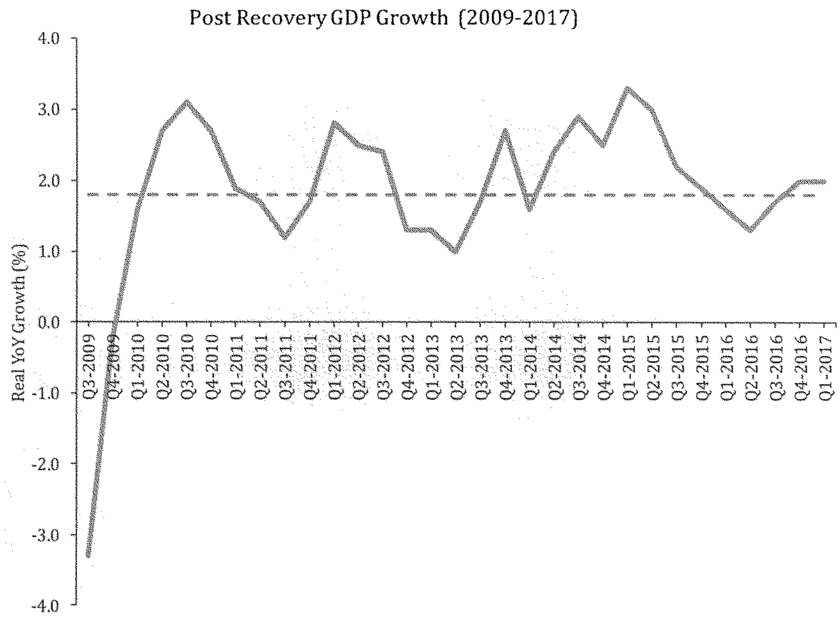
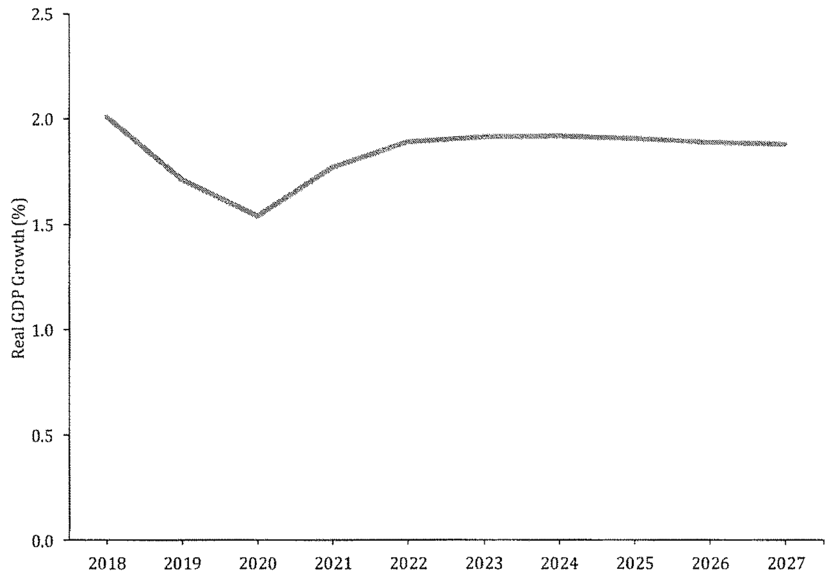



Figure 1 shows quarterly, year-over-year growth rates for real Gross Domestic Product (GDP) since the "official" end of the Great Recession in June of 2009. As displayed, real GDP growth has been stubbornly weak, averaging 1.8 percent (the dotted line). While it is generally understood that recoveries from recessions precipitated by financial crises tend to be weaker, the persistence of the nation's weak economic recovery should not be written off as inevitable, but rather as a failure of economic policy.

**Figure 2: CBO January Baseline**

Projected Growth (2018-2027)




Even more troubling than the recent past is the outlook. The Congressional Budget Office (CBO) projects that the U.S. economic growth will average 1.8 percent over the next 10 years. This rate of growth is below that needed to improve the standard of living at the pace typically enjoyed in post-war America. During the early postwar period, from 1947 to 1969, trend economic growth rates were quite rapid. GDP and GDP per capita grew at rates of 4.0 percent and 2.4 percent, respectively. Over the subsequent two and one-half decades, however, these fell to 2.9 percent and 1.9 percent, respectively. During the years 1986 to 2007, trend growth in GDP recovered to 3.2 percent, while trend GDP per capita growth rose to 2.0 percent.

These were rates quite close to the overall historic performance for the period. These distinct periods and trends should convey that the trend growth rate is far from a fixed, immutable economic law that dictates the pace of expansion, but rather subject to outside influences including public policy.

More rapid growth is not an abstract goal; faster growth is essential to the well-being of American families.

Table 1
The Importance of Trend Growth to Advancing the Standard of Living

| Trend Growth Rate Per Capita (%) | Years for Income to Double |
|---|---|
| 0.50 | 139 |
| 0.75 | 93 |
| 1.00 | 70 |
| 1.25 | 56 |
| 1.50 | 47 |
| 1.75 | 40 |
| 2.00 | 35 |
| 2.25 | 31 |
| 2.50 | 28 |
| 2.75 | 26 |
| 3.00 | 23 |

The trend growth rate of postwar GDP per capita (a rough measure of the standard of living) has been about 2.1 percent. As Table 1 indicates, at this pace of expansion an individual could expect the standard of living to double in 30 to 35 years. Put differently, during the course of one's working career, the overall ability to support a family and pursue retirement would become twice as large.

In contrast, the long-term growth rate of GDP in the most recent CBO projection is 2.0 percent. When combined with population growth of 1.0 percent, this implies the trend growth in GDP per capita will average 1.0 percent. At that pace of expansion, it will take 70 years to double income per person. The American Dream is disappearing over the horizon.

Economic Growth and the Federal Budget

A second benefit of improved economic growth is budgetary. The federal government faces a problematic budgetary future, largely due to long-term pension, health, and other spending promises coupled with recent programmatic expansions. The core, long-term issue has been outlined in successive versions of the CBO's Long-Term Budget Outlook. In broad terms, the inexorable dynamics of current law will raise federal outlays from an historic norm of about 20 percent of GDP to upwards of 30 of GDP. Any attempt to keep taxes at their historical norm of about 18 percent of GDP will generate an unmanageable federal debt spiral.

This depiction of the federal budgetary future and its diagnosis and prescription has all remained unchanged for at least a decade. Despite this, lasting action (in the right direction) has yet to achieve the force of law.

In the past several years, the outlook has worsened significantly. Over the next ten years, according to the CBO's latest baseline projections, the deficit will average over $940 billion. Ten years from now, in 2026, the deficit will be $1.4 trillion. As a result of the nation's irresponsible spending binge, in 2027 debt held by the public will have more than doubled from its pre-financial crisis level in 2007 to nearly 90 percent of GDP and will continue its upward trajectory.

High levels of indebtedness, coupled with weak projected growth, crowd out productive investment and further suppress economic growth. This combination eventually leads to a spiral of higher interest rates, debt service payments, and damaging fiscal policy. Within the current budget window, interest payments make up more than half of projected deficits, meaning the existing debt portfolio is already constraining policymakers and jeopardizes the budget's capacity to absorb another recession or geopolitical crisis.

Despite the nation's significant budgetary challenges, even incrementally higher economic growth can ameliorate the fiscal outlook by increasing taxable income and suppressing reliance on the social safety net. According to the CBO, a persistent 0.1 percentage point increase in productivity growth translates into $273 billion in budget savings.[1] A robust pro-growth agenda could realize multiples of this "rule of thumb" in deficit reduction.

**A Policy Regime for Faster Trend Growth**

It is desirable to change the style of policy to produce better growth. Economic growth policy is more a philosophy than a piece of legislation. It is a commitment at every juncture in the policy process to evaluate tradeoffs between social goals, environmental goals, special interest goals and economic growth – and err on the side of growth. Looking back, the Obama Administration contemplated a health care law that raised $700 billion in new taxes and created two new entitlements at a time when the spending-swollen federal debt was already exploding. The White House also chose social objectives over growth. It unleashed the Environmental Protection Agency, choosing a green agenda over growth. It launched the National Labor Relations Board on a union agenda at odds with growth.

The second flaw in recent policy approaches has been its misguided reliance on temporary, targeted piecemeal policymaking. Even if one believed that countercyclical fiscal policy ("stimulus") could be executed precisely and had multiplier effects, it is time to learn by experience that this strategy is not working. Checks to households (the Economic Stimulus Act of 2008), the gargantuan stimulus bill in 2009 (American Recovery and Reinvestment Act), "cash for clunkers" (the Car Allowance Rebate System), tax credits for homebuyers (the Federal Housing Tax Credit, the HIRE Act (consisting of a $13 billion payroll hiring credit, expensing of certain investments, $4.6 billion for schools and energy), the Small Business Jobs Act of 2010, and the state-local bailout Public Law 111-226 ($10 billion in education; $16 billion in Medicaid) have all failed to generate adequate growth.

As the policy regime of macroeconomic fiscal (and monetary) fine-tuning backfired in the 1960s and 1970s, leaving behind high inflation and chronically elevated unemployment, it is working no better in the 21st century. Instead, there should be a commitment to raising the long-term growth rate of the economy through permanent reforms.

This Committee can contribute greatly to moving toward a better, long-term oriented set of policies. The founders recognized that the government had important roles in national security, basic research, education, and infrastructure. Congress should reflect these principles in their budgets. As it turns out, however, these areas are funded in the annual appropriations bills – precisely the area of the budget that was the focus of caps in the Budget Control Act.[2] Growth-oriented policymakers should reject mechanistic budgeting like caps in favor of funding core roles of government contingent on quality analysis and outcomes.

In defense, budgets should reflect the capabilities needed to address the threats identified in the Quadrennial Defense Review – not simply a desire to spend more without justification. Similarly, infrastructure projects should receive funding only if a rigorous analysis shows they improve economic outcomes.[3] Education dollars should reward actual achievement and progress, while health dollars should be contingent on quality outcomes. And most importantly, poverty programs must be re-oriented away from a focus on making sure enough money gets to the poor and towards the real solution to poverty: economic self-sufficiency.[4]

The key issue is that it is a budget strategy focused on annual funding of programs consistent with our founding principles and focused on quality outcomes.

Of course, something has to give and the obvious candidates are the large, and ever-growing, entitlement programs. Reforming entitlement programs turns out to be the right thing to do for reasons beyond budget math. The U.S. economy is characterized by big federal debt – now 77 percent of GDP and rising unsustainably – and poor growth. A lesson of other countries faced with this unpleasant economic cocktail is that the route to better economic performance is to keep taxes low and cut spending to deal with the budget imbalance. But not all spending is created equal. Instead, it is better to cut transfer programs and preserve core functions of government. The historical lesson dovetails perfectly with a pro-growth budget strategy.

Importantly, the large entitlement programs need reform in their own right. Social Security is a good example. The "plan" – the law of the land – will cut across the board the retirement checks of those in retirement by 21 percent in two decades. That is a disgraceful way to run a pension system. It is possible to reform Social Security to be less costly overall and financially sustainable over the long term.

Similar insights apply to Medicare and Medicaid, the key health safety nets for the elderly and poor. These programs have relentless appetites for taxpayer dollars yet do not consistently deliver quality outcomes. Reforms can address their open-ended draws on the federal treasury and improve their functioning at the same time.

The growth-oriented fiscal strategy will re-orient spending priorities away from dysfunctional autopilot spending programs and toward core functions of government. It will focus less on the dollars going into programs and more on the quality of the outcomes of those programs. It will do so because it is the principled approach; because it coincides with the best strategy to deal with the debt and growth dilemmas; and because it will force a restructuring of the entitlement programs to generate a quality social safety net.

**Structural Reforms to Enhance Trend Growth**

Entitlement Reform and a Sustainable Debt Trajectory

The policy problem facing the United States is that spending rises above any reasonable metric of taxation for the indefinite future. Period. There is a mini-industry devoted to producing alternative numerical estimates of this mismatch, but the diagnosis of the basic problem is not complicated. The diagnosis leads as well to the prescription for action. Over the long-term, the budget problem is primarily a spending problem and correcting it requires reductions in the growth of large mandatory spending programs—entitlements Social Security and federal health programs.

At present, Social Security is running a modest cash-flow deficit, increasing the overall shortfall. There are even larger deficits and future growth in outlays associated with Medicare, Medicaid, and the Affordable Care Act (ACA). These share the demographic pressures that drive Social Security, but include the inexorable increase in health care spending per person in the United States.

For this reason, an immediate reform and improvement in the outlook for entitlement spending would send a valuable signal to credit markets and improve the economic outlook. The spending future outlined above represents a direct impediment to job creation and growth. The United States is courting further downgrade as a sovereign borrower and the ensuing increase in borrowing costs it would generate. Any sharp rise in interest rates would have dramatically negative economic impacts; even worse an actual liquidity panic would replicate (or result in an experience worse than) the experience of the fall of 2008.

Alternatively, businesses, entrepreneurs and investors perceive the future deficits as an implicit promise of higher taxes, higher interest rates, or both. For any employer contemplating locating in the United States or expanding existing facilities and payrolls, rudimentary business planning reveals this to be an extremely unpalatable environment.

In short, entitlement reform is a pro-growth policy move at this juncture. As summarized by an American Action Forum paper, research indicates that the best strategy to both grow and eliminate deficits is to keep taxes low and reduce public employee costs and transfer payments.[5]

The Role of Infrastructure in Faster Trend Growth

Among the most common policy proposals are those that increase federal outlays on "infrastructure" (defined in a variety of ways), with the assertion that it will generate more rapid economic growth. This would be true if infrastructure spending had a long-term impact on productivity. Over the long-term, higher productivity—the ability to generate more output and income from each dollar of capital or hour of work—is the key to higher labor earnings and improved standards of living. Because higher productivity is so central to economic growth, it must be an explicit concern - rather than a presumed outcome - when contemplating increased infrastructure spending. The notion that investing in infrastructure will generate productivity has an intuitive appeal: imagine an economy with trucks but no roads, or trains and no tracks. Moreover, there are countless testimonials across the country asserting that a new road, or airport, or other project generated a boom in economic activity.

High-productivity infrastructure investments can generate improvements in economic well being by increasing connectivity or reducing congestion or providing a necessary productive input. If so, this is a critical dimension of improving long-term employment, allowing labor to enhance its productivity at lower cost and encouraging private capital investments in structures, equipment, and technologies to reap higher returns from American industry.

But there are reasons to be cautious as well. First, the test for a high-productivity public investment is that it should generate a rate of return to society that exceeds the market return in the private sector. The resources for any public investment are ultimately drawn from the private sector through taxes and fees, or in some cases by borrowing from the private sector. In each case, the dollars used to make these investments constitute foregone opportunities to make other market investments.

To meet a productivity test, federal investments should have a greater impact in terms of raising future standards of living than other uses of funds as measured by the return on other market investments. Thus, to ensure the best use of taxpayer dollars, government must channel funding to the projects that offer the highest returns to society.

That means choosing programs that do the most to enhance long-term productivity. A second concern is that politics interfere with making sure that the right projects are chosen. Not every road, high-speed rail, or water project can meet the test. Will public policy actually consist of a portfolio of well-selected and thoughtfully targeted investments that may make a substantial contribution to aggregate economic productivity?

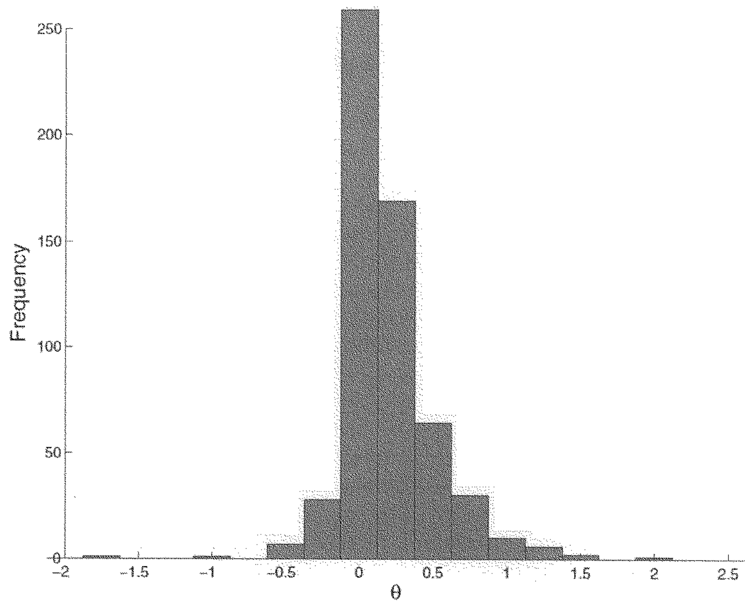
A third issue is that any shift in resources creates losers as well as winners. A dollar spent on any project means a dollar less to spend on another project. In an environment of finite resources, funding infrastructure projects will generate some productivity, but at the expense of jobs that could have been created in other sectors had the money been used differently. This is why reform to direct government spending to the most productive investments is so crucial. Even if infrastructure always raises productivity, its net effect on the economy as a whole—taking into account the benefits that will be foregone as a result of reduced public spending in other areas of the economy—will be positive only if government investments are rigorously selected to meet productivity criteria.

Shifts of investment and employment occur not just across industries and sectors, but also across counties and states. Even a sub-optimal investment is likely to be able to show some positive output impacts, especially in the short-term, from the perspective of the winning state or city. But from a national perspective and over time these gains could be—and often are—outweighed by losses elsewhere. Federal infrastructure policy should guide federal dollars so as to produce a net gain for the economy as a whole, rather than for one area or region in the short-term.

The construction of the Interstate Highway network, for example, created jobs near interstate interchanges as new and existing businesses were drawn to locations where they could take maximum advantage of the accessibility afforded by the new highway system. Towns that were bypassed by the Interstates, however, lost jobs as some of their businesses moved to these new locations and as other businesses that stayed "died on the vine" because they could no longer compete. Nevertheless, the federal investment creating the interstate highway network was justified because overall gains exceeded overall losses.

*Evidence*
The histogram below, reproduced from Bom and Ligthart [2014], summarizes 578 estimates from 68 studies that cover various time periods, nations or states, levels of government (municipal, state, federal), and types of public capital.

**Figure 3: Relationship Between Output and Infrastructure**




The histogram shows the distribution of what the researchers call "θ", the percentage increase in output for a comparable percentage rise in infrastructure. As one can see by inspecting the figure, there are large positive (over 2.0) and large negative (below -1.5) examples in the literature. However, the bulk of the estimates cluster closely around zero. The overall shape of the distribution does suggest a greater chance of positive impacts than negative ones, so a consensus estimate of the elasticity might be slightly above zero.

What does this mean? Government general capital is roughly $10 trillion, according to the Bureau of Economic Analysis of the Department of Commerce, so $100 billion for additional infrastructure spending is roughly a (100/10000 =) 1.0 percent increase. Using a productivity elasticity of, say, 0.03, that suggests that the level of productivity and output eventually rises by 0.03 percent. Since GDP is roughly $18 trillion, then $100 billion in extra infrastructure spending generates $5.4 billion in extra output per year, which is hardly a productivity boom.

*Tax Reform*

The U.S. tax code is broadly viewed as broken and in need of repair, and for good reason – it hasn't been overhauled in 30 years. Whereas the previous administration made the tax system worse – adding higher rates and new taxes, including on the middle class – the Committee should support a fundamental overhaul of the nation's tax system.[6] A sound reform of the U.S. tax code is an essential element of any pro-growth strategy, and could substantially increase trend economic growth, boosting the economy and tax revenue.[7]

Fundamental modernization and simplification of the tax system has been an elusive dream for Congresses and administrations over the past 30 years, and a wholesale reform of the code is invariably difficult during an election.

The last time the United States undertook a fundamental tax reform was with the Tax Reform Act of 1986 (TRA). If history is any guide, a 1986 style reform offers faster economic growth. This is borne out by retrospective analysis of the TRA that found that the 1986 tax reform produced about one percentage point higher growth over a long period. Further studies have shown a negative relationship with higher marginal rates and taxable income, hours worked, and overall economic growth.[8]

A more robust reform along the lines proposed by the recent task force proposal offers even greater growth benefits. Highly respected economists David Altig, Alan Auerbach, Laurence Kotlikoff, Kent A. Smetters, and Jan Walliser, simulated multiple tax reforms and found GDP could increase by as much as 9.4 percent from tax reform.[9] The highest growth rate was associated with a consumption-based tax system that avoided double-taxing the return to saving and investment. The study also simulated a "clean," revenue-neutral income tax that would eliminate all deductions, loopholes, *etc.*; and lower the rate to a single low rate. According to their study, this reform raised GDP by 4.4 percent over ten years—a growth effect that roughly translate into about 0.4 percent higher trend growth, resulting in faster employment and income growth.

Regulatory Reform

Another important step is a new approach to regulation. The recent rapid increase in burdensome regulations comes at a considerable cost to American businesses, consumers, workers, and the economy in general. Over the last decade the federal government imposed $1 trillion in compliance costs and an estimated 615 million net paperwork burden hours on American businesses and individuals.[10] These are not just abstract cost but take a real toll on employment. Just $1 billion in new regulation burden is associated with a 3.6 percent decline in industry employment.[11] The cumulative effect of regulation is significant and that policymakers should take existing regulatory burdens into account when writing new rules. A comprehensive re-evaluation of existing regulations, starting with the most burdensome, duplicative, and costly, should be undertaken to limit the negative impact on employment and prosperity.

Immigration reform

Immigration reform can raise population growth, labor force growth, and thus growth in GDP. In addition, immigrants inject entrepreneurialism in the U.S. economy.[12] New entrepreneurial vigor embodied in new capital and consumer goods promises a higher standard of living.

Without this policy effort, low U.S. birth rates will result in a decline in the population and overall economy. A serious, economically-based immigration reform would raise the pace of economic growth substantially, raise GDP per capita, and reduce the cumulative federal deficit.

Education reform

Our economy's future workforce is in crisis. Of 100 children born in 1983 who started kindergarten together in 1988, 30 of them would not have graduated on time in 2001. Of the 70 who would have graduated, 50 would start college, and just 28 of those 100 kindergartners would have a college degree by spring 2007. But it gets worse.

Our nation continues to report significant achievement gaps between students based on race and socioeconomic factors. On average, students of color have a much lower likelihood of graduating at 76 percent. Of those students of color who do graduate, they typically exit high school with the functional equivalent of an 8th or 9th grade education. Despite more than $16 billion annually in targeted federal aid, our poor neighborhoods usually lack fundamental resources such as great teachers. This feeds an embarrassingly persistent and worsening gap between our students' performance and that of students in the rest of the industrialized world. The Organisation for Economic Co-operation and Development (OECD) found that in 2012, America ranked 27th out of 34 industrialized countries in math and 20th in science.

In the past, only parents with enough money could choose a school outside their government assignment – and money can still buy escape. However, around the "assigned sector" of public education, there is a whole other world slowly emerging. Increasingly, there are more choices in the public sector that families can access, among them public charter schools and access to private schools with scholarship or tax credit support.

The tragedy is that the government near-monopoly has prevented these new choices from being fully implemented; from throwing open doors to the students that need them most. While thousand of parents have accessed choice programs immediately as they become available, thousands more sit on waiting lists while their children and their hopes languish. Better options driven by parental choice can expand as quickly as we can provide them the students and the resources to do so.

Trade Agreements

Trade is an important driver of productivity and economic growth in the U.S. and globally. Trade creates jobs, increases GDP, and opens markets to American producers and consumers. The U.S. is the world's largest participant in global trade—with $2.2 trillion in exports of goods and services and imports of over $2.7 trillion—and has established free trade agreements with 20 countries.[13] The U.S. is the largest exporter of services in the world.[14] Trade supports over 11 million jobs in the U.S.[15] and U.S. exports comprise nearly 13 percent of U.S. GDP.[16]

While the United States failed to pursue the Trans-Pacific Partnership (TPP), two other trade agreements, the Transatlantic Trade and Investment Partnership (TTIP) and Trade in Services Agreement (TiSA), are, in principle, currently being negotiated and offer opportunities for expanding global markets. TTIP would fully open EU markets, boost GDP by $125 billion, and create more than 740,000 U.S. jobs.[17] TiSA, the first trade agreement in services since 1995, could bind together 70 percent of the world's $55 trillion services market.[18] If effectively negotiated, these agreements offer significant economic potential.

**Conclusion**

More rapid trend economic growth is the most pressing federal policy issue. Fortunately, the roots of subpar growth are found in subpar growth policies. Changing the policy strategy to focus on permanent structural reforms to entitlement, tax, regulatory, immigration, education and trade polices holds the promise of improving the economic outlook for this generation and those that follow.

[1] https://www.cbo.gov/sites/default/files/115th-congress-2017-2018/reports/52370-budeconoutlook.pdf
[2] https://www.americanactionforum.org/research/federal-funding-the-budget-control-act-and-the-state-of-federal-appropriati/
[3] https://www.americanactionforum.org/research/better-decisions-in-a-time-of-scarce-resources/
[4] http://inequality.stanford.edu/sites/default/files/Pathways_Presidential_Republican-Way.pdf
[5] http://americanactionforum.org/insights/repairing-a-fiscal-hole-how-and-why-spending-cuts-trump-tax-increases
[6] http://americanactionforum.org/insights/ooops
[7] http://americanactionforum.org/research/economic-and-budgetary-consequences-of-pro-growth-tax-modernization
[8] See: Feldstein, Martin, "The Effect of Marginal Tax Rates on Taxable Income: A Panel Study of the 1986 Tax Reform Act." *Journal of Political Economy*, June 1995, (103:3), pp 551-72; Carroll, Robert, Douglas Holtz-Eakin, Mark Rider and Harvey S. Rosen, "Income taxes and entrepreneurs' use of labor." *Journal of Labor Economics 18(2)* (2000):324-351; Prescott, Edward C., "Why do Americans Work So Much More Than Europeans." Federal Reserve Bank of Minneapolis July 2004; Skinner, Jonathan , and Eric Engen. "Taxation and Economic Growth." National Tax Journal 49.4 (1996): 617-42; Romer, Christina D., and David H. Romer, "The Macroeconomic Effects of Tax Changes: Estimates Based on a New Measure of Fiscal Shocks." National Bureau of Economic Research NBER Working Paper No. 13264 July 2007 Web.http://www.nber.org/papers/w13264
[9] Altig, David, Alan J. Auerbach, Laurence J. Kotlikoff, Kent A. Smetters and Jan Walliser, "Simulating Fundamental Tax Reform in the United States." *American Economic Review, Vol. 91, No. 3* (2001), pp. 574-595
[10] https://regrodeo.com/
[11] Batkins and Gitis, "The Cumulative Impact of Regulatory Cost Burdens on Employment".
[12] Holtz-Eakin, "Immigration Reform, Economic Growth, and the Fiscal Challenge."
[13] https://www.census.gov/foreign-trade/Press-Release/current_press_release/exh1.pdf; https://ustr.gov/trade-agreements/free-trade-agreements
[14] https://www.wto.org/english/res_e/booksp_e/world_trade_report15_e.pdf
[15] http://www.trade.gov/mas/ian/build/groups/public/@tg_ian/documents/webcontent/tg_ian_005500.pdf
[16] http://data.worldbank.org/indicator/NE.EXP.GNFS.ZS
[17] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/245085/TTIP_and_the_50_States_GovUK.pdf
[18] https://ustr.gov/TiSA

Chairman BLACK. Thank you Dr. Holtz-Eakin, and Dr. Furman, you are recognized for 5 minutes.

**STATEMENT OF JASON FURMAN, Ph.D.**

Mr. FURMAN. Thank you, Chairman Black, Ranking Member Yarmuth, members of the Committee. It is a privilege to be here with my fellow economists, and I think you will see a lot of commonality in a lot of what we have to say in our testimony. I wanted to make five points.

The first point is that the primary source of the slowdown in economic growth over the last decade has been our demographic situation. That going forward, those demographics will continue. But a secondary source has been a worldwide slowdown in productivity growth and the slim chance of partially reversing that.

If we had tax cuts, regulatory reform, and everything else on the agenda that reproduced exactly the same productivity growth that we had during the 1980s under President Reagan with today's demography, that would only be sufficient to have a 1.7 percent growth rate. Reagan's policies, Reagan's economy, today's demography would be a 1.7 percent growth rate.

And the reason that is so dramatically different than the growth rate we actually had in the 1980s is shown in that first chart there, which is that the working-age population was growing at about 2 percent a year in the 1980s. Now it is growing at about zero percent a year. Two-thirds of the slower growth is due to this dramatic demographic change, which is the result of fertility decisions decades ago.

My next slide shows the other source of slower growth, which is productivity growth has slowed down. It has slowed down in most of the major economies in the world. The United States has had faster productivity slowdown than other advanced economies, but not as fast as it used to be. My next slide shows the major economic forecasters are forecasting between 1.7 and 2.4 percent growth, most of them clustered around 2 percent. All of these forecasters are assuming that the demography continues, and they are assuming some rebound in productivity growth as well.

The Trump administration's forecast is dramatically out of step with all of these, and as shown in the next slide, that one percentage point above the consensus forecast is the most optimistic that any administration forecast has been since at least the 1980s. In fact, under Presidents Clinton, George W. Bush, and Obama, the administrations never forecasted growth more than one-tenth of 1 percent above the consensus. Now it is 1 percentage point above the consensus.

My second point, which I can state in one sentence, is that more growth would be good. It would help family incomes rise; it would help deal with our fiscal situation. My third point is one Dr. Holtz-Eakin has already made, that that additional growth can come maybe a tiny bit from the demand side of the economy, putting people back to work. But mostly it is going to have to come from expanding supply, increasing productivity, increasing the underlying structural workforce.

My fourth point is that a number of policies would help us increase supply. Those include revenue-neutral business tax reform, increased investments in public infrastructure and research, expanding the labor market through active labor market policies and efforts to make workplaces more flexible for workers, and finally, immigration reform and expanded educational opportunity would boost both productivity growth and the labor force.

The last point I wanted to make is that a number of the policies advanced by President Trump would worsen economic growth. Outside of the fiscal arena, these include limitations on international trade and immigration, but I wanted to focus on three fiscal policies. My first slide shows estimates from the Tax Policy Center and the Penn Wharton Budget Model, a model run by a former economist from the Bush administration that shows that under the Trump campaign plan, the tax cuts initially would have a small benefit for the economy, but over time, they would cause such large deficits that they would overwhelm those benefits and reduce economic growth.

My second point would be that President Trump's budget includes initial increases in infrastructure, but then over time would cut infrastructure spending, and those cuts to infrastructure spending would do more damage to the economy. And then, my third point not shown in a slide is that cutting low-income programs like Medicaid and SNAP, evidence shows, would reduce the mobility that low-income children have, reduce their income growth over time, cut state budgets, which would reduce their investment, and by increasing inequality harm overall economic growth. Thank you.

[The prepared statement of Jason Furman follows:]

**Prepared Testimony for the Hearing "The Economic and Fiscal Benefits of Pro-Growth Policies"**

Jason Furman
Senior Fellow, Peterson Institute for International Economics

U.S. House of Representatives
Committee on the Budget

June 7, 2017

Chair Black, Ranking Member Yarmuth, and Members of the Committee:

Thank you for the opportunity to testify on the important topic of the economic and fiscal benefits of pro-growth policies. In my testimony today I would like to make five points:

1. The growth rate has been slower over the last decade primarily because of demographic factors. The baby boom generation contributed to growth from the 1970s up until about a decade ago, but now the generation is beginning a retirement boom that is subtracting from growth. In addition, women's entry into the workforce from the end of World War II to about 2000 was another engine of growth that cannot be repeated on the same scale a second time.

2. Additional economic growth would be welcome and would help both increase household incomes and improve the long-run fiscal outlook.

3. Additional demand could help strengthen the economy in the short run, but with the cyclical recovery largely complete, faster growth will require a combination of faster productivity growth and an expanded labor force.

4. A number of budgetary policies would contribute to these goals. Productivity growth could be enhanced by well-crafted, revenue-neutral business tax reform and increased investments in public infrastructure and research. The labor force could be expanded through active labor market policies and efforts to make workplaces more flexible for workers. Finally, immigration reform and expanded educational opportunity would boost both productivity growth and the labor force.

5. A number of fiscal policies advanced by President Trump would worsen economic growth. These include unpaid-for tax cuts, reductions to infrastructure and research investments, and reductions to safety net programs that foster mobility. Other policies, like restrictions on immigration and restrictions on trade, would also worsen economic growth. While some policies could have a very small positive impact on measured economic output, these effects would not be sufficient to overcome their other drawbacks.

Let me now elaborate on these five points.

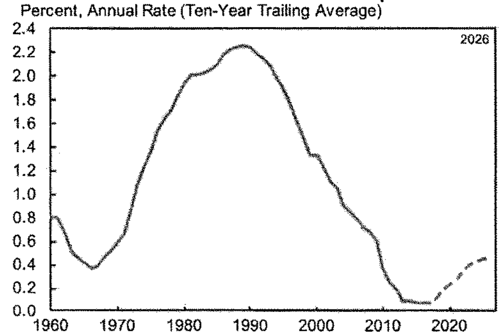
**Point #1: The Growth Rate Has Been Lower Primarily Because of Demographic Factors**

During the Reagan era, the economy grew 3.1 percent a year, with some arguing that this growth was spurred by tax cuts and regulatory reforms. A closer look, however, shows that the 1980s are not an argument for optimism—precisely the opposite.

There are two components to economic growth: adding more workers and increasing their productivity. Faster growth in the 1980s was the result of the former, an expanding workforce driven by two irreproducible demographic factors: the baby boomers' entering their prime working years, and women's continuing influx into the workforce. From 1980 to 1990, labor productivity—the amount of goods and services the average worker can produce in an hour—grew only 1.6 percent a year, below the figure marked since 2001.

Today, the baby boomers are hitting retirement. As a result, Reagan-era productivity gains of 1.6 percent a year would now generate economic growth of only 1.7 percent. The dramatic change in the demographic outlook can be seen clearly in Figure 1, which shows that in the 1980s the prime-age (25-54) population was growing at over 2 percent a year, while it has barely increased over the last.

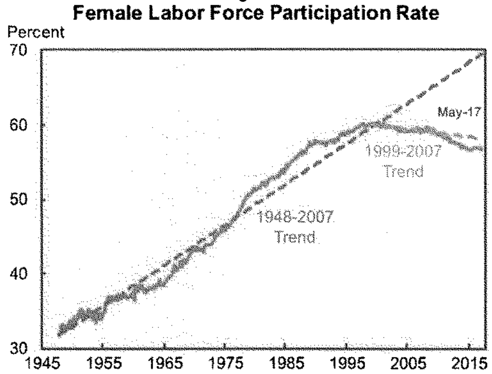
**Figure 1**
**Growth of Civilian Noninstitutional Population 25-54**
Percent, Annual Rate (Ten-Year Trailing Average)




Source: Bureau of Labor Statistics, Current Population Survey; Social Security Administration; author's calculations.

In addition, as Federal Reserve Chair Janet Yellen (2017) has said, "women's incorporation into the economy contributed importantly to the rapid rise in economic output and well-being over the 20th century". This can be seen in Figure 2, which shows how the share of U.S. women either employed or looking for work—known as the labor force participation rate—rose from 33 percent in 1948 to 60 percent in 1999 before it levelled off and started declining. As I will discuss later on, there is certainly room for further increases in women's labor force participation, but nothing like the sustained upswing of the second half of the 20th century.

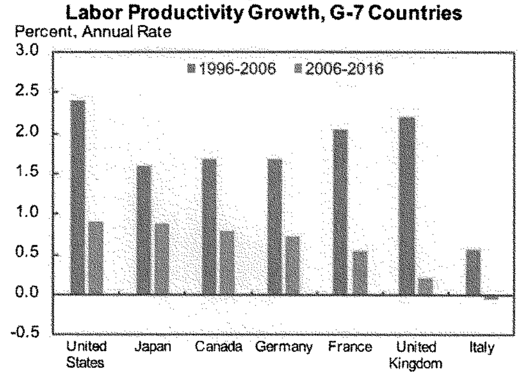
**Figure 2**
**Female Labor Force Participation Rate**




Source: Bureau of Labor Statistics, Current Population Survey; author's calculations.

Although demography has been the largest source of the slowdown in growth in the past decade, it is also the case that productivity growth has been disappointing. This has been a worldwide trend, as productivity growth has slowed in nearly all of the advanced. In fact, the United States has actually had faster productivity growth than the other G-7 economies, as Figure 3 shows. This strongly suggests that the major sources of the productivity growth slowdown are not U.S.-specific factors like the passage of the Affordable Care Act (ACA) or the Dodd-Frank Wall Street Reform and Consumer Protection Act.

**Figure 3**
**Labor Productivity Growth, G-7 Countries**




Source: Conference Board, Total Economy Database; author's calculations.

The unfavorable demographic headwinds will continue over the next decade, but economic forecasters are generally expecting a rebound of productivity growth from 1.2 percent a year over the last decade to around 1¾ percent, which is the average over the last four decades.

Together with the known path of demographic trends, this would be sufficient to generate economic growth of about 1.9 percent a year—the same as expectation of the Congressional Budget Office (CBO) and close to the median expectation for long-run growth of Federal Open Market Committee (FOMC) participants. The Blue Chip consensus forecast is slightly higher at 2.0 percent, as shown in Table 1.

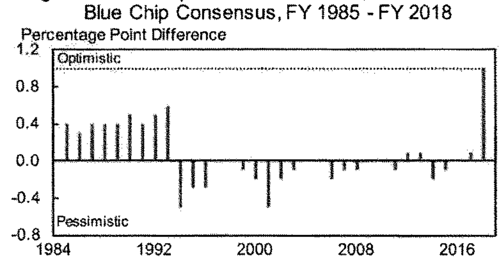
**Table 1**
**Summary of Long-Run Economic Growth Projections**

| Forecaster | Long-Run Annual Real GDP Growth (Percent) |
|---|---|
| International Monetary Fund (IMF) | 1.7 |
| Federal Open Market Committee (Median) | 1.8 |
| Congressional Budget Office | 1.9 |
| World Bank | 1.9 |
| Blue Chip consensus forecast | 2.0 |
| Consensus Forecasts | 2.1 |
| Organisation for Economic Co-operation and Development (OECD) | 2.4 |
| Trump Administration | 3.0 |

Source: Office of Management and Budget; Congressional Budget Office; Board of Governors of the Federal Reserve System; Blue Chip Economic Indicators; Consensus Economics Inc.; International Monetary Fund, *World Economic Outlook;* Organisation for Economic Co-operation and Development; World Bank; author's calculations.

The Trump Administration's economic forecast of 3.0 percent long-run growth is a major outlier. In fact, as shown in Figure 4, the current Administration's forecast is the largest outlier in an ultimate growth rate forecast in over three decades. Hitting this target would require productivity growth rates about as high as the United States has ever experienced. My own detailed simulations put the odds of hitting or exceeding this target at 4 percent (Furman 2017).

**Figure 4**
**Trump Forecast More Optimistic Than Any Administration Since the 1980s:**
Long-Run Real Output Growth Forecast, Administration vs. Blue Chip Consensus, FY 1985 - FY 2018

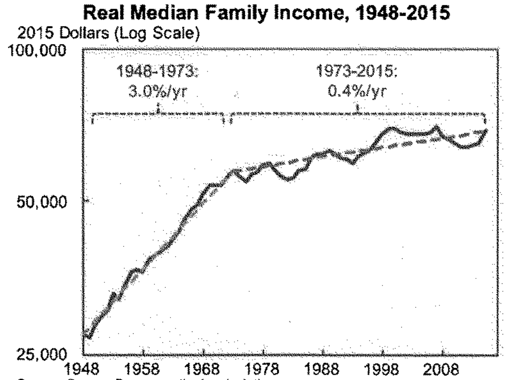



Note: Difference in annual growth rate in last year available for both sources. Forecast is for real GNP prior to FY 1993 and real GDP thereafter.
Source: Office of Management and Budget; Congressional Budget Office; Blue Chip Economic Indicators; Congressional Research Service; author's calculations.

**Point #2: Additional Growth Would Be Welcome for Both Household Incomes and the Long-run Budget**

From 1948 to 1973, the typical U.S. family saw its income rise 3.0 percent a year, as shown in Figure 5—a pace at which incomes double roughly every generation. Since 1973, however, median family income growth has slowed to only 0.4 percent a year—a pace at which it takes over a century for incomes to double. The largest factor in this slowdown has been slower economic growth, largely because the productivity growth rate fell from 2.8 percent a year in the first period to 1.8 percent a year in the second period. Another important factor in the slowdown in family income growth has been the increase in inequality: in 1973, the bottom 90 percent of households received 69 percent of income, but by 2015 that figure had fallen to 50 percent of U.S. income. This combination of a slower-growing pie and its increasingly uneven division has been very challenging for American families.

**Figure 5**
**Real Median Family Income, 1948-2015**



Source: Census Bureau; author's calculations.

Faster economic growth would help support stronger income growth for U.S. households. Over the last four years, for example, real compensation has increased at a 1.2-percent annual rate—which exceeds the 0.8-percent annual growth rate of productivity. This is possible over a shorter period of time as the profit share has been compressed, but over the longer run the only sustainable basis for more rapid wage and income gains is faster economic growth.

Increased economic growth would not, however, guarantee faster income growth for middle-class households. If the gains from any increase in productivity growth were largely enjoyed by high-income households and if inequality were to increase as a result, then the typical household might still see slow income growth. This is why it is important that growth is both sustained *and* widely shared.

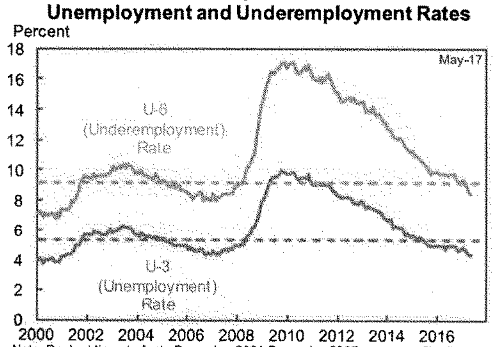
Additionally, faster economic growth would be favorable for the fiscal outlook—reducing the magnitude of spending cuts or tax increases needed for long-run fiscal sustainability. Based on CBO (2017), a one-quarter point increase in the annual growth rate of productivity would reduce deficits by $340 billion over the next decade—amounting to 0.5 percent of GDP in the tenth year of the budget window. These effects compound over time, so the impact on the long-range forecast is even more dramatic. The Office of Management and Budget (2016) estimated that this increase in productivity growth would reduce the 25-year fiscal gap by 0.8 percent of GDP, closing roughly half of the fiscal gap.

**Point #3: Going Forward, the Main Source of Increased Growth Will Be Expansions in Supply, Although More Demand Could Also Help**

Economists break growth into two sources: (i) cyclical and (ii) structural. Cyclical growth comes about as more underutilized resources are put back into production—notably, as the unemployment rate declines. Structural growth—also called potential growth—is dependent both on the underlying growth of the labor force and on its productivity.

The unemployment rate peaked at 10.0 percent in 2009. Since then, declining unemployment has helped to undergird the cyclical component of growth as more Americans have been put back to work. But, as shown in Figure 6, both the headline unemployment rate (U-3) and a broader concept that includes discouraged workers, marginally attached workers, and those working part-time for economic reasons (U-6) are now below their respective pre-crisis levels. There still may be some additional room for cyclical expansion as workers rejoin the labor force—helping to boost the age-adjusted participation rate—but likely not a substantial amount.

**Figure 6**
**Unemployment and Underemployment Rates**




Note: Dashed lines indicate December 2001-December 2007 averages. Shading denotes recession.
Source: Bureau of Labor Statistics, Current Population Survey; author's calculations.

Going forward, sustained growth will require either faster growth in output per hour (productivity growth), faster population growth, or an increase in the fraction of the population in the workforce. Some increase in each of these is possible with the right policies, as I will discuss in my next point.

**Point #4: Sound Policies Could Increase the Growth Rate**

No single magic bullet would transform the outlook for U.S. growth. But a combination of policies could have a meaningful effect over time. The following is not a complete list, but it is indicative of some budget policies, or at least policies with major budgetary implications, that would increase the level of output and thus, over a given period, the growth rate:

*Selected Policies That Would Primarily Increase Productivity*

- **Revenue-neutral business tax reform.** The United States has high statutory tax rates but an uneven tax base that does not result in substantial revenue collection. In addition, our international system is broken. Tax reform that would cut the corporate rate to around 28 percent, shift to more of a cash-flow tax base, and pay for these changes by eliminating major tax expenditures and reforming the international system would have the potential to improve the quality of capital formation and thus boost economic growth.

- **Infrastructure and scientific research.** From 2010 to 2015, U.S. public investment averaged only 3.8 percent of GDP, a fraction that has fallen over time and puts us 16$^{th}$ among members of the Organisation for Economic Co-operaiton and Development (OECD). At the same time, public investment in research and development (R&D)—which focuses on higher-risk, more basic research than private R&D—has also fallen as a share of the economy since the 1960s and is now less than 1 percent of GDP. The economic evidence clearly shows that increased investment in these two areas would have high returns going forward.

*Selected Policies That Would Primarily Boost the Workforce*

- **Active labor market policies, including training, job search assistance, and subsidies for jobs.** The United States has among the lowest labor force participation rates for prime-age workers of any of the OECD economies. There is substantial scope to boost participation, which would help to offset some of the demographic challenges going forward. Part of the participation challenge we face is due to the fact that the United States invests only 0.1 percent of GDP in helping to train people for jobs, find people jobs, or, when necessary, subsidize those jobs, a level that puts us third from the bottom in the OECD. Expanding training in well-targeted, evidence-based ways, better integrating job search assistance into unemployment insurance, and subsidizing jobs in a range of circumstances—including expanding the Earned Income Tax Credit (EITC) for lower-income workers without children and establishing wage insurance for older workers who cannot find higher-paying jobs—would all be helpful.

- **Flexible workplaces.** U.S. workplaces are very flexible for employers but much less so for workers. The United States is one of two countries in the world without a national paid leave law and also lacks mandatory provision of sick leave for workers. Federal legislation to establish a public program for paid leave and to mandate employers to cover sick leave would make workplaces more flexible and help keep workers attached to jobs, increasing labor force participation—especially for women.

*Selected Policies That Would Simultaneously Boost Productivity and the Workforce*

- **Immigration reform.** One of the biggest policy levers to increase growth would be to reform the U.S. immigration system. The bipartisan legislation passed by the Senate in 2013 would have strengthened border security, reformed the system for legal immigration, and provided a pathway to citizenship for undocumented immigrants. CBO (2013a) estimated that the Senate bill would add 5.4 percent to real GDP after two decades both by expanding the U.S. labor force and by attracting skilled immigrants and creating more certainty for the undocumented, boosting productivity and innovation. Additionally, this legislation would have reduced the deficit by $843 billion over the following twenty years— even without counting its full dynamic benefits for the economy (CBO 2013b).

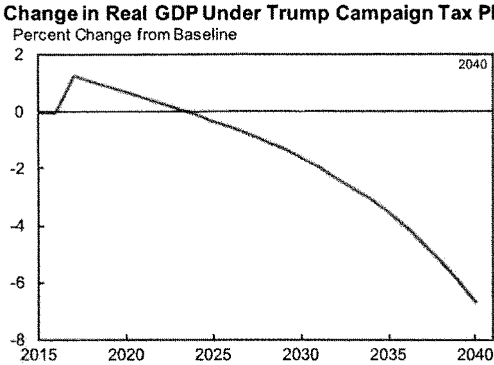
- **Education from pre-school through college.** Finally, additional investment in everything from pre-school—where the United States lags substantially—through college is a well-established way to increase skills, both boosting productivity growth and raising labor force participation by helping Americans connect with high-quality jobs.

**Point #5: Unsound Policies—Including Many Advanced by the Trump Administration—Could Reduce the Growth Rate or Lead to Undesirable Tradeoffs**

A number of policies pursued by the Trump Administration, however, have the potential to reduce longer-run growth. In my testimony I will discuss on three specific fiscal policies: unpaid-for tax cuts, reductions to infrastructure and scientific research, and cuts to the social safety net. It is important to note that while I will not discuss policies advanced by the Administration that are outside the fiscal area, including restrictions to immigration and trade, these efforts could also have a deleterious impact on economic growth.

- **Unpaid-for tax cuts.** Tax rate reductions can lead to increased work, savings and capital formation—increasing the level of output and, over a period of time, the growth rate. But increases in the deficit have the opposite effect. While they may help expand demand in the short run, over the medium and long run, increases in the deficit lower national savings, reducing capital formation and increasing foreign borrowing—both of which reduce national income and growth over time. The Tax Policy Center, in collaboration with the Penn-Wharton Budget Model, estimated that the tax cuts proposed by President Trump during the 2016 campaign would follow this pattern: they would increase output initially, but over time the costs of higher deficits would outweigh the benefits of tax cuts, leading to a reduction of 4 percent in output after twenty years, as shown in Figure 7 (Nunns et al. 2016). The tax principles put forward by the Administration in April are similar but somewhat smaller than the campaign plan, so one should adjust this analysis accordingly. CBO, the Joint Committee on Taxation (JCT), and the Bush Administration Treasury Department have all reached a similar conclusion that deficit-financed tax cuts can hurt the economy in the medium and long run (Dennis et al. 2004; JCT 2005; OTA 2006).

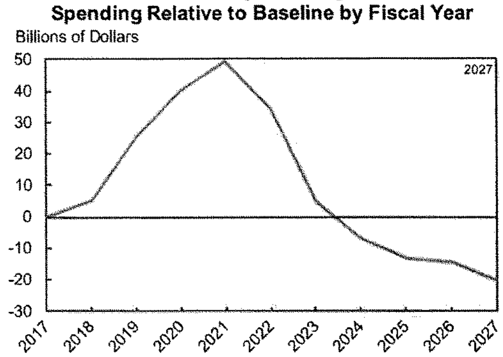
**Figure 7**
**Change in Real GDP Under Trump Campaign Tax Plan**




Note: Based on medium elasticities scenario.
Source: Nunns et al. (2016); author's calculations.

- **Reductions to infrastructure and science.** The President's Budget also includes large, immediate reductions to scientific research and over time also reduces investments in surface transportation infrastructure. President Trump's Budget proposes substantial cuts to investments in science in FY 201, including a 22 percent cut for the National Institutes of Health (NIH) and an 11 percent cut for the National Science Foundation (NSF). The Budget proposes an initial boost to infrastructure, but, beginning in 2021, proposes to limit highway spending to current levels of receipts without any proposal to boost receipts or bring in additional funding. As the *Analytical Perspectives* of the Budget notes, "Relative to baseline levels, this presentation shows a reduction in total HTF [Highway Trust Fund] outlays by $95 billion over the 2021-2027 window" (OMB 2017). The result of this combination of a $200 billion increase in infrastructure spending and eventual reductions to highway spending would be an initial modest boost to infrastructure followed by growing reductions, as shown in Figure 8.

**Figure 8**
**President's FY 2018 Budget: Change in Infrastructure Spending Relative to Baseline by Fiscal Year**




Source: OMB (2017).

- **Cuts to safety net programs that benefit children, like Medicaid, nutrition assistance, and tax credits for low-income households.** The Budget also makes dramatic cuts to safety net programs, including (but not limited to) Medicaid, the Supplemental Nutrition Assistance Program (SNAP), the Children's Health Insurance Program (CHIP), Temporary Assistance for Needy Families (TANF), unemployment insurance (UI), and the EITC—a total of $2.5 trillion in cuts to programs for low- and moderate-income households. Economic researchers have not quantified the impact of these specific programs on aggregate macroeconomic performance, but there are three reasons to be concerned that these cuts could have a negative impact on the U.S. economy as a whole. First, there is substantial and credible microeconomic evidence that a wide range of programs that benefit children—such as Medicaid, SNAP, housing vouchers, and the EITC—have substantial long-run benefits for the children in households that receive them, including greater likelihood of graduating from college, higher lifetime incomes, and improved health; all of these outcomes would improve the performance of the U.S. economy in aggregate (Furman 2017a; Cohodes et al. 2016; Hoynes, Schanzenbach, and Almond 2015; Chetty, Hendren, and Katz 2016; Manoli and Turner 2014). Second, more speculatively, economists at the International Monetary Fund (IMF) and OECD have found evidence that suggests that programs that reduce aggregate inequality could boost aggregate growth (Ostry, Berg, and Tsangarides 2014; OECD 2015). Finally, many of the cuts proposed by the Trump Administration would shift costs to States—reducing growth to the degree that some States address declines in Federal contributions by redirecting funds from other, growth-enhancing areas of State expenditures like education and infrastructure.

Finally, it is important to emphasize that in some cases policies that would have a small positive impact on growth that would not be sufficient to justify the tradeoffs inherent in those policies. For example, suppose that raising taxes or cutting benefits by an average of $10,000 a year on the bottom 90 percent of households to pay for an average tax cut of $100,000 a year for the top 10 percent of households was shown to increase the average annual growth rate by 0.2

percentage point per year for the next decade. The typical household would see its income boosted by about $1,000 by the higher growth but would lose $10,000 in taxes or benefits—making them worse off on net. Moreover, to the degree that the $1,000 in additional income was generated by additional work by members of the household, they would also lose valuable leisure or family time—making the net reduction in household welfare even worse (Furman 2016).

This example sounds hypothetical, but a number of proposed policy changes have this character. For example, CBO (2015) estimated that full repeal of the ACA without replacement would increase the average annual growth rate by less than 0.1 percentage point over the next decade. This estimate may miss some of the positive effects of the ACA on growth, like the positive effects of access to health insurance on workers' health and the increased flexibility that the ACA exchanges provide to workers who want to switch jobs. But assuming CBO's estimate is correct, this would boost the income of a household at the 20th percentile of the distribution by about $200 after a decade—a tiny fraction of the thousands and in some cases tens of thousands of dollars the household could lose in tax credits and/or Medicaid benefits.

Similarly, regulatory reform—which I do not discuss in my testimony because it is outside the scope of the budgetary policy I have focused on—can in some cases be a sensible way to improve the efficiency of meeting existing goals. In other cases, however, regulatory reform may reduce costs for businesses and produce a small additional increment of growth at the expense of much more valuable goals like worker safety or environmental protection and conservation.

**Conclusion**

Much of the underlying cause of slower growth rates in the last decade—namely, demography—will not change. Policymakers need to realistically assess the prospects for future growth and make policy decisions based on conservative, plausible expectations for the coming years. At the same time, policymakers should actively push for the types of policies that increase economic growth while avoiding policies that either would reduce growth or would generate very small amounts of growth at the expense of broader goals.

Thank you, and I would be happy to take your questions.

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Chairman BLACK. Dr. Diamond, you are recognized for 5 minutes.

**STATEMENT OF JOHN W. DIAMOND, Ph.D.**

Mr. DIAMOND. Chairman Black, Ranking Member Yarmuth, and members of the Committee, it is an honor to present my views on the benefits of economic growth. Growth is important in determining the future size of the economy and the standard of living. Small changes in growth can have a significant impact on the size of the economy.

For example, increasing the growth rate from 2 to 2.5 percent would increase the size of the economy by 28 percent after only 10 years. Accordingly, policies that increase the growth rate of the economy by a small amount can have significant impacts in the long run. Enacting pro-growth policies is particularly important at this point in time for two reasons.

First, the U.S. faces a fiscal policy that is on an unsustainable path, with deficits and debts projected to continue to grow dramatically as the baby boom generation ages and transitions from work to retirement. Thus, this is going to decrease the ratio of workers to retirees, while increasing public expenditures on retirement and healthcare programs. Second, there is substantial uncertainty regarding the future growth-rate of the American economy.

One view is that continued innovation will spur productivity growth in the coming decades as new technologies lead to significant increases in output per person. However, another view is that the recent advances in technology have not led to significant and lasting increases in productivity, and that, in addition, the U.S. economy is facing a number of impediments that may reduce the real growth rate of real GDP per person.

Such as large Federal budget deficits and budget deficits on the state and local level, demographic changes such as an aging population, the growth and accumulation of regulatory policy, and slower gains in educational achievement. In addition, rising inequality, changes in family structure and other social indicators, as well as the effects of globalization including increased competition from abroad may also dampen future growth rates.

The most apparent impediment is the current path of U.S. fiscal policy, which is unsustainable. CBO projects that total spending will increase as a shared GDP from 20.7 percent in 2017 to 29.3 percent in 2047. Total revenue is already projected to increase from 17.8 to 19.6 percent of GDP over that period. Deficits are projected to increase from 77 percent to 150 percent. As noted, demographic changes are driving much of that increase, with the remaining increase related to rising interest payments on the national debt.

The obvious conclusion is that projected expenditure increases in the United States are unsustainable, and fiscal restraint is imperative. The United States must reduce its projected level of expenditures and reform its tax system to reduce economic distortions and maximize economic growth.

Tax reform should include a focus on limiting government expenditures that occur through the tax system; otherwise, the combination of a rising debt and a relatively distortionary tax system will significantly hamper economic growth. Demographic changes will also reduce economic growth in the future because the retirement of the baby boom generation will further reduce the labor force participation rate.

Another important impediment is the accumulation of government regulations. Excessive regulation of the U.S. economy is likely slowing growth and limiting risk-taking behavior. Mulligan, in 2015, argues that the Affordable Care Act will reduce employment and hours worked by 3 percent, and labor income and GDP by 2 percent.

Dawson and Seater, 2013, find that regulation added since 1949 is responsible for decreasing the size of the U.S. economy by 28 percent as of 2005. They argue that their results explain much of the decline in productivity since the 1970s.

Obviously, major reform of regulatory law is long overdue. The slowing growth in educational attainment is also likely to impede economic growth in the future relative to the past 50 years, and we should be active on that front as well. Policymakers should focus on reducing the government debt through spending restraint, reforming and reducing entitlement programs, reprioritizing other expenditure items to fit within a sustainable budget, and minimizing marginal tax rates while reforming expenditures that occur through the tax system. Thank you.

[The prepared statement of John W. Diamond follows:]

THE ECONOMIC AND FISCAL BENEFITS OF PRO-GROWTH POLICIES

Testimony before the House Budget Committee, United States House of Representatives
June 7, 2016

John W. Diamond, Ph.D.
Edward A. and Hermena Hancock Kelly Fellow in Public Finance
Rice University's Baker Institute for Public Policy*

*The opinions expressed herein are solely my own and do not represent the views of the Baker Institute, Rice University, or any other organization.

Chairwoman Black, Ranking Member Yarmuth, and Members of the Committee, it is an honor to present my views on the economic and fiscal benefits of pro-growth policies.

Growth is important in determining the future size of the economy and the standard of living. Small changes in growth can have a significant impact on the size of the economy. For example, an increase in the growth rate from 2.0 percent to 2.5 percent would increase the size of the economy by 28 percent in 10 years, and reduce the time required to double the size of the economy by seven years, from 35 to 28 years. Accordingly, policies that increase the growth rate of the economy by a small amount can have significant impacts in the long term.

Enacting pro-growth policies is particularly important at this time for two reasons. First, U.S. fiscal policy is on an unsustainable path, with deficits and debts projected to continue to grow dramatically as the baby boom generation ages and transitions from work to retirement, thus decreasing the ratio of the number of workers to retirees while increasing public expenditures on retirement and healthcare programs. The Congressional Budget Office (hereafter CBO, 2017) reports that retirement and healthcare expenditures are expected to increase faster than GDP because the population is aging (which accounts for 3.5 percent of the increase in expenditures) and the average price of health care services is increasing faster than GDP (which accounts for 2.9 percent of the increase in expenditures). Second, there is substantial uncertainty regarding the future growth rate of the American economy. One view is that continued innovation will spur productivity growth in the coming decades as new technologies lead to significant increases in output per person. However, another view is that the recent advances in technology have not led to significant and lasting increases in productivity, and that in addition the U.S. economy is facing a number of impediments that may reduce the growth rate of real GDP per person below the levels of 2.4 percent per year that characterized the period 1920–1970 or even the growth rate of 1.8 percent per year from 1970–2014 (Gordon, 2016). Gordon projects that from 2015–2040 the growth in real GDP per person could be as low as 0.8 percent per year. The major impediments to future growth rates include large and growing debts at the federal, state and local levels, demographic changes such as the population aging noted previously, the growth and accumulation of regulatory policy, and slower gains in educational achievement. In addition, rising inequality, changes in family structure and other social indicators, as well as the effects of globalization, including increased competition from abroad, may also dampen future growth rates.

The current path of U.S. fiscal policy is unsustainable. CBO (2017) projects that total spending will increase as a share of GDP from 20.7 percent in 2017 to 29.3 percent in 2047, and total revenue is projected to increase as a share of GDP from 17.8 percent in 2017 to 19.6 percent in 2047. The federal debt is projected to increase as a share of GDP from 77 percent in 2017 to 150 percent in 2047. As noted above, demographic changes are driving much of the increase in federal spending with the remaining increase related to rising interest payments on the national debt.

**Table 1**

**The Federal Budget Under the Extended Baseline**

Percentage of Gross Domestic Product

| | 2017 | 2047 |
|---|---|---|
| Spending | | |
| Net Interest | 1.4 | 6.2 |
| Other Noninterest Spending | 8.9 | 7.6 |
| Major Health Care Programs | 5.5 | 9.2 |
| Social Security | 4.9 | 6.3 |
| Total Spending | 20.7 | 29.3 |
| Revenues | | |
| Deficit | 2.9 | 9.8 |
| Other Revenues | 1.5 | 1.5 |
| Corporate Income Taxes | 1.7 | 1.6 |
| Payroll Taxes | 6.0 | 5.9 |
| Individual Income Taxes | 8.6 | 10.6 |
| Total Revenue | 17.8 | 19.6 |

Source: Congressional Budget Office, The 2017 Long-Term Budget Outlook.

The obvious conclusion is that the projected expenditure increases in the United States are unsustainable and fiscal restraint is imperative. The United States must reduce the projected level of expenditures and reform its tax system to reduce economic distortions and maximize economic growth. Tax reform should include a focus on limiting government expenditures that occur through the tax system. Otherwise, the combination of rising a debt level and a relatively distortionary tax system will significantly hamper economic growth more so than has already occurred.

These developments have not gone unnoticed, as numerous proposals for fiscal and tax reform have emerged, with tax reforms ranging from base broadening, rate reducing reforms to consumption-based tax reforms. An outline of the first approach was put forward by the co-chairs of President Obama's 2010 fiscal commission, Erskine Bowles and Alan Simpson. They issued a report, *A Path Forward to Securing America's Future*, which included $2.5 trillion in deficit reduction, including a reform of both the corporate and individual income tax systems.

There is in particular a strong case for business tax reform. The last major reform was the Tax Reform Act of 1986. Since that time, however, many countries have reformed their tax structures, lowering statutory rates while removing tax preferences. As a result, the United States now has the highest statutory corporate tax rate in the industrialized world.

Proponents of corporate tax reform argue that high tax rates discourage investment and capital accumulation and thus reduce productivity and economic growth. In addition, the combination of a high statutory tax rate coupled with a wide variety of tax preferences distorts the allocation of investment across asset types and industries and reduces the productivity of the nation's assets, while exacerbating the many inefficiencies of the corporate income tax, including distortions of business decisions regarding the method of finance and organizational form (corporate vs. non-corporate), and the mix of retentions, dividends paid, and share repurchases.

There is also widespread discontent with the individual income tax system. High individual tax rates coupled with a multitude of tax preferences distort decisions regarding labor supply, saving, and consumption; they also significantly complicate tax administration and compliance while encouraging tax avoidance and evasion. Moreover, many tax preferences are poorly designed. For example, the home mortgage interest deduction's primary purpose is to encourage home ownership. It is poorly designed to achieve this goal, as it offers little or nothing to low- and middle-income individuals who do not itemize, have total deductions that are less than or roughly equal to the standard deduction, or are subject to relatively low marginal tax rates. Instead, the vast majority of the benefits of the home mortgage interest deduction accrue to high-income taxpayers, encouraging overconsumption of housing at the expense of investment in the rest of the economy.

Studies by the Organisation for Economic Co-operation and Development (2008), Viard and Diamond (2008), and the Joint Committee on Taxation (2005) show that the corporate tax is the most harmful tax instrument to economic growth, followed by individual income taxes. While tax reductions in the form of increased personal exemptions, deductions, and credits are likely to reduce long-run growth. Thus, policymakers should adopt a tax system characterized by low capital and labor income tax rates, and minimal tax expenditures.

In fact, serious consideration should be given to a more fundamental reform of the tax structure – adopting a consumption- rather than income-based tax. However, if consumption-based tax reform is not feasible, current personal income tax provisions that encourage saving should be maintained but simplified, and serious consideration should be given to reducing the burden of the corporate income tax on investment income.

Demographic changes are also a major impediment to economic growth in the future because the retirement of the baby boom generation will further reduce the labor force participation rate. Aaronson et al. (2014) find that about half of the change in the labor force participation rate since 2007 is related to an aging population. This effect will continue to dampen the economic growth rate over the next two decades.

Another important impediment to growth is the accumulation of government regulations. Excessive regulation of the U.S. economy is likely slowing growth and limiting risk taking. The regulatory burden affects a wide range of markets, including the market for prescription drugs, the labor market through licensing requirements and the implicit taxes in the Affordable Care Act, the energy market, the financial services sector, and many others. For example, Mulligan (2015) argues that the Affordable Care Act will reduce employment and hours worked by 3 percent and labor income and GDP by 2 percent. Dawson and Seater (2013) find that regulation added since 1949 is responsible for decreasing the size of the U.S. economy by 28 percent as of 2005. They argue that their results explain much of the decline in productivity growth in the 1970s. Haidar (2012) finds that "each business regulatory reform is associated with a 0.15 percent increase in growth rate of GDP." Coffey, McLaughlin, Peretton (2016) find that since 1980 the cumulative effect of regulations reduced economic growth by 0.8 percent. While the exact cost of regulation in terms of reduced growth is uncertain, the growing number of regulations is almost certainly a hindrance to economic growth and a major reform of regulatory law is overdue.

The slowing growth in educational attainment is also likely to impede economic growth in the future relative to the past 50 years. Achieving the educational gains from that period will be nearly impossible. In addition, other factors such as rising inequality and break downs in family structure and social capital are likely to impede the growth of educational attainment. Reforming and re-organizing the education system is necessary to maximize future growth rates. Finally, increased competition from a continuing trend toward globalization (and to some extent immigration) will likely continue be a drag on the income growth of the lower- and middle-income cohorts in the United States. While both globalization and immigration can have positive growth impacts there are also winners and losers from the disruptions they cause to the U.S. economy.

Policymakers should focus on reducing the government debt through spending restraint, reforming and reducing entitlement programs, reprioritizing other expenditure items to fit in a sustainable budget, and minimizing marginal tax rates while reforming expenditures that occur through the tax system.

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Chairman BLACK. I thank the witnesses for their testimony. I want to begin with you, Mr. Holtz-Eakin, since you were once a director of CBO. CBO is expecting an annual economic growth average of about 1.9 percent over the next ten years, and, as you well know, CBO is obligated to base its forecast on current law and not on future economic policies that this administration or Congress will likely enact this year.

So, what aspects of the current law economic policy, whether it is the tax policy, which you mentioned in your opening remarks, or regulations or rising debts and deficits do you think are contributing to such a dismal economic forecast?

Mr. HOLTZ-EAKIN. I think there is the net effect of a combination of things, and you have listed some of the most important. As I said, I think the number one concern in the projections is the fiscal outlook, which is genuinely unsustainable, which will lead inevitably to either a crisis which is not pro-growth, or a sharp increase in taxes which is not pro-growth, or the one possibility that is beneficial, reforms of the large entitlement programs that put us on a sustainable track. But only one of those three possibilities is beneficial, and CBO is obligated to simply say, "Well, we will sail straight into the crisis." So, that would be at the top of my list.

Second would be the tax policies. We have, especially as Dr. Furman mentioned, a corporation income tax which has sort of reached the ultimate trifecta of bad outcomes. It does not raise that much revenue; it increasingly drives production and headquarters overseas; and it is incredibly costly and difficult to comply and administer. A genuinely solid business tax reform is at the top of the list of things that would improve the capacity of the economy to grow more rapidly.

CBO is also saddled with the current regulatory state, and over the past 8 years the agencies have reported that they have put in place new major regulations with a cumulative increase in the compliance costs of over $800 billion. And I think if we had had $100 billion tax increase every year for 8 years, most people would think, "Jeez, that is a lot, and that is maybe not such a good idea." So, I think those three things together lead to a lot of the problems in the growth outlook.

Chairman BLACK. Is it fair to say that not one of those is a silver bullet, but it is the combination thereof that would really result in our strong economic growth?

Mr. HOLTZ-EAKIN. I concur with that completely. As I said, the key here is faster growth than number of workers and productivity per worker. There is no single lever you can pull to make productivity growth come back and go faster, so I would encourage the Congress to think of everything they can to try to get better pro-growth policies.

Chairman BLACK. Dr. Diamond, I want to ask you about there seems to be a discrepancy between the current low unemployment rate of 4.3 percent and a quite lackluster economic output, and you mentioned some of those factors in your opening comments. Is one of the factors causing the fact that we have 14 million people that have left the workforce since 2009? Is that impacting it? And if we could enact policies that would encourage some of these people to get back into the workforce, thereby increasing that labor supply, would that help to boost the growth potential as well, just getting these people back into the marketplace of productivity?

Mr. DIAMOND. Absolutely. I think that, if you look at what has happened with labor force participation rate, the articles I read tend to imply that about half of the reduction has been because of aging of the population. The other half is because people are leaving the workforce voluntarily, and this is largely because we have implemented policies that are, in effect, implicit taxes on work. And so the Affordable Care Act is basically a very large implicit tax on working, and so people are choosing to not work as much. And if we could, instead, implement policies that promote work instead of discourage it, I think that would offset at least a large part of the labor force participation reduction that is not due to the aging of the population.

Chairman BLACK. You mentioned ObamaCare, in particular, and the ruling on the 30 hours and employers. I know I have heard throughout my district about those that were working part-time that maybe occasionally would go over the 30 hours. Now, they were getting less than that, which meant they had to have two jobs, which is really difficult, especially on families.

So, that is one of the policies. Do you have other thoughts on other policies that we might be able to put into place to encourage these 14 million people to get back in the workforce? Because I know, when we hear that there is a 4.3 percent unemployment rate, people think, “Oh, everybody is working.”

And if we did have a time where we did have everybody working, we saw more productivity, we actually saw more economic growth. But the true number on that is not the unemployment rate, it is the workforce participation rate where we have 14 million people out of the workforce, literally almost one-third of those who should be working. Fixing the healthcare piece is one of those, but do you have other ideas of some of the policies that we might need to fix in order to bring people back into the workforce?

Mr. DIAMOND. Yes. Two other policies that would be, I think, most important would be regulatory reform. It is amazing that, you know, one of the benefits of innovation is it is a lot easier to reach people and to start businesses. The problem is, from a regulatory perspective, it has become a lot harder to start businesses.

And so, we need regulatory reform to allow people to create businesses and create products that consumers want. I think that would be helpful. We also need tax reform. The tax system is complex and very distortionary. I think if we could simplify the system while maintaining the revenue needed to fund expenditures, that would have a positive benefit on people getting back to work.

Chairman BLACK. Okay, thank you. My final question is, we can just go right across, and if we can start with you Dr. Holtz-Eakin, that we have now got this new normal of a 2 percent GDP. We think that is the new normal. Yet if we look at history, we see that 3 percent really has been the average over a long period of time up until the last several years. And so, in other words, that is really an aberration, it is not really a trend.

With the correct pro-growth policies in place, do you think that we can achieve those higher growth rates in future years other than just saying we are going to just say 2 percent is the normal and that is what we can expect? How much higher also do you think that we could reasonably go if we were to put these reforms that have already been talked about in place? So, I do not leave you all very much time, but let's start with Dr. Holtz-Eakin.

Mr. HOLTZ-EAKIN. So, if the Congress and the administration were to hit a home run and do all the things that I wanted exactly the way I wanted it, I think you could add a percentage point to the growth rate of the U.S. economy. I, certainly, think that a good tax reform and putting the fiscal path on a sustainable basis will get you half a percentage point or more by itself. So, I think those are the things to focus on.

Chairman BLACK. Dr. Furman, if you could be brief, so we could get to Dr. Diamond, that would be great.

Mr. FURMAN. Sure. I think we could certainly with the right policies do better than the 1.8 percent that the Congressional Budget Office is forecasting. To get all the way up to 3 percent, the obstacle to that is the average woman used to have more than three-and-a-half children in the 1960s. That fell to two children by 1975, and so our population is growing more slowly in the working ages than it used to, and no policy is going to change that, which is why I think getting all the way to 3 percent is something that would be very unlikely, even with my version of a home run of policies.

Chairman BLACK. Dr. Diamond?

Mr. DIAMOND. I think a percentage point, as Dr. Holtz-Eakin predicts, is possible. I agree with Dr. Furman's point as well, though. I think what that would require is immigration reform that really focuses on bringing more high-skilled people to the U.S., not low-skilled people. Without that, I would say maybe around 2.6 percent.

Chairman BLACK. Okay. Well, I appreciate your input on that. My own feeling that I am just going to insert here is that we need to get the 14 million people that are sitting wherever, whether it is in their parents' homes or whether they are just out of the workplace because they cannot find a job, I think education is a piece of that, and getting skilled workers because one of the things I hear in my district, especially with my manufacturers, is that if we had more skills at that level, not necessarily 4-year degrees, but more of the technical degrees, that we could actually be putting people into those very good jobs that are well-paying jobs.

And so, I think the educational piece and then maybe shifting our focus from 4-year degrees to something that is more what the marketplace is needing in the job market might help us also to bring people back into the workforce. So, thank you. I now yield 5 minutes to the Ranking Member.

Mr. YARMUTH. Thank you, Chairman Black.

Chairman BLACK. Excuse me, 10 minutes. I apologize, I cut you by 5.

Mr. YARMUTH. Thank you very much. I was not going to stop, do not worry.

Chairman BLACK. And you should not. So, now your time starts.

Mr. YARMUTH. Thanks very much. Thank you all for your testimony and your responses. First of all, I would like to just make a couple of comments regarding Chairman Black's opening, because I know it is nice to forget about the condition that the economy was in when President Obama took office, and the Chairman wants to blame all of this, what she would call lower growth rate, on President Obama's policies.

But as you recall, when he took office in January of 2009, we were running a $1.4 trillion annual deficit. We had lost the month he took office 800,000 jobs, that was the trend at that point. We had the worst economic downturn since the 1930s, and we had a significant financial crisis that threatened to tank the economy.

And as we got our feet on the ground as coming out of that very, very precarious situation, we have had now 70-something consecutive months of job growth. And while the percentage of growth would not be what we all would want, certainly, I think that any objective look at the Obama administration's economic performance would be a positive one. But I want to return to this notion about historic rates of growth.

And we had Director Mulvaney here a couple of weeks ago, and a lot of my Republican colleagues talked about the growth after World War II and the growth rate leading up to current times and the average of the growth over basically 60 or 70 years. And I think you can infer from all of your testimony that the world is very different now than it was following World War II: demographics, certainly, the number one difference. We did not talk about life expectancy. It is not just that many people are retiring; it is that they are living a lot longer and, therefore, Social Security is paid out a lot longer, and medical care as well.

Income disparity was mentioned; technology was mentioned and its effect on automation. Would all of you concede that talking about the growth rate in the 1950s and 1960s and 1970s and 1980s is pretty much irrelevant to dealing with the world we are in now? What possible relevance could post-World War II growth rates have to what we are facing now? Anybody want to make the case that it is relevant? Okay, nobody does. Well, no. We had that number of times brought up again with Director Mulvaney.

So, another factor I would think is that the sheer size of the United States economy also makes historic growth rates more difficult. Is it not fundamentally true, and we are seeing it in China as well, that as economies age and grow that getting a growth rate as high as you have had in the past is just mathematically more difficult? Is that not a factor as well? Anybody can take it.

Mr. FURMAN. There is some evidence that, certainly, as countries converge, like China, they do not have as much low-hanging fruit, and there is a number of economists who have done research that you have to put more money into any amount of innovation and research to get a given amount of output from that.

Mr. YARMUTH. All right. And let's talk about the labor participation rate; I saw just this morning there are now 6 million jobs available in the United States. So, certainly there is the opportunity for people to go to work, those who may have left the workforce, there is certainly every chance for them to do it if they have the right skills and the right education. But would that not dictate that we invest more heavily in job training and education so that people who may be out of work, whether voluntarily or not, can better access the jobs that are available in the country?

Mr. FURMAN. I agree with that, too. Also, if you look at the United States compared to other countries, some of our underperformance in this reflects the fact that we invest much less in training and helping our workers find jobs than a lot of other countries do.

Mr. YARMUTH. I think tax reform has been mentioned as a possible way to stimulate economic growth both by Dr. Holtz-Eakin and certainly by Dr. Diamond. Would you, too, give me your sense of what comprehensive tax reform would look like in your ideal version of the best way to promote economic growth through tax reform? Dr. Holtz-Eakin?

Mr. HOLTZ-EAKIN. I would point out as a specific example the House blueprint, which if executed is a comprehensive corporation plus past business reform of business taxation in the United States that moves us from a tax system that prefers foreign production to a tax system that is neutral, and that is a shift toward production in the United States.

It has incentives for increasing the level of investment. It is neutral in its treatment of tangible versus intangible capital, so you can invest in ideas or physical capital. It is neutral with respect to how it is financed, debt versus equity. It is neutral with respect of the length of life of that investment. It takes the Tax Code out of the business of dictating investment choices, and lets capital markets find the most productive uses for America's saving and investment.

I think that is exactly what is needed at this point in time. Those businesses that will hire workers, that will, if they are more productive, be able to pay them more. It is focused entirely on the place where we have the biggest problem, the rate of growth of capital, productivity, and as a result, the standard of living. We do not have legislation, but my understanding is it is intended to be revenue-neutral. I think that is very important. We have large fiscal problems, as I have said, and will repeatedly say. And I think that you do not want to contribute to making them worse.

I also think that if you have a tax reform that is not revenue-neutral, you ultimately come to a situation where you have generated a fiscal problem through the tax reform. There is going to be a desire for more revenue, you will open up the Tax Code, and the integrity of the reform will disappear. That is what happened after 1986.

And so, I do not want to see, when it is so hard to get tax reform done to begin with, sowing the seeds of its own destruction by not having it be revenue-neutral. Those are the things I am looking for in tax reform.

Mr. YARMUTH. All right, I appreciate that. Dr. Diamond, would you like to respond to that?

Mr. DIAMOND. I agree with Doug, that the blueprint has some very good qualities to it. I would also offer up proposals under President Bush's advisory panel on tax reform, as well as the proposal put forth by the fiscal commission created under President Obama. I think, really, we have had a lot of good examples of decent tax policy put forward over the last two decades. Unfortunately, none of them have been enacted.

Mr. YARMUTH. Would you say that a consideration of economic disparity is important in any discussion of tax reform, since we now have some of the greatest economic disparity in this country, in our history?

Mr. DIAMOND. I think any tax reform should be looked at in terms of its efficiency, its simplicity, how administrable it is, as well as how fair it is. And the fairness question is, ultimately, a decision that is left in your hands.

Mr. YARMUTH. Right. What about the question of tax expenditures? We now have well over a trillion dollars annually in tax expenditures, and no Congress over the last 6 or 7 years has been willing to touch any of them. We have certainly talked about cuts in many other areas of investment that Democrats care very significantly about, but no talk about reducing tax expenditures.

Dr. Furman, would you like to respond to that?

Mr. FURMAN. Sure. In his testimony, I believe to this Committee, Director Mulvaney endorsed the standard that tax reform should be revenue-neutral on a static basis. He said the administration and its budget was not counting the economic growth due to taxes, towards tax reform.

I think that could be a very prudent thing to do, because then you are cutting rates, you are eliminating tax expenditures. And if the theory works out that that adds to economic growth, that is great; we get extra deficit reduction; that is not a bad mistake to make. That the growth comes in more than you think, and the deficit goes down even more than you would think. But for that to work, you need to go after those tax expenditures rather than, you know, wishful thinking, assume that economic growth. And that is the standard that Director Mulvaney did explicitly endorse.

Mr. YARMUTH. I think all three of you have talked about immigration reform and supported the need for immigration reform. This is directed to Dr. Furman. Would not comprehensive immigration reform also have a positive impact on our programs like Social Security and Medicare, where you would have presumably many more younger Americans paying into the system and not using benefits for a long time?

Mr. FURMAN. That is exactly right. And part of our Social Security problem is the reduction in fertility. Immigration would help to offset that.

Mr. YARMUTH. Thank you. Just a final comment, this relates to Chairman Black's opening comments when she said we should not be surprised if the Congress cannot take on these tasks. The evidence is there that Congress is not particularly capable right now of taking on very many difficult tasks, so I would like to think that we were capable of it, but I have not seen much evidence. So, thank you again for your responses, and I yield back.

Chairman BLACK. I thank the gentleman. And now I would like to recognize the gentleman from Indiana, Mr. Rokita, the Vice Chair of the Committee.

Mr. ROKITA. I thank the Chairman, and I thank everyone for their testimony. And I would say to the Ranking Member, if we could just stop obstructing around here, maybe we can get some agenda moving and done, but every day we talk about Russia, Russia, Russia. It is less of a day that we are talking about tax reform, immigration reform, for that matter, healthcare reform, or anything else.

Following up on where the Ranking Member left off regarding immigration reform, I note, Dr. Holtz-Eakin, that you talk about immigration reform in your laundry list, as you call it, of things you could do to help the supply side of the economy. Could you add to that discussion, please?

Mr. HOLTZ-EAKIN. Certainly. The fertility of the native-born population of the United States is low enough that, without immigration, we would actually shrink; we would look like Japan. And we would shrink in population——

Mr. ROKITA. I want that to be repeated for the record. Without immigration reform, without getting an additional number of workers, skilled, unskilled, probably imagining that to mean at all levels, our work pool would actually shrink; we would be more like who?

Mr. HOLTZ-EAKIN. Japan. Japan has essentially no immigration and has an aging population. It has sub-replacement fertility. All of that is the characteristics of the native-born population in the U.S. The flip side to that observation is that by choosing our immigration policies, we are dictating our economic future. It is a powerful tool for economic policy, for the potentials for economic growth.

I do not think it means that you want to have exclusively, you know, immigrants with Ph.Ds. in STEM fields. We need skills across the spectrum. Markets will send those signals. And I think that a powerful sort of economically-based immigration reform is one of the things that could have a big impact on the future growth of the U.S.

Mr. ROKITA. Thank you, doctor. Dr. Furman talks about, in his testimony, the low labor participation rate, which I think is something we all acknowledge. However, he also mentions that we need to not only maintain but possibly increase social programs like food stamps and other things.

I just spoke with, not 10 minutes ago, a gentleman who owns an RV supply company in northern Indiana, Jason Obendorf. And he tells me that he hires low-skilled workers, pays them about $13 to $15 an hour, which in fact is the average entitlement given to folks who do not work, about $33,000 a year. What effect do these programs that actually incentivize folks, in my opinion, to sit out the workforce, sit on their couch, in fact, have on the low labor participation rate?

Mr. HOLTZ-EAKIN. At the most basic—sorry.

Mr. ROKITA. No, that is to Dr. Holtz-Eakin.

Mr. HOLTZ-EAKIN. At the most basic level, you are making a decision between working and not working. You look at the returns to working and not working, and if you raise the returns to not working, you should expect people to not work too much.

Mr. ROKITA. In your opinion, what should the policy be? I mean, it seems to me that we have programs and safety nets that have become hammocks, and that go on for too many for too long.

Mr. HOLTZ-EAKIN. I think that at every point, we should look at the social safety net, and make sure that it is pro-work.

Mr. ROKITA. Pro what?

Mr. HOLTZ-EAKIN. Pro-work. We know that in the data, the difference between poverty and non-poverty in the U.S. is work. Those who work are far less likely to end up in poverty, and we should support their desire and the satisfaction they get from work, and the standard of living.

So, you know, the Affordable Care Act, as Dr. Diamond mentioned, is an example of a social safety net program that, whatever the desirability of providing health insurance to people, in the end had implicit taxes on labor supply, and rewarded people who did not work. So, we need to rethink that, and one of the things that the American Health Care Act does is take out those incentives. And I think it should be respected for that.

Mr. ROKITA. Your larger point, again, is more workers would add to the supply side of the economy, and, therefore, produce the growth that we need to get to 3 percent, again, which I do not think is a fairy tale. I know we were kind of negative starting out here, especially on the other side of the aisle, with things like 3 percent growth being, "absurd," "faith-based." But I think we can get there again, with supply-side reforms.

Dr. Diamond, do you have anything to add the conversation we just had? If not, I have some questions for you.

Mr. DIAMOND. I agree with Dr. Holtz-Eakin's points. I did see in the news yesterday, there was an article about 13 counties in Alabama that had implemented work requirements to get SNAP benefits, and SNAP benefits fell by, I cannot remember if it was 50 percent or 85 percent, but immediately, it made me think that maybe some more pro-growth safety net policies are needed.

Mr. ROKITA. Thank you. Dr. Furman, I am out of time. I apologize.

Chairman BLACK. The gentleman's time has expired. And I just want to add here that we talk about this as productivity for our Nation. But I think even more important to that is dignity. There is a dignity to work, and I think we lose that here in our country, when we do not recognize and uphold that.

I often say to people, the second question you ask them after you ask them their name is, "What do you do?" And if we cannot say what we do, we lose our dignity. And I think that is a stronger net than the safety net, is that net within our country of dignity.

I now recognize the gentleman from New York, Mr. Jeffries, for 5 minutes.

Mr. JEFFRIES. Thank you, Madam Chair. It was mentioned by the previous speaker, who I greatly respect, that if we on this side of the aisle just stop obstructing, we could get things done. I have heard a lot of things during my 4-plus years here in Congress, but the notion that Democrats, who are in the minority in the House, the Senate, do not have the White House, are somehow responsible for your inability to get things done, is itself a fantasy.

And what is amazing to me is that the party that for 8 years adopted the policy, "Obstruction today, obstruction tomorrow, obstruction forever," as long as Barack Obama was President of the United States of America, now wants to lecture us about governmental etiquette. We will decide on our own, based on representing our constituents, what the rules of engagement should be. We are not taking advice on etiquette in doing our duty from the other side of the aisle. That is absurd.

Now, there is a difference between optimism and fantasy. Optimism is based on the notion of the power of American exceptionalism. We can all embrace that, Democrats and Republicans. Fantasy is based on alternate facts. And what we are trying to figure out is whether this projection of 3 percent growth, $2 trillion increase in revenue projected over a 10-year period, is that just optimistic based on our belief in American exceptionalism, or as the President said, "I am the only one who can fix it?" Or is it just alternate facts?

And maybe I can start with Dr. Diamond. You testified that we should implement policies that encourage work; is that correct?

Mr. DIAMOND. Correct.

Mr. JEFFRIES. And you also said that tax reform should include limiting expenditures as part of an approach to encourage work, true?

Mr. DIAMOND. Correct. Well, not for work, just limit expenditures through the tax system.

Mr. JEFFRIES. Okay. And one of the largest expenditures through the tax system would be the mortgage interest deduction; is that right?

Mr. DIAMOND. Correct, and it should definitely be reformed.

Mr. JEFFRIES. It should be reformed. Do you think it should be eliminated?

Mr. DIAMOND. I would not argue for elimination of it. I would argue that the home mortgage interest deduction does not do what it is supposed to do, which is supposed to encourage low-income people to be able to buy houses. But, unfortunately, low-income people do not itemize their taxes, and they have relatively low rates, so really, all it does is encourage high-income people to overconsume housing. And so, if we went to a system that actually encouraged low-income people to be able to afford houses, I would support that. And so, I think it needs to be reformed, not eliminated.

Mr. JEFFRIES. Okay, so we have to substantially reform the mortgage interest tax reduction, widely viewed as helping middle-class Americans achieve the dream of home ownership. Would you also suggest that one of the policies we should adopt are tax cuts for the wealthy and the well-off, millionaires, billionaires, people who are at the highest income bracket in this country?

Mr. DIAMOND. I would not state it that way. And I would actually say, in some sense, we could actually raise taxes on them, but you are talking about a comprehensive reform that, you know, the final effect is going to depend on how you structure the reform. So, if we go to full expensing, could we raise the rate on capital gains and dividends, and not reduce the corporate rate as much? Absolutely. Those are all trade-offs.

Mr. JEFFRIES. Setting aside the corporate rate, because I think there is widespread agreement amongst many of us that, you know, 33 percent is too high; the Obama administration proposed going to 28; Trump says 15, you know. Maybe there is some common ground that can be found there. But let us talk about the tax rate, because you support lowering the top tax rate on millionaires and billionaires; is that not right? I mean, I can restate it: 39.6 percent is the rate; you support lowering that. True?

Mr. DIAMOND. I say we should minimize it. I do not think I gave a number as to how low it should be. That is going to depend on how much we want to spend, and trying to raise revenues that fund our expenditures.

Mr. JEFFRIES. Now, we experienced approximately 4 percent growth during the 1990s; is that right?

Mr. DIAMOND. Four percent growth in the 1990s, I do not believe so.

Mr. JEFFRIES. Were there periods of time where we experienced substantial growth during the 1990s, which in part led to eliminating the deficit?

Mr. DIAMOND. Post-1995, we experienced some innovation-driven growth in the 1990s, as this new web technology and other things. The computer, which could, you know, allowed secretaries to have typings that were already done; they did not have to retype everything, made people more productive. There were a lot of productivity increases in the middle and late 1990s that increased growth, that have seemingly disappeared since, say, 2004.

Mr. JEFFRIES. Thank you. My time has expired.

Chairman BLACK. Thank you. I now recognize the gentleman from California, Mr. McClintock.

Mr. MCCLINTOCK. Well, we raised this point before, in the last hearing. I recall, after the drubbing you took in 1994, President Clinton came to Congress and announced the era of big government is over. And he made good on that, he reduced Federal spending by a miraculous 4 percent of GDP. He approved the biggest entitlement reform in history, in his words, "Ending welfare as we know it."

He approved what amounted to the biggest capital-gains tax cut in American history. Those were policies that worked. The problem is, we have been more recently engaged in policies that do not work, essentially, the opposite. Dr. Furman, I want to thank you for your advice and counsel today. Is that the same advice and counsel that you gave to the Obama administration?

Mr. FURMAN. It is certainly very similar to the advice I gave President Obama.

Mr. MCCLINTOCK. Okay, and the result of that was the lowest economic growth rate in the post-war era. Dr. Holtz-Eakin, when Dr. Furman said, "Oh, our economic problems are mainly demographic, and that if we had the same demographics under the Reagan administration, we would only have 1.7 percent growth," you looked rather puzzled. Now, 1.7 percent is still better than what we saw averaged under the Obama administration, but way low of what we are shooting for. What is the source of your puzzlement, or did I misread your expression?

Mr. HOLTZ-EAKIN. I do not fully understand the computation. So, is it top-line GDP growth of 1.7 percent? That is too low. We grew at an average of 1.9 in the recovery. He is saying that, if we did all that, we would do worse? That I do not understand.

Mr. MCCLINTOCK. I do not either. Well, let me go on; my time is limited. One of the sources of my puzzlement is the fact he seems to have completely ignored the fact that we have the lowest labor participation rate since the Carter administration. Is not a lot of our problem the fact that near-record numbers of able-bodied workers have simply given up looking for work?

Mr. HOLTZ-EAKIN. That certainly harms the top line GDP growth.

Mr. MCCLINTOCK. And if they came back into the workforce, we would see an improvement in growth. What is causing that?

Mr. HOLTZ-EAKIN. I think Dr. Diamond summarized it pretty accurately. We know that about half of that is genuinely demographics, aging of the baby boom population, retirements. And about a half is some combination of discouragement in the economic environment, poor incentives from public policy.

Mr. MCCLINTOCK. Also, we talk about macroeconomic growth, growth of GDP. Essentially, that is population times productivity, correct? So, in that analysis, then, we could have a huge population increase and very low productivity increases, and that would be essentially the same as a very low population increase with very high productivity increases. Do I have that right?

Mr. HOLTZ-EAKIN. That would give you the same top line growth. But I would say the one you want is the one with high productivity growth.

Mr. MCCLINTOCK. Well, that is my point, is that when you get down to where the rubber meets the road, where the average family is actually struggling to get on, is not the productivity side of that pretty much everything? I mean, if you are stuck in a part-time job, because your employer cannot give you more than 30 hours a week because of government restrictions, if you have got little prospect of betterment in a stagnant economy, if your wages have been flat for the 8 years of the Obama administration, productivity is really important to that family, is it not?

Mr. HOLTZ-EAKIN. Yes. I rarely quote Paul Krugman, but he did say it best, "In the long run, productivity is not everything, but it is pretty close to everything."

Mr. MCCLINTOCK. Wages stagnated under Obama; they skyrocketed under Reagan. That is not population-driven; that is productivity-driven. So, my question is, what are the policies we need to get off of the wage stagnation we have seen under the Obama administration?

Mr. HOLTZ-EAKIN. We know that labor productivity is aided by having more and better capital. And we have had a very weak investment performance recently, as a Nation. We know that it is aided.

Mr. MCCLINTOCK. And that is because of regulatory impositions that have made access to capital more difficult, in part?

Mr. HOLTZ-EAKIN. I think there is a regulatory story; I think there is a tax story, and I worry about the fiscal outlook.

Mr. MCCLINTOCK. And you also mentioned government borrowing. When government borrows money, it borrows from the same capital market that would otherwise be available for, among other things, consumer purchases and business expansion, correct?

Mr. HOLTZ-EAKIN. Yes. The other thing I really focus on, and Dr. Diamond mentioned this, is there has been a steady and recently sharper decline in the rate of business startups across the economy.

Mr. MCCLINTOCK. Well, it seems to me that the——

Mr. HOLTZ-EAKIN. That is where new business models and productivity come from.

Mr. MCCLINTOCK. I look at the Trump proposals, and they look very much like the Reagan proposals that gave us one of the most prolonged periods of economic expansion in our Nation's history, and huge improvements for working Americans.

Chairman BLACK. The gentleman's time has expired. I now recognize the gentleman from California, Mr. Khanna.

Mr. KHANNA. Thank you, Madam Chair. Maybe it is from the vantage point of the district I represent, representing a district with Apple, Google, and having large presences, Intel, Facebook, I am less concerned about our country's long-term innovation and economic growth, and more concerned about issues of income inequality and income disparity, and who will gain and benefit from the economic growth. Whether it will just be entrepreneurs in certain parts of this country, or whether that growth will be distributed.

And given that, I wanted to ask about a proposal which in the past has enjoyed bipartisan appeal, it was actually a Milton Friedman idea, which was the earned income tax credit. At a time where the investor class and capital already has an extraordinary return, it would seem to me that our tax policy should be more geared towards helping working families, and helping folks who have had wages stagnate. And I would be curious to all three economists' view of expanding the earned income tax credit, the benefit that would provide to working families, and the benefit it would provide to the labor market, given it would provide a subsidy, a supplement, for people to enter the workforce, and also some subsidy to the employer to increase recruitment. And all the studies I have shown suggest it actually helps employment. Maybe we could start with Dr. Furman, and I would love to have the other two economists weigh in as well.

Mr. FURMAN. I very much agree with everything you said. The earned income tax credit is the type of policy that both helps our economic growth by bringing people into the workforce, and better rewards that growth making sure that people share in it. I think going forward, probably the number one priority would be households without children, or without qualifying children, getting more of an earned income tax credit. They get a very small one right now, but there is additional benefits for families with children as well.

Mr. DIAMOND. I agree. I would support an increase in the earned income tax credit. It is a pro-work safety net provision, and I think it is generally productive. It does create certain issues, but overall, I support it. In fact, in my discussion of reducing tax expenditures, I think the tax expenditures we should not eliminate would be ones that incentivize people to work, such as the EITC, or that incentivize a larger stock of capital to make workers more productive.

Mr. HOLTZ-EAKIN. I think you will find a consensus in the profession on the past efficacy of the EITC in getting people into the labor force and to working. I think the place most people are concerned about is non-custodial males, and having a larger EITC for that population. And I hope there is a consensus that the one thing left on that is to worry about the error payment rate, which is about 25 percent. A more efficient EITC would be much, much better.

Mr. KHANNA. Great, consensus among the economists on expanding the earned income tax credit. My next question is just more philosophical, and it is this open question about what is technology going to do for the future of work. And what is your view? I think there is this overwrought sense of "Okay, people are just not going to have jobs," which in the past, you know, John Maynard Keynes had written this whole article how we were all going to work 15 hour workweeks, it has not turned out to be true. On the other hand, there is going to be a displacement of fact, and I wonder what your thoughts are on how we should prepare for this transition. Dr. Furman, and then the others. Go ahead.

Mr. DIAMOND. I will just say, our profession earned the name, "the dismal science," because we have often made wrong predictions on this front. And so, I would say that, yes, it is going to change the face of work. I think other jobs will crop up, just like, you know, moving from the typewriter to the computer did not put everybody out of work. I do not think the robots are going to put us all out of work, either.

Mr. FURMAN. I think to a first approximation, that is correct. Machines do 90 percent of what humans could do in the year 1900, and yet lots of humans still have jobs. But I think what matters is less the technology and more the policies we use to address that technology. And you look at different countries, some have been more successful at handling these disruptions and changes than others, and the ones that have been successful have put an emphasis on programs like training that we were talking about earlier, not just assumed it would all work out.

Mr. HOLTZ-EAKIN. I would emphasize the basic need for a better-performing K–12 education system. There is now well-documented failure throughout that system, and the future of work is about the future education of people that are going to go to work. I think that is the key.

Mr. KHANNA. Thank you for your thoughtful replies.

Chairman BLACK. Gentleman yields back his 7 seconds, thank you. I now recognize the gentleman from South Carolina, Mr. Sanford.

Mr. SANFORD. My thanks, Chairwoman. I would say to my colleague from California, I saw a freaky movie over the weekend entitled "Her," and it is about this guy that falls in love with his operating system. But the happy ending for all of us is at the end of the day, it does not work out, and he goes back to human form. Not every human is replaced on that front.

And in deference to my Chairwoman, I made it very clear in the last hearing we held that I do not believe that 3 percent growth is realistic at this particular 10-year juncture, as much as I would like to see it. But I think in deference to my Chairwoman, I am going to leave that subject alone for the moment, and I am going to skip on to three points of economic growth that I do think are important.

One is infrastructure. Would all of you agree, going back to the consensus that my colleague found, that infrastructure ought to be paid for, or do you say, “No, you know, it is dynamic, and it does not need to be paid for?” Where are each of you on that? Again, simple, quick, paid for or no?

Mr. HOLTZ-EAKIN. Pay for it, yeah. I think it is overstated, the productivity effects.

Mr. FURMAN. I think it is better to pay for it, and then we would end up with higher growth, and it would bring our deficit down.

Mr. SANFORD. So, paid for, or no?

Mr. FURMAN. Pay for it, and let the growth lower the deficit.

Mr. DIAMOND. In a world with 77 percent debt-to-GDP ratio, it should be paid for.

Mr. SANFORD. Okay. And I think that that point is underscored by the fact that, if you look at Japan, which went on a tremendous infrastructure spending binge, if you want to call it that, in an effort to restart and reboot their economy, ultimately, ended up with a lot of debt but not that much in the way of economic growth, and I do think that demographics are a driver here.

I appreciate Mr. Diamond’s sobriety by which you approach the deficit issue. I do not think that it is emphasized enough in Washington, either from an administration standpoint or a congressional standpoint. I mean, I think you really hit hard how important that is and how it will ultimately be a driver with regard to economic growth in our country as well as budgetary impact.

But I want to talk about one part of economic growth that really has been, I think, diminished of late. And that is David Ricardo’s notion of competitive advantage, and the need, in fact, to trade with other parts of the world. We grow great moss and mosquitoes on the coast of South Carolina. We do not grow wheat that well. In Kansas, they grow wheat well. It is just natural to that area. And there are other areas that have competitive advantage with regard to certain products.

I think it has been sort of underscored here lately, and so when you begin to look at “Buy American” or Davis Bacon, or go down a long list of things that begin to restrict one’s ability to trade freely, or even the way in which some people are saying, “Well, it is not that advantageous altogether.” The notion of free trade, if you look at the port in Charleston, Charleston and South Carolina have been transformed as a result of open commerce and open investment and free trade.

In the 1 minute and 50 seconds I have got left, if you all would each touch lightly on how important you believe free trade is to economic growth, and is budgetary impacts going forward.

Mr. HOLTZ-EAKIN. I think it is very important. We have examples. For example, semi-conductor tariffs, when we eliminated those through a trade agreement, the U.S., which was deemed to be unable to compete with Japan, turned around and has the most vibrant of technologies. And so, opening it up to the competition will be good for America, will raise productivity, and is something I endorse.

Mr. DIAMOND. I also think it is critical. Most of the consumption growth in the world will occur outside of the U.S., and so if we want to sell to the most number of consumers, we are going to need to sell around the world.

Mr. FURMAN. I also agree that it is critical, and think trade agreements can help create the type of level playing field that enables the United States to succeed on the global stage.

Mr. SANFORD. I hand back to you, Madam Chairwoman, my 54 seconds.

Chairman BLACK. You are going to yield back 51 seconds; boy, you are going to get a star. I now recognize the gentlelady from Washington, Ms. Jayapal.

Ms. JAYAPAL. Thank you, Madam Chair. And thank you for your testimony, very thoughtful. I wanted to go back to the issue of immigration reform, which all three of you have touched on.

Dr. Furman and Dr. Holtz-Eakin, you have wrote about it in your testimony more in-depth. Not only can we look at the impact on population growth and what would happen if we were to really stop immigration, but I wanted you to comment also on the effects to the economy of restrictive immigration policies that have been proposed. So, in the Judiciary Committee, we just passed on a party-line vote bills that would essentially criminalize all the undocumented immigrants in this country, and seek to deport 11 million.

Can you speak, theoretically, if that were to happen, and I think there are many people across the country on both sides of the aisle that do not believe it is possible or desirable to do that. But since the rhetoric is out there, and the policies have continued to focus on that, can you comment on the economic impacts of those kinds of restrictive policies? And Dr. Furman, why do we not start with you, and then I would like Dr. Holtz-Eakin as well.

Mr. FURMAN. Yeah. We are used to hearing businesses talk about what uncertainty does to their ability to invest and grow. The type of uncertainty that legislation like that would create for 11 million people already in our country would mean their ability to be in the right job, to get an education, to start a business, and to contribute to our economy, would go down. So, it would not just harm them, it would hurt all of us, and our economy overall.

Ms. JAYAPAL. What would happen to the dairy industry, for example, in this country?

Mr. FURMAN. Yeah, I think there are a lot of industries that are particularly dependent on those workers, and that would be one of a number of agricultural industries. And it would hurt our, you know, productivity growth and economy. So, just from a pure economic perspective, I would be opposed to it, and I think there is a broader human dimension that I am not a special expert in.

Mr. HOLTZ-EAKIN. My think tank, the American Action Forum, actually did a study of what it would do if we deported all those here illegally, whether over a 20-year period or even quickly, 2 years. I forget the numbers, but it is an overwhelming Federal budget expenditure. We have to hire 30,000 lawyers, I am opposed to anything that hires 30,000 lawyers. You know, create 1,200 new administrative courts, detention facilities. You need to send people back to their country of origin, that takes buses and planes, and it costs, like, $300 billion. You get rid of about 5 percent of the labor force, so you have yourself a pretty good-sized recession. But other than that, it is a good idea.

Ms. JAYAPAL. Thank you. And can you speak to the effects on Social Security? And thank you for that study, by the way, it was very good. Can you speak to the effects on Social Security, something a lot of Americans do not think about? But you think about the billions of dollars that have gone into the Social Security suspense fund, that are actually paying for our older Americans now who are in retirement. What would happen if we were to get rid of undocumented immigrants in terms of Social Security fund, and that suspense fund?

Mr. FURMAN. We would need to raise taxes or cut benefits to have the same solvency that we have today.

Ms. JAYAPAL. Did you want to add anything? Okay, okay. The other question I wanted to go to on education. Actually, all three of you have spoken about the need to invest in education. In Washington State, my home state, we actually looked at the job gap. In 2020, we would have a 60 percent job gap in our state, with jobs that are available but we are not graduating enough people to actually fill those jobs.

Can you speak, Dr. Furman, to how you would address the inequality in education? And Dr. Holtz-Eakin, you called it in your testimony, "an embarrassingly persistent and worsening gap between the student performance and the rest of the industrialized world." Do you want to speak to what some of the prescriptions might be for that?

Mr. FURMAN. Sure. It starts very young. We are relatively low in the OECD, in terms of the fraction of our 3- and 4-year-old's that go to school. So, having universal preschool to help put students on a more equal footing before they even get to K–12. There are a number of improvements that we could make to K–12 as well. And then after that, making college more accessible. It is a great investment for most people, but it is a risky investment, and if that investment does not pay off, making sure that people are not saddled with all of the debt and costs of that investment.

Ms. JAYAPAL. I know you talked about school choice in your testimony. It is not an area that we necessarily agree on, but can you speak about apprenticeships and investment in training programs to actually bring people back into the workforce as the chair had mentioned earlier?

Mr. HOLTZ-EAKIN. So, you know, I would just stipulate, I think the larger, more durable improvements will come from a K to 12 system that functions better. There are some legacy issues for those who are in the workforce now, do not have the skills to find the jobs that are available there.

We have some examples of successful apprenticeship programs, so South Carolina, for example, stands out. We have some examples of successful community college programs. But we do not have what appears to be a playbook for doing a nationwide scale-up of these programs to be successful. So, that remains something that needs to be figured out.

Ms. JAYAPAL. Oh, I am sorry. I did not realize my time had expired. Right back to you, Madam Chair.

Chairman BLACK. The gentlelady's time has expired, and now I recognize the gentleman from Ohio, Mr. Renacci, for 5 minutes.

Mr. RENACCI. Thank you, Madam Chair. And I want to thank the witnesses for being here. I do think there is something all three of you agree on, as well as the Comptroller General. But I want to ask, the Federal Government is on a fiscal path that is unsustainable. The Comptroller General was here, he said that. Do all three of you agree with that?

Okay. So, let us talk about the revenue side. I am a business guy. There is either revenues or expenses. On the revenues side, let us start there first. If we do not reduce tax rates, both corporate and personal, since 67 percent of businesses pay as a pass through on to their personal tax return. So, if we do not reduce business taxes, do we risk more businesses leaving the U.S. to go to countries with lower tax rates? Agree or disagree?

Mr. FURMAN. I think we should lower the tax rate, but not worsen the deficit in the process.

Mr. RENACCI. I agree with that, too. I am sticking to the income side. So, if more businesses leave, do we face lower tax revenues into the Treasury and a greater risk to our fiscal unsustainable path? Agreed, all three of you?

Mr. FURMAN. If you lower tax rates, that will cost money, if you make no other changes.

Mr. RENACCI. Well, my question is, if more companies leave because we do not lower our rates, and we are lowering money into the Treasury, are we going to continue to grow this fiscal unsustainable situation? Okay, do any of you disagree that corporations do not pay taxes, and instead pass on their taxes to consumers as a cost of goods sold?

Mr. HOLTZ-EAKIN. Corporations do not pay taxes. People do, one way or another. It could be in the form of lower wages, lower returns to capital, or higher prices.

Mr. RENACCI. I look at it this way, I was a business guy. If I had a product, it cost me a dollar and I sold it for a $1.10, most of the reason I sold it for a $1.10 was to make money and cover the taxes that I had to pay.

So, I always say we are passing it on, not only to consumers but in lower wages, so I agree with you. So, if we are able to reduce the business income tax rate to a much lower consumption tax, I am switching gears, and I know Dr. Diamond, you have talked about this in your testimony, would that be a pro-growth policy that could help grow the economy?

Mr. DIAMOND. Yes, it would. I think it would grow the economy, and it is a policy that I have supported for several years.

Mr. HOLTZ-EAKIN. What he said.

Mr. FURMAN. I think there are aspects of that that could help, but the details matter a lot.

Mr. RENACCI. Okay. So, if I am looking at a path of fiscal unsustainability, which I keep saying back home, and we know that we have to cut taxes to avoid companies from leaving, that is one thing. And I also assume that if we cut taxes, we will grow the economy at some rate. Would you agree or disagree?

Mr. DIAMOND. I would argue that we need to lower the rate, and maybe we move to expensing, but we will need to offset some of that revenue loss by taking away other preferences. Some of the studies I have written have said that preferences you do not want to take away are the investment-related preferences.

Mr. RENACCI. I want to get to the expense side, though. We are on the revenue side now.

Mr. FURMAN. I think if you cut tax rates and do nothing else, you will lower economic growth because it will result in higher deficits. That will reduce capital formation, reduce business investment, and we would ultimately be poorer as a result of that.

Mr. HOLTZ-EAKIN. As I said, I think reform should be revenue-neutral. But I would do that revenue-neutrality on a dynamic score, taking into account the growth that is generated.

Mr. RENACCI. Okay, so we have talked about the revenue side, and in the business world you look at the revenue side. And now I want to look at the expense side, because I would agree with you. We can do a couple things. We can reduce tax preference items. But in the business world, should we not be looking at the expense side, which is expenses of the Federal Government, which are Medicare, Medicaid, Social Security, interest, you know, and all the other expenses? Should we not be looking there as the other side of where we should be cutting expenses?

Mr. HOLTZ-EAKIN. I cannot emphasize that enough. That, in the end, is the key issue. Once you spend the money, you are going to have to pay it forward, one way or another, and there is too much on the books.

Mr. FURMAN. I think we should use a combination of revenue increases and spending cuts along the lines of Bowles-Simpson, which——

Mr. RENACCI. Okay, but I was waiting for that one. Because how can we raise revenues without hurting? Because we all just agreed to that. We have to cut our tax rate, or we are going to lose more business. So, now you just ruined a curveball. How do you cut tax rates and raise revenue——

Mr. FURMAN. For example, limiting tax expenditures for high-income households without raising the tax rate at all. We cannot only raise money, but have fewer distortions in our economy.

Mr. RENACCI. Okay, so that is a tax expenditure. See, we are all agreeing. Republicans, Democrats, we are all agreeing. We got to cut rates. We got to reduce our unsustainable path, and we got to look at what we are spending. Now, whether you would call it tax preferences or actual spending, it is the same thing. It is the other side of the aisle. Would you not agree?

Mr. DIAMOND. I completely agree. And as I noted in my testimony, spendings are projected to increase from 27 percent of GDP to 29.3 percent. That is a staggering increase over the next——

Mr. RENACCI. Well, I guess I am out of time. I apologize. I yield back.

Chairman BLACK. No, your time has expired. Good questions. I now recognize the gentleman from California, Mr. Carbajal, for 5 minutes.

Mr. CARBAJAL. Thank you, Chairwoman Black, and Ranking Member Yarmuth. Dr. Holtz, after President Trump's budget was released, you indicated that 3 percent growth was at the outer bound of what was feasible. And you, Dr. Furman, indicated that the chances of achieving 3 percent growth was about one in 25. Obviously, 3 percent growth would be nice, if we could get it. But do you believe it is responsible for us to build the Federal budget on such an unlikely assumption?

Mr. HOLTZ-EAKIN. So, the President's budget, under every President, is put together under the assumption that all of the President's policies are enacted as proposed, and work as intended. And so, every President's budget is, effectively, a dynamic score of what they perceive to be the best set of policies. That is true for President Trump, President Obama, President Bush. So, I do not think that is how you, as a Congress, should set up your budget. You should do the budget process in a disciplined fashion, and decide what you believe will pass through legislation, go to the President's desk, and build it on that.

Mr. CARBAJAL. Dynamic or not, do you think it is responsible?

Mr. FURMAN. If I can answer that? First of all, Dr. Holtz-Eakin was one of the people responsible for putting together the forecast under President Bush. And none of the forecasts that he helped put together was the growth rate more than one-tenth of 1 percent higher than what the consensus forecast at the time was. The Trump administration's is 1 percentage point higher. I would be thrilled to get 3 percent growth, but the cost of being wrong is asymmetric.

If the growth rate turns out higher than we expect, that is great news, and the deficit is lower than we thought. If we make a mistake, though, and the growth rate is lower than what we are counting on, then we will have higher deficits, higher debt, and that will compound and magnify our economic problems.

So, I think it would be much better to build a budget on a conservative forecast, and then hope for the best. Maybe we will get 3 percent; I think there is a 4 percent chance we get it. And if we do, that would be a good thing. But if we come in below our expectations, that is a big problem.

Mr. CARBAJAL. Thank you. Secondly, to all the witnesses, there has been a lot of discussion of the merits of tax cuts. Many of it on the other side think that the top marginal tax rate is the most powerful force in the universe, or at least in the economy. That seems, to me, a bit overstating the case. After all, we saw a relatively strong economy, economic growth, in the 1980s after President Reagan cut taxes on the wealthy. We similarly saw strong economic growth in the 1990s after President Clinton raised taxes on the wealthy. It seems pretty clear that other factors are at work here, and that tax rates are not the primary factor driving growth. Do you all agree?

Mr. FURMAN. I think on the individual side, tax rates do not have a huge impact. I think on the business side, we are in a global economy. We are dealing with other countries that have lower tax rates than us, so I do think there is some importance to lowering those tax rates, and paying for them with a broader base.

Mr. HOLTZ-EAKIN. I would emphasize what Dr. Diamond said a number of times, which is there is an enormous amount to tax policy that is not in the wraiths. It is in the investment incentives and elimination of preferences, which do not lead to good economic decisions. And that is part of tax policy that is not in the wraiths.

Mr. CARBAJAL. Dr. Diamond?

Mr. DIAMOND. I think tax rates are important, but as Dr. Holtz-Eakin mentioned, I also think there is another side of the Tax Code that we need to look at. Overall, I mean, taxes are not the only factor, and you mentioned that. And I mean, obviously, there are a lot of factors. Regulation, deficits, and the negative effects of deficits that will also affect growth. So, they are a piece of the puzzle, but not the puzzle.

Mr. CARBAJAL. hank you. Chairwoman Black, I yield back.

Chairman BLACK. Wow, thank you. We have got a number of folks that are yielding back today. You are all going to get stars. I am now recognizing the gentleman from Minnesota, Mr. Lewis, for 5 minutes.

Mr. LEWIS. I would like to thank the Chair and the gentlemen for coming to testify today. You are right. Taxes are not the only thing that matter. We seem to be focused a lot on tax expenditures, and not actual budget expenditures. Last year, we had record revenues, $3.26 trillion, and yet, $600 billion deficits. So, when we talk about, you know, what causes a deficit or the debt, we need to make certain we keep our eye on the prize.

And it certainly has not been a lack of tax revenue. It has been increasing expenditures, which crowd out the capital markets, the same as deficits. In fact, one could argue, it is not the deficit that crowds out the capital markets; it is actually the expenditure, especially inefficient ones.

But be that as it may, rarely do I get a chance to quiz three economists, so I am going to take the opportunity, probably all 5 minutes. Let me ask each of you, first of all, what the fundamental goal is, when you are formulating, whether it is tax policy or whether you are serving on the Budget Committee, for that matter. Is the goal of good policy economic growth or a balanced budget? Let's start with you, Dr. Eakin.

Mr. HOLTZ-EAKIN. Economic growth.

Mr. LEWIS. Dr. Furman?

Mr. FURMAN. Economic growth that is shared.

Mr. DIAMOND. I would say that economic growth, but an unbalanced budget is going to lead to lower economic growth, so in a sense, it is the same question.

Mr. LEWIS. It is really interesting because when you look at the question we have got, as those trying to formulate a budget, that seems to be the principal question. Can you have one without the other, or does one predate the other, or prerequisite for the other? In that regard, there is an elasticity of labor and investment I want to talk about a little bit.

We all remember the late 1970s. We have been talking about that today, it seems to me, and the malaise, and we cannot grow. And we have gotten where, you know, turn down the thermostat and put on our cardigans. And yet, all of the sudden, we had an explosion of growth after the Carter administration and into the 1980s and the 1990s. The tax rates never got back to the Carter tax rate. That is one thing someone ought to point out, that we did, in fact, grow out of the deficits because even with the Clinton tax hikes, we never got back to anything close to 70 percent marginal income.

But something happened in the 1970s that is very enlightening, and that was the Steiger Amendment and the cut and capital gains from 49 percent to 28 percent. At the time, the Treasury secretary said it would cost the government $2.2 billion. And, in fact, the capital gains taxes went from $8 to $11, almost $12 billion.

So, this clearly an elasticity at some particular rate on investment. Is there, at the top income tax rate, an elasticity for work, i.e., the people who have the greatest option, the greatest choice, the greatest elasticity for working are the wealthy? So, if you raise their rates even higher than what they are, will they quit working? Go ahead, Dr. Holtz-Eakin.

Mr. HOLTZ-EAKIN. So, I think the best evidence on this is something to take into account more than just the work/not work dimension. You can imagine working/not working, how long you work, how hard you work, what areas you work in. All of that gets bundled into the taxable income you report to the Treasury, and there is a sizable and well-established taxable income elasticity, with respect to the top marginal tax rate. Some of that, you know, if you raise the rate and taxable income goes down, it is going to be an avoidance activity. The wealthy are quite good at hiring smart folks to avoid paying taxes. Some of it will be genuine reductions in economic activity, and neither of those are good phenomena.

Mr. LEWIS. Dr. Furman?

Mr. FURMAN. I think there is some responsiveness to tax rates for work, and all the dimensions that Dr. Holtz-Eakin talked about——

Mr. LEWIS. Is it higher at the top end?

Mr. FURMAN. I think I am not aware of convincing evidence. There is, I think, capital gain realizations that are much, much, much more elastic than labor supply is because it is very easy to not sell a stock this year and, instead, and sell it next year. Much easier it is than it is to take off this year——

Mr. LEWIS. Yeah. But it is easier for the wealthy to stop working, too, correct, than those at the lower end?

Mr. FURMAN. I think people have a lot of different motivations for work, for primary earners, there is not a lot of responsiveness of work to tax rates. For secondary earners, there is.

Mr. LEWIS. Let's move to income inequality, because I am fascinated by this topic. If we have got a rising economic growth, and every quintile is going up, but we have got Jeff Bezos, and we have got Steve Jobs or Bill Gates, and they go up a whole lot. My goodness, that is a rise in income inequality. Juxtapose that with the Great Depression.

Everybody's income fell, but there is a bottom to that, so income inequality actually shrinks during the downturn. Why are we so focused on income inequality? And show me where changes in the marginal tax rates have any effect at all on income inequality that is primarily an education or socioeconomic issue? Let's start with Dr. Diamond there, quickly.

Mr. DIAMOND. Well, we saw this after—during the Great Recession inequality, actually, reduced a little bit as the rich were hit. I mean, so, it is an important factor. I mean, I think it is important to be concerned about how everyone is doing. I do not think we should necessarily respond by raising marginal tax rates.

Mr. LEWIS. Can taxes make a difference?

Mr. DIAMOND. Taxes can make a small difference, but they are not going to solve a problem that is caused by something other than taxes.

Mr. LEWIS. Unfortunately, my time is up. I could go on for another 10, 15 minutes if you would like, but I yield——

Chairman BLACK. Your time is expired, the gentleman from Minnesota. I now yield 5 minutes to the gentlelady from Texas, Ms. Jackson Lee.

Ms. JACKSON LEE. I would be delighted for the gentleman to keep going because I am trying to, my dear friend, understand his line of reasoning. But let me refer ourselves, gentlemen and ladies, to the Tale of Two Cities. And that is why we are concerned about income inequality. I cannot imagine that we would sit here and talk about not being concerned whether Americans are dragging themselves through the streets with no jobs and maybe nothing to eat, since nutrition and lack thereof is one of the high elements of this country. Whether or not children can be educated, and young people can get a college education. That is income inequality.

And this budget, from my perspective, as we indicated before, let me not try to paint the Rosie scenario program. I do not know if anyone knows her, but she is missing in action today. I would clearly say this is a dead-on arrival budget, and I do not know why we are so fearful of going back and comparing Reagan and Clinton in the years where under Reagan, we had a $1.4 trillion deficit. Clinton had a $63 billion surplus. Reagan had a 3.64 growth; Clinton, 3.82. Created 22 million jobs. Monthly, Clinton created 242,000 jobs, with 166 by Reagan, both of whom I certainly respect as presidents, because they handled themselves as presidents. President Obama was a good custodian of the work that Bill Clinton had done.

But here we are today, traveling down a path that makes absolutely no sense. So, let me just quickly try to raise some points on the basis of history. September 25, 2008, I recall. I was here. I was here in 2007, Dr. Furman. That was the debacle when Lehman brothers was not bailed out, while others were. That was when we went home to Americans, and they could not believe it, and they said to us, “Do not bail anyone out. Do not do anything. They were in shock.” But we were on the verge of collapse. Wall Street did take a deep dive. The resilience of this Nation and the leadership of Democrats brought us to the fact that we are still standing.

So, my question is, if you look at the budget overall, I want you to answer two questions. One, and I am going to ask the other panelists the value of the CBO analysis that we have always done. Is it important that Congress looks at an independent arbiter to deal with numbers? CBO has done that.

Secondarily, with baby boomers, of which none of us are in. We are all millenniums at this point, are getting older; we are not infusing the workforce. We have an immigration policy that takes away hard working immigrants, young people, who want to be here, who are not dangerous. And so, we need a workforce. With this type of budget, does that suggest 3 percent growth? Does that say that we have a vision of growth? And the other part of it is: is it not valuable that government invest in its people? I am trying to get the right now. I remember I voted for it. The proposal we had under President Obama that we all voted for did a lot to energize the economy.

My question to you, Dr. Furman, are those. Based on the back drop of the Clinton/Reagan analysis, the custodian work that Obama did, you are in administration and the vision of this budget.

Mr. FURMAN. I think I agree with the premise of all of your questions. Congress should be relying on the Congressional Budget Office. No one can predict the future with certainty, but the CBO is not biased. Sometimes, they are too high. Sometimes, they are too low. On average, they are right. I think the policies in President Trump's budget are more likely to lower growth than they would be to raise it by cutting the type of investments in our people and in our infrastructure that we need for future economic growth.

Ms. JACKSON LEE. Dr. Holtz-Eakin, you were at the CBO. Would reliance, and does this overall budget have a vision of investment in the American people? Or are my premises incorrect, that we have a growth problem, with respect to human beings to be able to energize the workforce, and energize the economy?

Mr. HOLTZ-EAKIN. First of all, I have nothing but high praise for the CBO as an institution, and I believe Congress should continue to rely on it for its analysis. I think the administration budget is a mixed bag, from the point of view of economic growth.

One of the things that I do not like about it is that it perpetuates the current budgetary mismatch between mandatories and discretionaries by taking off the table serious mandatory reforms. It continues to crowd out the discretionary accounts, which are national security, basic research, infrastructure, education; indeed, all things the Founders saw as the role of government. I think that is a fundamental budgetary problem that needs to be addressed.

Ms. JACKSON LEE. Dr. Diamond, in my last seconds here, let me add a little caveat. We have got a lot of people incarcerated. We have been trying to pull back on mass incarceration. And it has been bipartisan, the Koch Brothers and others. Does that not undermine the workforce? And are my premises not right about how the economy is energized by people working? And if you have thousands completely constantly locked up, does that not have an impact as well?

Mr. DIAMOND. I definitely think incarceration has a negative impact on people and the economy. I think the CBO is important, and we need to continue to rely on them. And I think budget goes in, at least, I do not agree with the budget in total, but my point in my testimony is we are spending too much money. We are projected to spend too much money. At some point, we are going to have to slow the growth of spending.

Chairman BLACK. The gentlelady's time has expired. The gentleman from Arkansas, Mr. Westerman, is recognized for 5 minutes.

Mr. WESTERMAN. Thank you, Madam Chair, and thank you to the witnesses for being here today. Just want to go down the line, and ask for just a brief comment on the relationship between growth and growth productivity. Are the curves similar? As you get more growth, you naturally get more productivity? Would you all agree to that?

Mr. DIAMOND. I guess I would make a distinction between leveling up. So, an increase in GDP that is just like a one-time change in the level, which may come from some policies, versus a small change in a growth rate, which endures over time, and which builds on itself so that you get growth on top of growth. I think that is more important in a long run sense than just a level-up approach.

Mr. FURMAN. I think faster productivity growth is one for one into faster economic growth, everything else equal.

Mr. WESTERMAN. All right. So, the consensus is that growth and productivity are correlated; they are not inversely related by any means. But if we look at the chart that was probably shown earlier that shows our growth since 2012, we went from 3 percent in 2012 on GDP down to 1.9 percent is what is projected for 2017. So, we have seen a decrease in growth, which, if growth and productivity are correlated, you would think you would also see a decrease in productivity.

However, we also see a low labor participation rate. So, I would argue that over that same time period, if we look at productivity on a per capita basis, we have actually seen an increase per capita productivity. Would anybody care to comment on that?

Mr. HOLTZ-EAKIN. So, I think the key is that, looking forward, it is too difficult to anticipate anything like a business cycle. So, we have gone through this deep recession recovery. Take that piece out of it, and you are left just two pieces. Piece number one is how fast does the labor force, and thus the workers, grow? And public policies should make sure that we do not stop people from working, and we do get the growth that we want. And then, the second is productivity growth for everyone who is working. And those are the two objectives, and each should be independently the focus of public policy.

Mr. FURMAN. I think as a growth accounting framework, I would agree with that.

Mr. WESTERMAN. So, you know, if you look at the actual numbers of people in the labor force in 2012, it was about 159.5 million in the United States, and now, it is about 162.8. So, with population growth, we have seen the labor participation rate drop from 63.7 to 62.7. When I talked to people in my district, I know of people who are working second jobs. They are working longer hours.

So, there is information there that leads me to believe that per capita productivity has increased, and I think if we see more technology, we will continue to see per capita productivity increase, which gives me hope that if we can get more people into the job market that we could actually see greater GDP growth than what we have actually seen in the past. And maybe, even get above 3 percent growth if we get these more highly productive workers employed. Any comments on that theory?

Mr. FURMAN. You still have this mathematical problem that the prime aged population, 25 to 54, some of the key workers, that population is going at 2 percent a year. Now, it is growing at close to zero percent a year. I think we can do better on labor force participation. That will be a challenge because the labor force participation rate for prime aged men has fallen every year from the 1950s through the present. Under President Reagan, it fell. The labor rate for men fell under President Reagan. So, I think this is going to be a hard thing to reverse. But if we did, it would add to our economic growth.

Mr. WESTERMAN. So, does that mean that we actually have to get more productivity out of the labor force that we have if we expect to see any kind of increase in growth in GDP?

Mr. HOLTZ-EAKIN. I think that is very important. For example, they just released the data for the first quarter of this year, and there was no productivity growth. And so, if you combine that with Dr. Furman's observation that the labor force, the prime aged labor force is not growing; that is not a particularly good set of results that we got a flat economy in that kind of world.

Mr. WESTERMAN. So, how can you mathematically not have productivity growth if you have any kind of economic growth?

Mr. HOLTZ-EAKIN. You can have more workers producing the same amount per worker and get more in total, but productivity will not be rising.

Mr. WESTERMAN. But back to the other point, you would have higher per capita productivity.

Mr. HOLTZ-EAKIN. My concern is that you want to have much more rapid growth in productivity per worker, so essentially, a per-capita measure, and you want to raise the number of workers per capita, which is essentially, have greater labor force participation from those who are currently not participating.

Mr. WESTERMAN. Thank you, Madam Chair, and I am out of time.

Chairman BLACK. The gentleman's time has expired. I now recognize the gentlelady from New Mexico, Ms. Lujan Grisham for 5 minutes.

Ms. LUJAN GRISHAM. Thank you, Madam Chairwoman, and thanks to the Committee members. I want to do two things, because certainly interested in a return on any investment and growing the economy. And I am sure this Committee gets tired of me reminding them, but I am always happy to do that for a new group, that New Mexico has the highest unemployment in the country, and we are not, now, the worst economy in the country, but by no means are we in a position where we are seeing real, or any quite frankly, economic growth.

And the strategy that we have taken in New Mexico, particularly over the last 8 years, but even before then, under both Democratic and now Republican leadership, is to invest in huge tax breaks at the top 1 percent and corporate tax breaks, which has left the state without any sufficient or viable resources. And the end result has been zero economic growth. No trickle down investments. No effort that has given us any aspect of a strategy.

So, for me, living that in my current state and situation, I do not see how these strategies are going to work at a national level. And if we are looking for something where there is bipartisan agreement on clear economic growth, I am interested in your opinions about comprehensive immigration reform, which, particularly in a state like mine, provides an immediate return into the pocketbooks of every New Mexican, as well as stabilizing and moving growth for a variety of industries, not just A.G., and for us, health care and long-term care, but entrepreneurship, in fact, which we lead in the nation. Or, I need to be careful, because I have not checked that data, at least in an hour.

So, it changes that quickly. But we have been one of the leading states in entrepreneurship, particularly in minority women in the state.

So, I would be interested in the panel's reaction on, I am living in a state that is seeing benefit from any of the strategies that continue to be presented, not only here today, but in previous budget hearings, but in addition, what you think about economic growth under comprehensive immigration reform. Anyone? All of you?

Mr. HOLTZ-EAKIN. So, as I mentioned earlier in the hearing, as in my written testimony, I think immigration reform is a powerful tool for economic policy. The data on the immigrant populations speak quite clearly to the fact that they tend to work more, higher labor force participation. They retire later. They have a disproportionate number of entrepreneurs who start businesses, hire people, bring capital to the United States. All of those are economic benefits from immigration that we can take greater advantage of if we choose to. So, I think the data are real clear on that.

In terms of other strategies, the thing I tried to emphasize in my opening is that there should not be a strategy. We have a deep need to grow more rapidly, and the public policies that can affect it: the tax reforms, the fiscal reforms, the regulatory reforms, education reforms, immigration reforms, trade policies. I think all of them have to come into play. And a reliance on any single one would probably be a mistake.

Mr. FURMAN. I agree with a wide range of policies. If you quantify everything on Dr. Holtz-Eakin's list, on my list, the number one, in terms of the largest impact on growth, would be comprehensive immigration reform. That would do more for our economy than any other single policy that we could do.

Mr. DIAMOND. I agree that immigration reform is an important pro-growth policy.

Ms. LUJAN GRISHAM. So, and not that I am disagreeing that you should not have a variety of strategies, and in fact, in our economy, I find it difficult to weigh in and say that one set of policies by one policymaker, whether that is the legislative body or the governor or local elected policymakers, the reality is in New Mexico, they did not create the 2008 recession.

They did not ask to have oil and gas commodity prices and related ad commodity prices drop. They, certainly, did not call Congress and say, "We ought to do a sequester. We are a defense industry state." So, it is all those things combined, certainly, tell you that you need to have a diversified economy with several strategies that allow you to more meaningfully react to economic changes.

However, in addition to all of those factors, you know, as I said, we are a state that also provided massive tax efforts in an effort to create job growth. It has created zero job growth. And again, we are, not only as I described earlier in this hearing, having such economic woes, but in fact, we are the only state in the nation that is losing population which means we have a brain drain.

We do not have any young people, and we do not have a qualified workforce. So, even if these trickle down strategies work, and they do not, in my opinion, there is not anybody to trickle to because we have lost the opportunity to do job creation, and train a qualified workforce.

And Mr. Chairman, I did not have it when I started, but I would love to have unanimous consent to enter the article into the record from our main newsprint media source that talks about the problems with the tax cuts and tax cut policy in our state.

Mr. WOODALL. Without objection, that will be included in the record.

[The information follows:]

[Submission of Ms. Grisham]

[June 6, 2017; Albuquerque Journal]

**NM's Corporate Tax Revenues Decline**

By Ellen Marks

Corporate income tax revenues have plunged in New Mexico over the past several years, falling beyond what was predicted when a tax cut package was passed in 2013.

The drop is expected to be nearly 65 percent, from the year the cuts began to the current fiscal year projection.

The reasons go beyond the tax package, pushed by Gov. Susana Martinez and approved by lawmakers, and have much to do with the plunge in the oil and gas industry, state finance officials say.

They defend the phased-in tax cuts and say the changes are helping to diversify a state economy too long dependent on government and oil and gas jobs.

"We saw what the oil and gas crash has done to our state," Duffy Rodriguez, secretary of the Department of Finance and Administration, said Monday. "To put something in place to not have that happen in New Mexico again is extremely important."

The 2013 tax package, a compromise passed by lawmakers in the final minutes of that year's legislative session, called for the state's top corporate income tax rate to drop from 7.6 percent to 5.9 percent over a five-year period. The package included several other provisions, such as expansion of the state's film tax credit.

This year, corporate income tax collections are expected to account for 1.2 percent of the state's general fund revenue and are considered more volatile than other taxes.

The package, which the governor at the time called the "New Mexico Jobs Package," was aimed at making the state more competitive in attracting jobs and supporting existing ones.

Since then, the state's unemployment rate has hit the bottom or near-bottom compared with all other states, and the number of jobs remains below the level it was before the start of the recession in late 2007.

But Clinton Turner, chief economist for the Department of Finance and Administration, pointed to job growth in New Mexico's private sector. Private businesses were up 9,000 jobs, or 1.4 percent, compared with last year – the biggest gain since June 2015, according to the state Department of Workforce Solutions. April year-over-year figures showed overall job growth of 1.2 percent, the highest in almost two years, according to the department.

The Journal on Friday and Monday requested an interview with Martinez, but spokesman Michael Lonergan said Monday that she was unable to fit it into her schedule.

Jim Peach, New Mexico State University economist, said the tax package and increased funding for economic development programs “have not put New Mexico at the forefront among the states in employment growth. There is very little evidence that lowering tax rates promotes economic growth. You’re kind of seeing that here.”

Instead, Peach said, firms are looking for a “well-trained and highly educated workforce.”

“When you talk to industry people and read industry newsletters … tax rates are not the first thing that firms look for,” Peach said.

Matt Geisel, state economic development secretary, disagreed, saying the cuts and New Mexico’s other business incentives “are opening the doors for us.”

The state has suffered a series of blows, including the Great Recession, automatic federal budget cuts in 2013 and a devastating drop in oil and gas prices in 2014.

On top of that, Intel’s plant in Rio Rancho has shed more than 2,000 jobs over the past few years, he said. Intel was once the largest private industrial employer in the state.

The most recent figures show corporate income tax collections were down 63.6 percent year-to-date as of March, compared with the same period the year before. The drop for personal income tax collections was 4.9 percent.

“The reality is, if we didn’t do what we have done … we as a state would be in much worse shape,” Geisel said. “The diversification is taking foot, and when you factor in the impact of these headwinds … many of which are global in nature, we have made forward progress.”

Turner also pointed to a 6 percent boost in construction jobs over the past year and said the oil and gas industry has “finally hit the bottom.”

That industry is a big reason for the corporate revenue drop, and other “commodity-heavy” states have seen similar or even “more drastic” reductions, he said.

Some lawmakers, facing a huge budget deficit, proposed last October a two-year halt to the phase-in of the tax cut, but the Martinez administration opposed the move.

The Legislature last month wrapped up another special session to deal with the continuing budget crisis. The $6.1 billion spending plan that was approved is about $133 million more than expected revenues.

The governor vetoed a package of tax increase proposals that would have generated at least $215 million in new annual money, saying it would have hurt New Mexico families. A separate GOP-backed proposal to overhaul the gross receipts tax system stalled in the Democratic-controlled House.

The state now faces the possibility of a second downgrade in its credit rating, which would mean higher borrowing costs for state and local governments.

Ms. LUJAN GRISHAM. Thank you very much. I really do not have any further questions, unless maybe one——

Mr. WOODALL. And the good news is the gentlelady's time is expired.

Ms. LUJAN GRISHAM. Oh, man, I was just getting started. I changed my mind, Mr. Chairman.

Mr. WOODALL. As soon as Mr. Yarmuth recognizes round two, I hear we will come right back, but——

Ms. LUJAN GRISHAM. Thank you very much to the panel.

Mr. WOODALL.——we are standing between you and our resident in-house economist, the gentleman from Virginia, Mr. Brat.

Mr. BRAT. Oh, thank you very much. All right. You all on this panel are in jeopardy of failing Econ 101 a bit here. When consumers, individuals, want to maximize utility, we do not talk about growing the economy, right? The language coming out here is for our economy. So, of course, immigration, if you import another worker, will increase the size of your economy.

But to show the fatal flaw in the logic coming out on this immigration issue is fairly easy. Let's just import the whole world. Right? Let's just have 7 billion people move to the United States of America, right? So, that would be the biggest economy you have ever seen, right? It will increase our GDP by 400 percent or whatever, right? Global. And not one person would be better off. Right? So, Econ 101 says what do people care about? They care about GDP per capita, after transfers and taxes. Right? That is how you maximize utility.

I do not think you can show me any papers that show, right, the average of folks coming across the border from Mexico, South America. Tenth grade education. All children of God, right? No issue there. We are just talking economics. They will come in. They will make $20,000. If you got two kids in education, that is $26,000. You are upside down. And we are only $100 trillion light on unfunded liabilities right now, and $20 trillion light on debt, right? Because we screwed up the logic and had not paid any attention to productivity growth.

So, we are stuck in a bind. And so, you are offer us the little ray of hope you can. Well, in the short run, right, there is a pig stuck in a python, called the demographic thing. Gee, I wish we would have known about that 10 years ago. Well, we did. It is just total political failure on all fronts. Right, to plan for the Medicare system, and Social Security are insolvent in 2034. It is upside down. And so, you are saying, bring in folks in order to solve a temporary problem, which it will, right?

You might get a little bit more tax revenue, short range; you grow the economy, but I do not know where to start on that one. If you can show me any papers that show immigration helps increase productivity and GDP per capita after taxes and transfers, I am wide open to that.

Second, my colleague Mr. Jeffries over there talked about well, we had $1.4 trillion deficits coming out of the Bush years. And so, you know, the Obama economy, we had to fix that. Again, just a colossal error in Econ 101.

What caused the financial crisis? And there is no debate. Everyone agrees: the financial crisis started in the housing sector. Do you know any private sector bank that would give liar loans and no income loans for mortgages? No. Only the Federal Government is capable of that genius move. Right? And so, just go look up Fanny and Freddy and Mr. Johnson, and that empire he set up across the country, and you will find out why we had $1.4 trillion deficits.

Now, let me get to the whole point here on productivity. Immigration, pre-K, education, et cetera. No literature, nothing, has been presented that that will increase GDP growth. Right? Per capita, et cetera. Right? I was in education for 20 years. So, it sounds great. How much do you need, right? How many more thousands? We spend $14,000 per kid right now, per year. And I teach freshman economics, and the kids do not know what a business is after 13 years in K–12. They do not what a price is. They do not know what a cost is. They do not know what a profit is. Great. And in higher ed, it is widely taught that business on the supply side is morally corrupt, right? K–12 is neutral. Higher ed is not neutral. Right? So, gee whiz, I wonder why productivity growth is not great when we teach people that the supply side is a pejorative nasty work.

So, demand curve. Supply curve. Right? Demand curve is your consumers. Supply curve is all business. And the supply curve is the supply side of the economy is bad. Really? Everybody that produces goods and services is bad? So, what we do not hear from the other side, we have had demand's side stuff forever, right? Bailouts and non-ending demand stuff. There is no productivity growth, right? It is flatter than a pancake. Capital investment is flatter than a pancake.

And so, I am dying to hear something from the other side that will enhance productivity growth. And they did have, President Obama, a majority of the House, Senate, and whatever. So, if you want to do productivity enhancements, why did they not do it?

So, I just see a collapsing argument on the other side. I do not see anything they have proposed over 8 years that enhances productivity growth, and on the contrary, they are saying supply's side incentives are bad, right? It is trickled down or some pejorative term like that. And so, I have already blown through my time. But you all said productivity is the whole story, right?

And so, if you can present this panel and both sides with some economic papers on how immigration will enhance GDP growth per capita after taxes and transfers, I would love to see that. If you can give me any arguments on pre-K education, or enhancements in K–12, or higher ed that will enhance GDP growth significantly in any range, I am wide open to seeing it. If they do, I am all on board, right? And so, thank you very much for being here today, and appreciate it.

Mr. WOODALL. The gentleman's time has expired. I will recognize myself for 5 minutes. I want to pick up where my colleague left off.

It is true. I am not an economist; I am a lawyer, and so, I rely on you all. And you come together with a lot of good maxims that I try to apply. One of those maxims, and Dr. Furman used it in his opening statement, is infrastructure spending is good for GDP. But it is not good in the same way to build a sidewalk out in front of my house as it is to build a rail line that runs coast to coast.

And so, you supply me with the maxims, but then, the conversation tends to end there. For example, immigration. Do I need folks to pick carrots in south Georgia? Absolutely do. Am I running out of families who are having three and a half kids who are raising them all to pick carrots? I absolutely am. But I also need more nuclear physicists and more entrepreneurs, on and on.

So, can we start with you, Dr. Holtz-Eakin? You mentioned that 35 years used to be the time period for doubling our standard of living. Now, that is almost doubled. Is your analysis that that is systemic to the American economy, or that is because we are participant in the world economy?

Mr. HOLTZ-EAKIN. It is a set of facts about the U.S. economy. They are driven by decline and productivity growth. That is the key element. And as Dr. Furman pointed out, we are not the only country that has seen a decline in productivity and growth. I would hesitate to draw any causal errors. You know, our productivity is worse because theirs is worse. You know, I am a big believer that we should set our public policies to focus on the U.S. economy and its capacity to grow.

Mr. WOODALL. Though to Mr. Brat's point, we do set public policy. I am not sure it is focused on the economy as much as it is focused on the realization of the individual. We will give you a college loan to go get any liberal arts degree you want in the country. I would love to see the paperwork that says getting a liberal arts degree helps the economy more than learning an applicable skill on day one. And those papers may be there as well.

Where is the data on how we are investing in human capital in this country? I can only spend each dollar once. What big change would you make in the way the Federal Government is investing in human capital to move the needle the fastest and in the most dramatic fashion on GDP?

Mr. HOLTZ-EAKIN. So, I think the biggest change I would make is where the big Federal dollars are in higher education. Most of the K–12 systems outside, with one exemption, title 1. On the higher part, I would focus more on having programs for low income individuals be ordered on the basis of time to completion, staying on schedule, outcome measures. Not just take the money and go. I would try to keep them out of loans because they are not going to repay, and target the loans more toward the middle class. And there, again, I think you want to have the loans be loans. This notion that loan forgiveness, it should be the top priority just strikes me as mixing terms. They are not loans, then. They are grants.

Mr. WOODALL. It is true. If I have asked you to invest in something that is not giving you a good ROI, then I have asked you to do the wrong thing. And Dr. Furman, is it obvious to you what needle you would move on investments in human capital in this country to get better outcomes?

Mr. FURMAN. I would invest more on preschool. I would invest more on community college and training. I think other investments might be welcome, but there is a lot of things we could do for quality outside of just spending additional dollars elsewhere in the educational system.

Mr. WOODALL. Dr. Diamond?

Mr. DIAMOND. I agree. There is a lot we could do outside of spending additional dollars that would make us more productive. I agree with trying to reach kids sooner, especially low-income kids. And I think a lot of that is on a state-level issue. Just more of, you know, re-prioritizing where we want to spend the money each year more so than spending more money.

Mr. WOODALL. I would ask you all to continue that kind of intellectual investment before Mr. Grothman walked in. Mr. Yarmuth and I were prepared to stage a coup here. We might disagree on how much to spend on infrastructure, but spending those dollars in a way that moves the needle in the largest fashion, we would come to some sort of agreement on. We might disagree about how much to spend on education, but spending those dollars in a way to maximize the utility would be something we would agree on.

And my final question is this. Irrespective of growth rates and president's budgets, President Obama sent me eight budgets that never balanced but invested a great deal in the American economy. President Trump has sent me a budget that is purported to balance that reduces a great deal of spending in the American economy. From an economic perspective, is it obvious what grows a GDP going out in the future? Budgets that balance, or budgets that do not? Or is the question not that simple? Doctor?

Mr. HOLTZ-EAKIN. I like the idea of aspiring to balance the budget because the level of debt to GDP is already too high, and it is on a trajectory to go even higher. We got to reverse that.

Mr. WOODALL. Doctor?

Mr. FURMAN. I think the proper goal is debt as a declining chair of GDP, President Obama never sent you a budget with a double count, with an overly rosy scenario. And in fact, the deficit consistently came in below what the Obama administration was expecting.

Mr. WOODALL. Dr. Diamond?

Mr. DIAMOND. You know, I think that what is important in the latest budget is not so much, and we focused a lot on the 3 percent, but we have proposed to reduce the growth rate and spending for the first time I cannot remember when. So, that is at least one good thing.

Mr. WOODALL. I thank you all for your many, many years of service. The gentleman from Wisconsin, Mr. Grothman.

Mr. GROTHMAN. First of all, thanks for keeping things going so I got a chance to answer your questions. I just point out that I think the amount spent per people in our schools and the number of people going to college, and the amount we spend on college, I am sure the amount per person or per pupil in K–12 has gone up well in excess of the rate of inflation the last 50 years.

I, personally, do not feel that that spending still more money there is the key to success. I think maybe how they spend it is relevant. I think the same thing is true of a college education. At least, right now, I think we have maybe people graduating from college that cannot get jobs in their field; whereas if they would have stuck in tax school or would have been trained by their businesses, they would be much better off.

So, I am not sure, you know, more government spending on education is the answer. But I want to get back to why our economy is not growing more, and I do happen to represent the district with more manufacturing jobs than any other in the district in my country. And as I tour my district, be it manufacturing or being in other things, the number one that seems to be holding my businesses back is they cannot find people to work. Okay?

They really have a hard time finding people to work out there. And I am trying to think what we can do to find more people to fill those jobs so our economy can grow. Now, right here, I noticed that people on disability has grown over the last 14 years by about 60 percent. And that is despite the fact that I think, over time, our farms, certainly our manufacturers, certainly, have gotten safer and safer.

So, normally, common sense would say, given how much safer things are going, you would figure the number of people on SSDIs is dropping. I realize the population is getting a little older. But when I look at this chart I see, you know, if we had the same percentage of people on disability overall that we did 14 years ago, maybe we would have another two and a half, 3 million people going to work. And you know, the economic figures should be going up all the quicker.

Does anybody care to comment as to whether they feel that, you know, if we were a little bit more careful who we are putting on disability—and I realize there are people who are generally disabled need the help; I do not have a problem there—but if we were a little bit more careful, maybe we would be able to jump start the economy, as these people would fill all the jobs out there that are going wanting.

Mr. HOLTZ-EAKIN. So I think there should be a genuine concern about disability roles being disguised unemployment in deep recessions. That is a concern that has been voiced by a lot of economists. In looking at the program memo, I think a second thing gets less attention, and that is the fact that very people ever exit the disability roles. And there are, I think, there is a good reason to look at that, in particular, with young Americans who get classified as disabled. They are on SSDI. They are capable of working, and finding routes to get people off those roles and into the labor force would be a good thing.

Mr. FURMAN. I, actually, do not think the evidence is very compelling that the decline of labor force participation is due to disability. Since the 1960s, the disabilities roles have increased 1.5 percentage points for prime-aged men. The fraction of prime-aged men not working has increased by 7.5 percentage points, well in excess of that.

If you look, actually, since the early 1990s, on an age-adjusted basis, there has not been an increase in disability for men. The increase that we have seen is because of aging, and the factor you cited that more people are on SSDI instead of OASI because of the increase in the normal retirement age, and then an increased number of women in the workforce who are now qualified for disability who did not used to qualify for it.

Those are the factors that explain the increase, not some increased generosity. So, I think we can look to reform the disability program. There are improvements we could make. I would not start from a premise that that is the primary source of our work problems, or would be a major solution to them.

Mr. GROTHMAN. Another question. When I talk to my employers, particularly on the lower end of the wage scale, they find people are not wanting raises, do not want to work full-time because it digs into their benefits, be it affects their low-income housing, their health insurance benefits, their food share.

I know the number of people on food share has gone up from 17 million in 2001 to 43 million last year, which is kind of dramatic. We have another program, the Earned Income Tax Credit, which was apparently designed by people who do not want anybody making more than $19,000 a year because that is another benefit you lose. To what degree do you think the economy is stagnating because of what I am told by my employers that people are intentionally not making as they can to get the government benefits?

Mr. WOODALL. Want to take a shot at it, Dr. Diamond?

Mr. DIAMOND. I think it is a legitimate issue. I think we have seen, with unemployment compensation, with ObamaCare, with other spending programs, you can put in implicit tax on work, and that can discourage people from working.

Mr. GROTHMAN. Yeah, you have 43 million on food share. I know some people are always going to be on food share, but 43 million? I mean, that is a lot of people, when you shoot up from 17 million 15 years ago to 43 million now. I mean, you wonder how many of those people would work harder if we did not take away their benefits if they did work harder.

Mr. DIAMOND. I think that is a reasonable concern. We need to structure our policies so that we are as pro-work as possible.

Mr. GROTHMAN. Thank you much. Thank you for hanging around in my two Committees, but we will be forever grateful that you waited for me.

Mr. WOODALL. Thank you, gentlemen, for spending the morning with us, Dr. Holtz-Eakin and Dr. Furman and Dr. Diamond. Thank you very much for your testimony. Please be advised that members may submit questions in writing for you, and those answers will be placed in the record as well. Any member who wishes to submit questions or any extraneous material may have 7 days to do so. With that, the Committee stands adjourned.

[Whereupon, at 12:15 p.m., the Committee was adjourned.]

**Rep. Smucker Questions for Record for Dr. Holtz-Eakin:**

1.) As a former small business owner, I know first-hand that the tax and spend policies that were adopted under the previous Obama Administration are not working for small businesses, and especially the American people.

- Can you please help some of us understand how our current outdated tax system is impeding economic growth and job creation?

- What are the long-term economic gains from pro-growth tax reforms and how will this improve the standard of living for American workers and their families?

2.) As you know, tax reform is not a short-term fix but rather a long-term solution to fixing our economy's dismal trajectory. Congress has traditionally used a 10-year budget window for its economic assumptions.

- Would you recommend extending the congressional budget window to potentially 20 years so there is more time for the anticipated economic gains from deficit-neutral tax reform to go into effect and boost revenues?

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  *The U.S. corporation income tax represents the most flawed component the broken federal tax code. The corporate tax imposes large compliance costs, introduces considerable distortions in the U.S. economy, and pushes investment overseas, while raising a relatively small amount of revenue. The U.S. corporate tax is a conspicuous outlier compared to other major world economies, combining the highest tax rate with an outdated worldwide approach to international taxation that most OECD countries have jettisoned. These factors reduce investment in the U.S., all else equal, and thus slow economic and wage growth. Among the most visible examples of this effect is the phenomenon of "inversions," whereby U.S. companies relocate abroad for tax purposes, taking high-quality headquarters jobs and the associated economic benefits along with them. A fundamental, pro-growth tax reform should stanch this outflow of investment, and make the U.S. more attractive to greater investment in the future.*

- What are the long-term economic gains from pro-growth tax reforms and how will this improve the standard of living for American workers and their families?

  *Pro-growth tax reform should be designed with the long-term in mind – raising trend economic growth and ultimately the standard of living for American families. Revenue neutral, pro-growth tax reform can substantially improve economic growth. Highly respected economists David Altig, Alan Auerbach, Laurence Kotlikoff, Kent A. Smetters, and Jan Walliser, simulated multiple tax reforms and found GDP could increase by as much as 9.4 percent from tax reform. The highest growth rate was associated with a consumption-based tax system that avoided double-taxing the return to saving and investment. The study also simulated a "clean," revenue-neutral income tax that would eliminate all deductions, loopholes, etc.; and lower the rate to a single low rate. According to their study, this reform raised GDP by 4.4 percent over ten years—a growth effect that roughly translate into about 0.4 percent higher trend growth, resulting in faster employment and income growth. This represents a key element of bridging the gap between the current pace of economic growth and a rate of growth that allows for material improvement in the standard of living over the course of someone's career.*

2.) As you know, tax reform is not a short-term fix but rather a long-term solution to fixing our economy's dismal trajectory. Congress has traditionally used a 10-year budget window for its economic assumptions.

- Would you recommend extending the congressional budget window to potentially 20 years so there is more time for the anticipated economic gains from deficit-neutral tax reform to go into effect and boost revenues?

  *There is nothing uniquely informative about a 10 year budget window. Congress (as well as OMB) have used shorter and longer budget windows in the past to evaluate policies and the Congressional Budget Office regularly publishes its assessment of the long-term budget outlook. In the ideal, budget estimates should provide the most complete assessment of a given policy's budgetary and economic effects, and Congress should not exclude the totality of a given policy's effects simply because it falls outside the 10-year budget window.*