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THE ECONOMIC OUTLOOK WITH CEA CHAIRMAN KEVIN HASSETT

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JOINT ECONOMIC COMMITTEE

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CONTENTS

OPENING STATEMENTS OF MEMBERS

Hon. Patrick J. Tiberi, Chairman, a U.S. Representative from Ohio 1
Hon. Gary C. Peters, a U.S. Senator from Michigan 3

WITNESS

Hon. Kevin Hassett, Chairman, Council of Economic Advisers, Washington, DC 4

SUBMISSIONS FOR THE RECORD

Prepared statement of Hon. Patrick J. Tiberi, Chairman, a U.S. Representative from Ohio 28
Prepared statement of Hon. Kevin Hassett, Chairman, Council of Economic Advisers, Washington, DC 29
Articles submitted by Representative Maloney
Washington Post article titled "Arthur Laffer's Theory on Tax Cuts Comes to Life Once More" 33
Jared Bernstein blog "Supply-side, trickle-down nonsense on the NYT oped page" 36
Washington Post article titled "Here's why we're still arguing about trickle-down tax policy" 39
Response from Hon. Kevin Hassett to Questions for the Record Submitted by Vice Chairman Mike Lee 41
Response from Hon. Kevin Hassett to Questions for the Record Submitted by Senator Martin Heinrich 42

THE ECONOMIC OUTLOOK WITH CEA CHAIRMAN KEVIN HASSETT

WEDNESDAY, OCTOBER 25, 2017

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The Committee met, pursuant to call, at 10:00 a.m., in Room 1100, Longworth House Office Building, Honorable Pat Tiberi, Chairman, presiding.

Representatives present: Tiberi, Paulsen, Comstock, Maloney, Delaney, and Beyer.

Senators present: Lee, Peters, and Klobuchar.

Staff present: Breann Almos, Theodore Boll, Whitney Daffner, Barry Dexter, Connie Foster, Colleen Healy, Matthew Kaido, Paul Lapointe, AJ McKeown, Allie Neil, and Alexander Schibuola.

OPENING STATEMENT OF HON. PATRICK J. TIBERI, CHAIRMAN, A U.S. REPRESENTATIVE FROM OHIO

Chairman Tiberi. Good morning, everybody. I want to welcome everyone to what I expect to be a most informative hearing on how we can accelerate economic growth in the United States.

What is holding back economic growth in America has been of central interest to this committee from the onset of my term as chairman.

Our hearings have produced useful information and insights. I am particularly pleased to have Chairman Hassett lend his insights today on the forces and constraints that are holding back private investment, labor force participation, and just as important as anything else, wages.

We hope to get a clearer picture of how the right policies can help the economy recover its full potential.

The economy is dealing with the aging of a population, slowing population growth, and technological changes that are altering the methods of production in America. But self-imposed constraints have also altered the way the economy performs, and not in a good way. I strongly believe we can do something about that here in the United States Congress.

I would like to direct your attention to the graph showing how the Congressional Budget Office lowered its assessment of the economy's output potential every year since 2007 through 2016. These are not projections of actual GDP, mind you, but of potential GDP, the economy's output capacity, normally a fairly stable concept.

Back in 2007, the CBO estimated the U.S. output potential for 2016 to be over 12 percent higher than it actually is now. What happened? The aging of the population was predictable. Not anticipated was the U.S. business investment would be down from pre-recession rates, and that the rate at which Americans participate in the labor force would be drop so markedly.

Despite the low unemployment rate, the labor's markets health has not been fully restored. Indeed, the labor force participation rate of people of prime working age remains substantially below where it was prior to the recession.

I believe that economic policy, including the failure to act when other countries were improving their business climate is largely to blame.

I would like to show you two graphs that illustrate the changes U.S. firms face on the international playing field. The first chart shows how 34 countries changed their corporate tax rate since 2000.

All of these countries, save Chile, which had the lowest rate initially, reduced their corporate rates to make their economy more competitive while the United States rate remained the same.

The next chart shows how 27 countries eased product market regulations from 1998 to 2013 based on an OECD index. All these countries, save Chile, reduced their taxes and regulations. This paints quite a startling picture and explains why U.S. corporations have been moving offshore.

Other countries have purposefully improved their international competitiveness of their business sector while the United States has taken for granted the competitiveness of its businesses. As a result, we now have an economy that does not fully engage its resources, and entrepreneurial spirit.

A JEC hearing earlier this year on declining economic opportunity revealed a dramatic decline of new business formations in this country since the last recession. From 2008 to 2014, more businesses actually closed than opened. A JEC hearing earlier this month showed how detrimental the tax code can be to starting a new business, in terms of both its provisions and its shear complexity.

As the challenges we face are more daunting as a result, the national debt is a bigger problem with a slow-growing economy. That is why we so urgently need both tax and regulatory reform. We must restore a more highly functioning market economy that offers hope and opportunity to investors, entrepreneurs, and workers, and that removes the article constraints on faster economic growth.

Dr. Hassett's expertise is well-grounded in economic research. And one of his areas of specialization is taxation, which is especially useful at this time. I can't think of a better witness to explain to us just how taxes and regulatory reform can lift the economy and living standards across our country.

Chairman Hassett, we appreciate your appearance before the committee today and I look forward to hearing your views. And I will now yield to our ranking member, Senator Peters, for his statement today.

[The prepared statement of Chairman Tiberi appears in the Submissions for the Record on page 28.]

OPENING STATEMENT OF HON. GARY C. PETERS, A U.S. SENATOR FROM MICHIGAN

Senator Peters. Thank you, Chairman. And first, I want to thank Chairman Hassett for being with us at the committee today. I am looking forward to having a substantive discussion on the state of the economy and some prescriptions for the future.

I also want to thank Chairman Tiberi for your presiding over this hearing. And I also want to wish you well in your future endeavors. I was sorry to hear the news. We are certainly going to miss you here in Congress, but we also know you are going to enjoy new challenges, and most importantly, have a little bit more time to acquaint yourself with the family, which is always a wonderful thing.

Chairman Tiberi. Thank you. Thank you Senator.

Senator Peters. Mr. Chairman, I also think this is a very timely hearing, given the ongoing push by the majority and the White House to enact tax legislation on an aggressive timeline. But before we get into specifics of tax policy, I would like to take a step back and take a broader look at the current state of our economy and the economic outlook for the coming years, as well as the coming decades.

The Administration has certainly not shied away from highlighting some positive economic statistics. Unemployment remains low and the stock market continues to climb. But I think we all know that there is more to an economy than just raw monthly job numbers or the daily Dow Jones average. For working Michigan families, we are still seeing persistent, frustrating stagnation on wages.

Americans are overwhelmingly still not seeing the growth in wages that normally accompany economic recoveries. Not only do stagnant wages have an immediate negative impact on the day-to-day lives of American families, it is also contributing to another troubling economic trend, and that is a growing retirement saving crisis. Far too many Americans simply don't have the resources for a secure retirement.

As Americans are living longer with less secure assets for retirement, like defined benefit plans, I believe this will have a serious consequence for our entire economy. When it comes to middle class American families, the state of the economy is mixed. And for policymakers, I believe there are other trends that we must address to ensure health and competitiveness for the American economy in the decades to come, and see the type of growth necessary.

First, I believe it is of the utmost importance that Congress reject the idea that deferring, or for some, eliminating, investment in basic science and research has no consequences. It does. It has significant negative consequences. A lack of commitment to funding research that will lead to the next generation great American breakthroughs will have a devastating impact on our economy. And I can promise you, our competitors, including China, will not simply stand still and see the competitive advantage in innovation.

Second, we must reverse an alarming trend of declining new business formation. New businesses are the driver of our economy and are responsible for most new job creation in the United States. But, alarmingly, we are not seeing the numbers of new businesses needed to increase the shared prosperity across the economic spectrum, and especially in the urban/rural divide.

New business formations across presidential administrations in both parties have fallen by half since the late 1970s. And when new businesses are created, they are increasingly concentrated in just a few metropolitan areas like Los Angeles and New York.

And, finally, I believe perhaps the critical question policymakers must be asking about the future of the economy, is how are we going to prepare our workforce for an increasingly autonomous world, driven by advances and artificial intelligence and machine learning. This is why we are facing together, I think as a Nation, some stagnant wages, massive retirement savings gap, a retreat from investment in innovation, decreasing business formation, except for a few major metropolitan areas, and fundamental shift toward automation that could dwarf the industrial revolution and global impact.

These are problems that we can work together to solve in a bipartisan basis, and I think we must do this on a bipartisan basis. Unfortunately, I am concerned that we are going to be spending the coming weeks and months debating just how big a corporate tax cut to a multinational conglomerate should receive, and other policies that clearly benefit the very few and most wealthy individuals, while raising taxes for middle class Americans.

Despite our differences, I look forward to a serious conversation today and hope we can find common ground on how to meaningfully support American workers and their families.

So thank you, Chairman Hassett, for being here today.

Chairman Tiberi. Thank you, Mr. Peters. Senator Peters, thank you for your kind words as well. We are now turning to our distinguished guest, Dr. Kevin Hassett. Dr. Hassett, welcome.

I apologize that we have a Ways and Means Republican meeting going on on tax reform upstairs, so a few other Members are up there, and I will be departing before the hearing is over, unfortunately, to join them. But we are so excited to have you today. The Senate also has a vote, I think, at 10:30, so sorry for that interruption as well.

Let me introduce Dr. Hassett. He is the Chairman of the President's Council of Economic Advisers. Prior to this he worked as a scholar with the American Enterprise Institute. He also has served as an economic adviser to the George W. Bush, John McCain, and Mitt Romney presidential campaigns. Dr. Hassett was also a senior economist with the Board of Governors of the Federal Reserve, and an associate professor at Columbia University. He earned his doctorate in economics from the University of Pennsylvania.

Chairman Hassett, it is an honor to have you today. You are now recognized for your testimony.

STATEMENT OF HON. KEVIN HASSETT, CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS, WASHINGTON, DC

Chairman Hassett. Thank you, Chairman Tiberi. And what an honor it is to be back before the committee with the word Honorable before my name, which seems really inappropriate, but gosh, I am so thankful for the support of Senator Lee and Senator Peters in my confirmation in the Senate. And it is great to be back before Mrs. Maloney and Mr. Delaney.

I think the Joint Economic Committee has a proud tradition of focusing on the problems facing Americans and the solutions that we can agree to on a bipartisan basis. And it is in that spirit that I appear before you today.

In the testimony that follows, I will provide an overview and discuss the status of a number of sectors. I will emphasize some areas that need attention as well as recommended policy changes that will improve our citizens' economic well-being.

If you read the 1946 Employment Act that created the Council of Economic Advisers, it is my somber responsibility to analyze the economy, to see what is going on, and to provide the President and Congress with objective advice about what we ought to do about it when we are falling short.

The economy is buoyed by heightened expectations right now, and it is growing at a solid and sustainable pace with low unemployment and low inflation. Financial markets appear to recognize the likelihood of continued growth with low inflation, with the major stock price indices up substantially over the past year, and with expected inflation from the market for Treasury's inflation-protected securities remaining pretty low.

That said, the Trump administration is not satisfied with business as usual nor with the pace of real output and income growth during the past several years. As a result, we put forward a program designed to boost the rate of real GDP growth. Now, I am happy to report that the economy is doing well so far in 2017. Real GDP growth during the first two quarters of the year averaged 2.1 percent at an annual rate. Real consumer spending grew 2.6 percent, only slightly below the 2.9 percent rate of growth during the preceding 2 years.

Business investment grew at a 7 percent annual rate during the first half of 2017, and that is a notable acceleration from an essential flat pace during the preceding 2 years. That is very important because after translating this pattern of investment into the flow of capital services, it is apparent that capital deepening, the flow of capital services per hour worked, has made essentially no contribution to the growth of labor productivity in recent years, in contrast to a post-World War II average of .8 percentage points per year. Indeed, if you look at the contribution to productivity growth of capital deepening over the last 2 years, it became negative for the first time since the second World War.

As I will discuss in a moment, this Administration thinks that tax policy could play a role in reviving the contribution of capital services to labor productivity growth, and most importantly, through that channel to the growth of real wages. But before I do that, let's look at a few other sectors.

Real residential investment grew at a slow 1½ percent annual rate in the first half of 2017. The low and steady rate of core inflation is notable. Core CPI inflation, excluding food and energy prices, is only 1.7 percent for the 12 months through September. Looking back at the past few years, real potential GDP appears to be growing at about only a 2 percent annual rate, or perhaps even less, as Chairman Tiberi's chart indicated.

Real wage growth in America has also stagnated. Over the past 8 years, the real median household income in the United States rose by an average of only six-tenths of a percent per year.

The relationship between corporate profits and worker compensation broke down really in the late 1980s, before any of the recent policy had a chance to interrupt that. And that deteriorating relationship between the wages of American workers and U.S. corporate profits reflects the state of international tax competition more than anything else, I believe. Countries around the world, as Chairman Tiberi's chart indicated, have responded to the international outflow of capital by cutting their corporate tax rates to attract capital back.

Now, a key feature of the joint proposal for taxes of this Administration together with congressional leadership is the proposed reduction of the statutory Federal corporate tax rate from 35 to 20 percent. This conclusion, that the incidence of the corporate tax falls partly but importantly on workers, is driven by empirical patterns that are highly visible, in addition to extensive peer-reviewed research, not to mention a number of follow-up studies to ours that have appeared during the past 10 days or so.

For example, the covariation between real wage growth and statutory corporate tax rates between the most-taxed and the least-taxed countries over recent years, visible in Figure 1, which might go up over there, is indicative of this larger literature. Of course, simple time series correlations don't tell the whole story, but there is a big literature that shows that high corporate tax countries have low wage growth and that, low corporate tax countries have high wage growth.

Indeed, between 2012 and 2016, the 10 lowest corporate tax countries of the OECD had corporate tax rates 13.9 percentage points lower than the 10 highest countries, and that is about the same scale as the reduction currently under consideration here in the United States. The average real wage growth in the low tax countries has been dramatically higher, as would have been predicted by the academic literature.

Now, the U.S. economy has made great progress during the past years in reducing the jobless rate, but the rate of productivity growth, and therefore real wage growth, has been slow. It is time for all of us, in a bipartisan way, to turn our attention to building a plan for boosting the rate of growth in the long-run, and wage growth in particular. As I have discussed, the Administration's plan for tax reform will have an important role in improving the rate of productivity growth, in combination with its plan to stabilize the regulatory environment, and we look forward to working with you, the members of this committee, to help reach those goals.

I will be happy now to respond to any questions you may have.

[The prepared statement of Chairman Hassett appears in the Submissions for the Record on page 29.]

Chairman Tiberi. Thank you, Dr. Hassett. As I mentioned in my testimony and showed in that graph, over the past decade the CBO has continually downgraded the estimate of what the economy is capable of producing, our output potential.

Is it possible, in your opinion, that the Obama-era policies of higher taxes and heavier regulation actually constrained our economic potential? And how could we change that?

Chairman Hassett. I think on regulation it is certainly possible. I think that your chart really captured what happened in recent years, which is that it was our actions on tax policy that necessarily harmed us, it was our inactions. And so what happened is that the rest of the world cut their corporate taxes, and that made their countries much more attractive for the location of multinational plants than our country, and we saw the activity move overseas in response to that. You know, one metric, Chairman Tiberi, is how big this effect is.

There is a National Bureau of Economic Research paper that came out in the spring that looked at just U.S. multinationals. They transfer-priced their profits abroad to the foreign plants, but they transfer-priced the profits abroad by paying too much for the products that they buy, say, from the Irish plants. And this study estimated that 52 percent of our trade deficit right now is coming about because of this transfer-pricing. We are paying too much for stuff from our foreign subsidiaries. We are moving that much activity offshore: so much activity that 52 percent of our trade deficit is attributable to it. And so, of course, that means lower demand for workers and lower wages as well.

Chairman Tiberi. Thank you. You have written and spoken in recent years on the challenges of the uneven economic recovery, a topic we have explored in this committee, a topic that Senator Peters mentioned as well. Indeed, a wide array of research makes clear that this recovery has been the most graphically concentrated on record, leaving far too many communities, like in Ohio, and Michigan, for example, communities and the people who live in those communities—behind.

As you know, I have introduced legislation to provide a new market-driven way of getting private capital off the sidelines and into our communities, certainly to foster new business and create jobs, called the Investing in Opportunity Act, which has garnered broad bipartisan support and bicameral support, as Senator Tim Scott is the lead sponsor in the Senate. Two questions for you.

First, can you briefly describe the dimensions and consequences of this trend that is occurring within our economy of increasingly concentrated job growth in places like Los Angeles and New York? And, secondly, can you speak to the Administration's commitment to ensuring tax reform ensures the challenge head-on of incorporating ideas like the Investment and Opportunity Act?

Chairman Hassett. Thank you, Chairman Tiberi. Geographic inequality has been a focus of my academic work for many years, and it is really the reason why I am an economist. I mentioned in my confirmation hearing that I grew up in a town, Greenfield, Massachusetts, where the Greenfield Tap and Die, which was the main factory in town, closed. And across the way in Turners Falls there was a big paper mill that was the main employer there, and that closed, too. My dad and I, when I go home (my dad still lives in Greenfield), we walk next to the abandoned factories because they are right along the Connecticut River. It is a beautiful walk. But the factories are so fallen apart that the video game "Fallout" used it as a location for video shooting for post-Apocalyptic America.

And so this is something that I care deeply about. And that is why my academic career has really focused a lot on geographic inequality, including, as you mentioned, States like Ohio and Michigan, where there are distressed communities where the plants closed and the jobs haven't come back.

I think that tax reform, in general, will definitely encourage a lot of plant location back into the U.S. because, right now, again, if you locate in Ireland you are paying almost no tax. If you locate in the U.S., you are paying the highest tax of the developed world. But we also should pay close attention to where those plants are going to go. And as you said, if the plants were all located to the places that have very low unemployment rates right now, then they wouldn't necessarily be helping those distressed communities.

Now, the Administration doesn't have an official position yet, it is not something that I discussed with the President on your specific proposal, but I can tell you that the geographical inequality is something that everybody is paying very close attention to.

Chairman Tiberi. Thank you. Senator Peters, you are recognized for 5 minutes.

Senator Peters. Thank you, Mr. Chairman. Mr. Hassett, you have certainly been engaged in a pretty high-profile debate of sorts over the impact of the Administration's tax proposal, and what it will have on the wages for working Americans.

And I think there is certainly an awful lot of—a lot to dive into regarding that argument. But to be brief, I am somewhat skeptical of the numbers that you have put out. And I think I am in pretty good company in the fact that I think the majority of economists also are very skeptical of some of the numbers we have heard from the Administration.

And certainly, I believe that many working families back home in Michigan are also very skeptical about that. For them, I don't think many Michiganders are holding their breath to see if their boss' boss' boss' tax cut somehow trickles down to them to see either in increased growth or in wage increase. Instead, they want to know how this tax proposal is going to impact them. How it is going to impact their pocketbook. They certainly have to worry about everyday challenges, like every family, like buying a car and paying for daycare and providing for a secure retirement.

So I think we need the Administration to be a little bit more direct as to the consequences of the tax plan that is before us. Specifically, as it is tailored to individuals, so folks know exactly what this means for them. Certainly, some estimates that I have seen have shown that some middle-class families could see an $800 increase in this tax plan, because it is focused primarily on the folks at the very top of the income scale, and large corporations, and they will actually be paying for it in the form of higher taxes. So I think we need to make sure the American public and families know what that is.

And given the fact that the median income for families in Michigan is a little of $52,000, an $800 tax increase is a big deal for those families, and we need to have full disclosure in this plan going forward. So I understand you may find some disagreement with some of these estimates that are being put out by various economists and other types of think tanks.

But could you give this the committee today an estimate of the tax savings that a working family will get as a result of the tax plan that has been proposed?

Chairman Hassett. Yes. Thank you, Senator. You know, the first part of your question relates to the tax savings discussion, that——

Senator Lee [presiding]. So sorry to interrupt. Chairman Hassett, could you move a little closer to the mike. Thank you.

Chairman Hassett. I am sorry. Thank you. You know, let's talk about what we agree about. In the CEA report that we just put out, we found that there has been a disconnect between the welfare of corporations and the welfare of workers. That corporate profits are soaring, but wages are not. And that is very unusual in U.S. history. I think we agreed that that disconnect has happened.

I think we also agree that we are the highest corporate tax case of the developed world. That is a simple fact. So then the other thing that I think we agree about, because it is a fact, is that the capital deepening contribution to productivity growth in the U.S. has gone to the lowest level it has been since World War II.

And so I think that it behooves all of us. It is our really somber responsibility to think, what is driving these factors? I think that the best explanation for those patterns in the data is that the corporate rates around the world have gone down a lot, they have encouraged U.S. multinationals to locate plants abroad instead of here, and that is why we see these effects.

I know that if labor demand goes up in the U.S. that wages will go up, and there is a dispute about how much. But I don't think that there is anyone that thinks it is zero. Now as for the estimate of the tax effects. As you know, the Administration is committed to a process (that hopefully can be bipartisan), in which the committees work out where the brackets go. And the President has even mentioned that we are open to a higher top rate, if that is what it takes to get broad support for this tax plan.

And I think that this process is designed optimally to create a bipartisan agreement about tax reform. And it is certainly everyone's hope that we head there. So if I were to say, well, this family is going to get this tax cut, then I would be stepping in front of that process, because where the brackets are located is being negotiated in the Ways and Means Committee upstairs and in the Finance Committee right at this moment.

Senator Peters. Well, but you are going to be a very important part of that process. You are the principal adviser to the Administration as to where this policy should be and how it is going to impact growth. And so I am going to want—I want to pursue that just a little bit. But before I say that, we do agree on the disconnect between corporate profits and wage levels for most workers in those companies. In fact, corporate profits are at an all time high, so it is not that corporations are hurting right now. But we have seen certain individuals have benefited.

Certainly, first and foremost, we know CEOs at those corporations have done very well. In fact, I think CEO pay has grown about 90 times faster than the typical worker since 1978. So the folks at the very top are reaping all of the rewards of that growth, it is not impacting everyday Americans. And we have a tax code now or a tax proposal that is going to say, those folks that are reaping all those benefits, they need to pay less taxes. I don't think the average worker thinks that is the case, they think they need that kind of relief.

And so as we are talking about the particulars of an individual family, I want to know—and we have heard President Trump say that middle class families will not see a tax increase. Is that the position of the Administration?

Chairman Hassett. Yes.

Senator Peters. And will you use that influence that you have with the President, and the President stand by those comments to the Ways and Means Committee here, saying that middle income taxpayers—all middle income taxpayers will not see a tax increase?

Chairman Hassett. The President is adamant on that point, that it is the one thing that is nonnegotiable, that there is not going to be a middle class tax hike in this tax bill. And as for the corporate profit point, I know we are running a little late, but this is very important, and I would hope that I could respond to that, too, because it is a very important point. Right now, U.S. multinational profits are, as you said, at an all-time high, and executive compensation is skyrocketing.

The last I checked, and I could follow-up on this, that executive compensation in the U.S. was higher than dividends. Go figure. But the disconnect from wages is not because there is fundamental change in market power here in the U.S. The disconnect in wages occurs because the profits aren't in the U.S.: the profits are abroad.

And so right now we have the highest tax on Earth, but those companies aren't paying it because they are locating the revenue in places like Ireland.

So if we make our country more attractive for location of plants, then it is not that we are giving a big tax cut to companies that are already not paying it, it is just that they are not paying the tax because they are locating their activity abroad, and the profits that are sky high in the U.S. are driving up wages in places like Ireland.

Senator Peters. And, if I may, Chairman Lee, just briefly, because I want to make sure I am clear about taxes for middle income families, because some of the numbers that I have seen, particularly with the elimination, for example, of State and local deductions for State and local taxes, there have been a number of studies that show that that with that deduction elimination, a lot of middle class families are going to see an increase, about 12 or 26 percent of families in Michigan claim that State and local deduction, and it is all over the country. And some studies have said the average increase for folks could be up to $1,800 a year because of loss of that deduction. And I think you will see a number of those figures.

So, given what you said, I hope you will understand when those of us are pushing back on a proposal that may be put before us that is going to raise that, we are going to say, we can't support that. And we are going to say, we can't support that. And we are going to hope we will be aligned with the President that we can't support these increases on middle class families, and we will push back pretty aggressively on the Republican proposal.

Chairman Hassett. That is understandable. And when the complete plan is available, I look forward to working through those numbers with you and your staff.

Senator Peters. All right. Thank you.

Senator Lee. Dr. Hassett, we are grateful to have you here and congratulation on your confirmation. I look forward to working closely with you in your new role over at CEA.

We are in the middle of a significant debate, a debate that has been made clear, even so far this morning in our discussion. I want to pick up on something that Senator Peters was discussing because I think it is an important point, having to do with our corporate tax rate.

At 35 percent, we have the highest corporate tax rate in the developed world. And there are problems with that, problems that I think that are acknowledged by most Republicans and most Democrats, but sometimes I don't think we look into it quite enough. Sometimes we tend to look at the corporate tax as being something that is paid, a burden that is borne solely by wealthy corporate fat cats, the likes of whom could be depicted with a Monopoly game piece or depicted sort of like Mr. Peanut with the monocle and a double-breasted suit.

But when you take a really close look at who exactly pays corporate taxes, the picture is a little bit different. It taxes, effectively, both capital and labor, both the investor's dividends and the wages of the workers. Economists disagree a little bit on how this breaks down, but it is commonly understood that lost worker wages make up between one-quarter and one-half of corporate tax revenue, some actually put the figure higher than that. And so perhaps a quarter to a half, maybe more, borne by workers.

On top of that, you have got everything that people buy, every good, every service in the economy, is made more expensive by a tax like that. And there is also diminished wages, unemployment, and underemployment that can sometimes stem from that. So, in the end, I tend to view this 35 percent corporate tax as having some very nasty regressive effects, meaning, that its least desirable qualities include the fact that it is borne disproportionately by America's poor and middle class.

This is why, in January, I penned an op-ed in the Federalist that proposed eliminating the corporate tax altogether, and shifting that particular tax burden onto investors instead of workers by taxing capital gains and dividends at ordinary income rates, instead of having the corporate tax. Under this type of strategy, workers could be liberated from their share of the corporate tax burden, and America would, without a doubt, become the most popular place in the world to do business.

So, Dr. Hassett, I would love to get your comments here, any thoughts you might have on that idea.

Chairman Hassett. Thank you, Vice Chairman Lee. I think that, again, wage growth is low, profit growth is high, the profits are abroad. We have got the highest rate, and we see that countries around the world that are run by governments that don't have the commitment to the American system that every member of both parties here in Congress has, cutting their corporate rates.

President Macron ran in France on reducing the corporate rate to 25 percent, and the French rate was already below ours when that election began. The political party governing Greece, whose name translates as "The Coalition of the Radical Left," has a lower corporate tax rate than we do. This is not about right wing parties throwing money at rich corporations, it is about economically literate governments understanding that if we want wages to be higher, then we have to give workers capital to work with.

If you look at the U.S. right now, again, the contribution to productivity growth from capital deepening is lower than it has been since the second World War. We have got a crisis in our country, and it is something that everybody on this committee needs to work together to solve.

Senator Lee. And this idea of zeroing out the corporate tax altogether and replacing it with a tax on dividends and capital gains that would put it on par with the taxes we impose on income, what do you think of that idea specifically?

Chairman Hassett. You know, I am focused like a laser right now as an adviser to the President on the proposals that are there. Your idea is something that is quite analogous to something that a lot of other countries have done. A few countries have eliminated it altogether. Many have integrated the corporate tax with the dividend and the capital gains tax so that they are basically charging tax once at one level, but in a progressive manner.

If you throw it at the individual side, then if there is, for example, a retiree who is getting a dividend, and they are using that dividend to pay their utility bill, then maybe you don't want to tax the heck out of that dividend. But if there is a really rich person getting a dividend, maybe you do. And those are the kind of arguments that have motivated other countries to do that, but for me right now I am focused on the current proposal.

Senator Lee. There is another issue that is closely related to this one. It deals with the burden of overregulation. I keep two stacks of documents in my office here in Washington. One stack is a few inches tall, it is a few thousand pages long. I think for last year it was 3,000 pages long. The laws passed by Congress last year. The other stack is 13 feet tall. For last year it was about 96,000 pages long, and it is last year's Federal Register, the annual cumulative indexes of Federal regulations as they are released and later finalized.

Those regulations end up costing the American economy about $2 trillion a year. This is up from just $300 billion a year 20 years ago when I first started tracking this problem. So it has increased roughly 7-fold. It is the product really of congressional delegation of power. Congress not wanting to make law itself and stand accountable for the difficult line drawing decisions that go along with setting public policy and having someone else do it. And yet, it is costing the economy $2 trillion a year, and I believe those effects are borne disproportionately by America's poor and middle class.

In your opinion, do you think an idea like the regulatory budgeting idea I have proposed or the REINS Act, which would require congressional approval of major regulations, would have a desirable impact on GDP and benefits for America's poor and middle class?

Chairman Hassett. Thank you, Senator. In terms of the specific proposals, I would have to touch base with my colleagues at the White House. It is not something I discussed with them, and I wouldn't wish to signal an official White House position that I am not currently informed about. But certainly the topics that you have mentioned are incredibly important to the White House.

And I think that one reason why sentiment in the U.S. is so much higher right now is there has been a lot of palpable deregulation so far this year, but also nearly a halt of costly new regulations. And one of the things that we at CEA have been studying is the impact on firms of new regulations. And it is really quite striking because if all of a sudden you run a business and then the U.S. Government has a new regulation, then you have to figure out what to do. You have to hire lawyers. You have to decide whether to put new things into your plan. And it is a really urgent problem.

The regulation from, for example, 3 years ago has costs, too, because it has distorted your previous behavior. But the new regulations are incredibly costly. And one think tank in town has estimated that just by slowing new regulations, we have reduced the number of man hours spent complying with new regulations this year by more than 6 million. And I think that gives you an idea of the kind of effects of prudent regulatory reform.

But we are also very mindful of how important many regulations are, like clean air and clean water and so on. So we are not talking about wiping away all regulations, just exposing the ones that exist and the new ones that we might think of, to really careful cost-benefit analysis.

Senator Lee. Thank you very much, Mr. Hassett. I see my time has expired.

Mr. Delaney.

Representative Delaney. Thank you, Mr. Chairman. Thank you, Dr. Hassett, and congratulations on your appointment. You bring tremendous expertise and very good judgment to this important job. So it is great to have you in the seat. Just staying on the corporate tax question for a moment.

It seems to me that across the last decade or two, a very large percentage of businesses, particularly large businesses, have moved from an incorporated status to a pass-through status, largely because of how the private equity industry has grown, and in every kind of private equity-backed transaction, those companies moved to an LLC status where they don't pay any corporate tax. In fact, many of them pay very little tax because they are leveraged and they can deduct the interest.

And there is no evidence or data that I have seen to indicate that wages have grown any faster in those companies where there is no corporate tax than in incorporated businesses in this country. So does that to some extent mitigate this argument that the corporate tax rate is the reason that wages haven't grown in this country, because in fact a growing and large percentage of the businesses in this country in fact don't pay tax because of what I just discussed, and their wages have not grown any faster based on any analysis that has been done than wages in C corporations, which actually pay this tax?

Chairman Hassett. Thank you for the question, Mr. Delaney. As always it is a very interesting one. And I am not sure there is literature on that question yet, but if there is, I will find it and send you a note about it. And it is a really great question, so I will have to speculate about whether that effect is there, which I won't dispute or concede because I would have to study the numbers a little bit more, why that might be.

Representative Delaney. Sure.

Chairman Hassett. Don't forget that the U.S. labor market is a place where firms show up and compete for workers, ideally, and that the wage is set by total labor demand in the country. If we have a big chunk of the firms in the country that are locating the jobs overseas, then that reduces overall demand.

Representative Delaney. Right.

Chairman Hassett. But in the end if, for example, Hassett, Incorporated, and Comstock, Incorporated, are competing for Delaney, then we are going to have to pay you about the same wage.

Representative Delaney. And a quick point on corporate tax. The average corporate rate is fact about 23 or 24 percent. Is that about right?

Chairman Hassett. Do you mean the taxes divided by total revenues——

Representative Delaney. Yeah.

Chairman Hassett. The average rate, the last I checked for multinationals, was a good deal lower than that.

Representative Delaney. Got it. And is that more consistent with our competitors as opposed to our stated rate, which is the highest?

Chairman Hassett. If revenue is low with our high tax rate, because people locate activity offshore——

Representative Delaney. Right.

Chairman Hassett. Then it doesn't mean that we have a low tax rate.

Representative Delaney. Right, it means they are both——

[Cross talk.]

Chairman Hassett. Yeah——

Representative Delaney. So I loved how you talked about focusing on things that we can agree on, because we need to do more of that here. We tend to focus on all the things we don't agree on. But two things that I think that there is broad agreement on, and I think you have opinions on these topics.

The first is tying infrastructure with tax reform, which I have worked on extensively, as I think you know, around international tax reform. And it seems to me it is a missed opportunity not to do infrastructure as part of tax reform because it is really the only way to pay for infrastructure and everyone seems to agree we need more investment in infrastructure.

And then the second question is a carbon tax, which would obviously generate an enormous number—amount of revenues, which could be used for broad-based tax reduction, individuals, small businesses, C corps, whatever the case may be, under the category of we would rather maybe tax pollution as opposed to income and profits.

Can you comment on the wisdom of having infrastructure as part of tax reform and perhaps a carbon tax as part of tax reform?

Chairman Hassett [joking]. Sure. You know, I am an economist, and if I look back at the times I have worked on presidential campaigns and advised people, then they tended to lose. So I don't give political advice because it is not very——

Representative Delaney. More a matter of start tax policy.

Chairman Hassett. Yeah. So infrastructure is really important. Tax reform is really important. Whether they go together is something that you folks are the experts in. And the second question——

Representative Delaney. Okay. Carbon tax.

Chairman Hassett. Carbon tax. Yeah, I have written extensively about a carbon tax, as you know, which may motivate the question——

Representative Delaney. Yes.

Chairman Hassett. And my job as CEA chair is to provide objective analysis of proposals. And if someone were to propose a carbon tax, then I am sure when I did that analysis I would be citing some of my own work——

Representative Delaney. And what is your directional opinion on a carbon tax? Whether a carbon tax whose revenues would be effectively dividended back to the American people either directly or through other tax cuts. How would that affect economic growth, putting aside, you know, what I view is perhaps the most important benefit, which was to reduce greenhouse gases. But how would you view that as an economist related to economic growth?

Chairman Hassett. Sure. Again, not speaking on Administration policy, but——

Representative Delaney. Sure. I understand.

Chairman Hassett. But as an economist who does study the literature. There is an economist at the Resources for the Future at the University of Maryland named Rob Williams, who has done a very careful modeling job of looking at carbon taxes and how they affect the overall economy. And depending which tax rates you reduce when you pair it with a carbon tax, you can get either really big negative effects on the economy or small positive effects.

Representative Delaney. So you can get positive to negatives, if you—devil or God is in the details——

Chairman Hassett. In his model that is what it says.

Representative Delaney. Thank you, Dr. Hassett.

Representative Comstock [presiding]. Thank you. I now recognize myself for 5 minutes. And thank you, Mr. Hassett, good to be with you, Chairman, and welcome you here to this committee and to your new position here.

I wanted to follow up a little bit on the growth rates, and as we look at growth in what we are doing in taxes, and how that relates to our international competition, and the potential for growth in economies. When you look at India and the growing middle class there and the potential we have to benefit from that, whether it is trade or other, but also in the growing competition that we are going to have.

What are the best policies that you think in terms of getting our growth rate up, because when you go to other countries and hear they are having 8 percent or 9 percent. When I look at a lot of the potential—I am in Virginia with a lot of technology sector in my district, and I often hear from them about they are just sort of waiting whether they can invest here or invest somewhere else. Should I go to India? Should I go, you know, to some other country, or should I invest here?

What policies can we put in place that will then sort of unleash it to both grow here, but then interact with the growing economy around the world?

Chairman Hassett. You know, I think that there are three components to economic growth. To grow output, you need to grow inputs. And you can have more labor input either because you have more workers or because the workers are more talented. You can have more capital because we are an attractive location for, the capital—or both of them can get better because of technological change.

Now, when you look around the world and you see countries growing at 9 or even 15 or 20 percent, which happens sometimes, very often that happens because they are starting out from a place where they are not at the technological frontier. Therefore, they can copy existing practice since the skyrocketing growth indicates they are just going to do it as well as, or half as well as, a major developed county.

The problem for us being really the class of the world in terms of the technological frontier or very close to it, is that the innovation part of growth is a lot harder because we can't just copy what somebody else is doing. We have to actually innovate and discover something that no one ever knew existed.

There are also things that we can correct with policies, and we can affect labor supply and capital supply. I think that the tax reform that has been negotiated with the White House and Congress is designed optimally to help both on the individual side by reducing marginal tax rates, and encouraging higher labor supply, and on the corporate side by making the U.S. a place where plants want to locate again, we would increase capital formation as well.

Representative Comstock. Now, are there ways we can, you know, with the workforce development, and I know that is an issue that we will be dealing with also subsequent to tax reform. How can we best invest in our workers and grow, because with the information economy, with this expanding economy and middle class around the world, our workers, if we are going to continue to lead, need to be the most talented, and we need to continually invest. I know we always talk about life-long education.

What policies can we then put in place to develop and constantly upgrade our employees so that their wages are growing, you know, substantially, and we don't have the stagnation that we have now?

Chairman Hassett. Well, sure. One key factor is human capital formation and educating our workers and helping them keep up with the rapid technological changes in society. And there are a number of initiatives that are being studied and enacted now by Secretary DeVos and the rest of the education team to help workers keep up.

I think that one of the things, looking back at our policy failures collectively as a Nation over the last few years, is that we have not necessarily done a good job of that. If you look at the people who have received training because they lost their job because of trade, for example, then that training doesn't always look like it has been that helpful. Therefore, it is something that we need to study very carefully and improve upon.

Representative Comstock. In terms of having, you know, look at all these training programs that we have across numerous agencies, kind of consolidating them, really having them directed towards the work shortages. And in Virginia we have lots of cyber jobs open, and you can—we have programs—I will give a plug for Capital One has done some great outreach with communities where kids aren't necessarily going to college, but they will get them in and they have gone out and recruited kids in lower income areas, but with real potential, bring them in for a 6-month to a year program. And they are having huge success getting them into that cyber pipeline. Then if they want to go back to business school, they want to go to college, they now have a job where they also will get tuition assistance and things like that.

So maybe as we are looking at these training programs, but also maybe tax policy—how we can encourage companies to invest in their workers like that, and match the education efforts to the jobs that are open and that we are deficient in filling.

Chairman Hassett. That is certainly an important objective.

Representative Comstock. Great. Thank you. Thank you. And I will now yield to my colleague, Mrs. Maloney for 5 minutes.

Representative Maloney. Thank you. Thank you. And congratulations on your appointment.

Chairman Hassett. Thank you, Congresswoman.

Representative Maloney. It is wonderful to have you here today. Now, in the words of a famous and immortal New Yorker, Yogi Berra, this hearing and topic sounds a great deal like déjà vu.

This country has heard again and again about how huge tax cuts for the most fortunate will pay for themselves, and that the benefits will somehow trickle down to benefit working families. And again and again that has not been the case. Just last April this committee had a hearing where we debated the virtues of trickle down economics and featured the inventor of the Laffer Curve, Arthur Laffer, and Dr. Jared Bernstein, who was the chief economist to former Vice President Joe Biden.

Mr. Laffer made a number of the same claims being made here today about the benefits of giant tax cuts. And after the hearing he published a number of articles that pointed out that that is not what happened. And I would like—and it is not likely to happen again, I would say, based on the past performance. So, without objection, I would like to submit copies of these articles into the record.

Representative Comstock. No objection.

[The articles appear in the Submissions for the Record on page 33.]

Representative Maloney. Now, according to your prepared testimony, you estimate that the Administration's proposed tax cut to the corporate tax rate would increase the level of average household income in the United States by at least $4,000 annually, after the effects have taken place. That is on page four of your testimony.

Chairman Hassett. Correct.

Representative Maloney. Well, I must say that that sounds absolutely wonderful, but it sounds a little bit to me like you can lose all this weight, but you don't have to exercise and you don't have to go on a diet. And past performance doesn't show that.

Now, the New York times pointed out in one of their articles that a 2012 Treasury Department study found that less than a fifth of the corporate tax falls on workers. So it does not trickle down to them. And a Congressional Research report last month concluded that the effects of corporate taxes fell largely on high-income Americans, not average workers.

So I would like to, without objection, to place into the record these two reports also. Without objection.

Representative Comstock. Without objection.

[The information was not received by the printing deadline.]

Representative Maloney. Thank you. Now, FactCheck.org, you might have seen the report that they did on your numbers. They also took a look at the underlying math and found that there were roughly 125 million households in the U.S. last year, and an average increase of 4,000 for each of these households would equal more than 503 billion annually. But according to the U.S. Treasury, the total amount that U.S. collected in corporate taxes in fiscal year 2017 was just $297 billion.

So even if you somehow transferred all the money previously collected in corporate taxes directly to American households, you would still be about 200 billion short. And that doesn't add up to me. So to support the Administration's proposal, you further testified today, and you give the example in your testimony, that between 2012 and 2016, the ten lowest corporate tax countries of the OECD had a corporate tax rate 13.9 percentage points lower than the 10 highest corporate tax countries, about the same scale as the reduction currently under consideration in the United States. But you don't list those countries. But I assume that they must include low-tax countries like Switzerland and Latvia. And I would like, for the record, for you to submit who these countries are.

Chairman Hassett. Right.

Representative Maloney. I looked at Latvia and it is a great country. They have emerged in a noble fashion from communism and Soviet oppression. But last year the GDP of Latvia was $27.68 billion, and that is not quite as good as Vermont. And Vermont, they came in at number 50 in GDP among our States.

So are you seriously suggesting that the U.S., a country with huge complex dynamic economy, and a GDP last year of over $18 trillion, can and should model its tax policy after that of an eastern European country still emerging from the yoke of communism. Actually, Switzerland also has a very low tax rate, with a GDP that is less than that of one of our great States, Vermont?

And if I can use Latvia as a model, then we should also use the tragic example, I would say, of Kansas, as a cautionary tale—a tale about the economic chaos that happened if your brand of trickle down economics is put into place. Kansas is not a pretty picture.

So your comment really on the 10 compared to the 10 highest—and to me it doesn't make a normal or accurate comparison, and the numbers that were really refuted by FactCheck.com on the 4,000 benefits.

One of the items that Senator Peters mentioned is the concern that many of us have that outside organizations and analysis are saying that 80 percent of the tax cut goes to the most fortunate, which is not the stated claim or purpose or goal of the Administration. But in its current form, numbers don't lie. And the numbers are coming in in a way that does not benefit the working man and woman in our country.

Chairman Hassett. Thank you very much. It is always a pleasure to appear before you, Mrs. Maloney.

Representative Maloney. Always a pleasure to see you. Congratulations.

Chairman Hassett. I will respond to two points directly. The point about Latvia: there is a very large literature that looks at corporate tax rates and how wages respond. And in order to estimate that effect, you need variation in the tax rates. There is variation over time within countries, and there are studies that look at that. There is variation across countries. There is variation within——

Representative Maloney. Excuse me a second. But when you make a presentation, if you could give us the 10 countries that you are looking at.

Chairman Hassett. I will do that. I will follow up and send them. I can't think of them off the top of my head, in part, because it changes each year because countries are cutting their taxes. But this evidence has been found and people who look across U.S. States, for example, you mentioned Vermont. There is—a Federal Reserve paper that looks at when states change their corporate taxes, what happens to wages. There are papers that look at Canada, across Canadian provinces, and papers that look at Germany.

And so the chart was meant to summarize what is basically a result that appears over and over in the literature in an easy to digest forum, and I think it serves that purpose. I think that the FactCheck.org point, which has been emphasized also publicly by a few economists, is really something of a classic economic blunder.

The fact is that, if—right now we have a corporate tax system that encourages firms to locate their activity in Ireland in order to avoid U.S. tax, and they do that by creating jobs in Ireland instead of here, then we are barely getting any revenue at all from the corporate tax here because they moved the money to Ireland. I think we agreed that U.S. multinationals aren't paying that tax.

And so to look at the change in revenue and the change in wages, and to say that that is a meaningful ratio is something that has been disproven by careful analysis by John Cochrane at the University of Chicago, Casey Mulligan at the University of Chicago, and Greg Mankiw at Harvard University. So the FactCheck.org numbers are just not correct. Thank you.

Representative Maloney. Well, if you would send me the reports that you mentioned.

Chairman Hassett. Sure will.

Representative Maloney. And I will send you the Treasury Department report and the Congressional Research Service.

Chairman Hassett. I have read both of those.

Representative Maloney. That refute that. So as we go forward in this debate, it is important that we get our numbers straight. And I would like to see the numbers that you rejected with the foreign countries. And this is important. I would like to see money brought back to America and invested in our economy and in our infrastructure. I agree with you on that. And this is a work in progress.

We do need to simplify our tax code, but we certainly need to do it in a way that is fair to working men and women. And I do not believe that the current forum that is before us—of course, it is going to be debated and changed as we go forward, as you pointed out, does that.

Thank you so much for your service.

Chairman Hassett. Thank you.

Representative Maloney. And I guess I yield to Senator Lee, right?

Senator Lee [presiding]. Thank you. Senator Klobuchar.

Senator Klobuchar. Thank you very much. And thank you so much for being here, and I would share the Representative's concern about the current proposal. But I want to start out with something I know that you have done some work in the rural economic area, and I am still seeing a lot of challenges. I was just up on the Canadian border with Representative Peterson. We obviously talked about the current estate tax proposal, and it only helps I think two people in his district.

But last year we saw large layoffs in the iron range due to steel dumping. People are now just getting back to work. We have a shortage of workforce housing. So while we have that going on in a lot of our rural areas, we actually have housing issues because we have some successful companies. And we have job openings, but not enough trained workers, and I know you have been asked about this.

You have written about the challenges facing our rural communities. What policies or programs do you think we should implement to help?

Chairman Hassett. Thank you, Senator. And thank you for your support in my nomination to my confirmation. I am very grateful for that and humbled by it.

I think that the geographic inequality around our country right now is very palpable in many different ways, and that there are places that are booming at the State level. For example, right now, Colorado has about half an unemployed worker per job listing. And if you survey firms, then the biggest, number one, problem they have is that they can't find the workers for the job openings that they have. And then, as you know, that there are many parts of your State and every State that have the exact opposite circumstance, where the unemployment rate is way north of 10 percent and it has been for more than a decade and doesn't seem like it is budging, even though the economy is doing great.

I, as an economist, am hopeful that the corporate tax reform that is currently being considered could do quite a bit to help that, because with a tight labor market in lots of parts of the country, then, if you are a firm and you want to locate a plant here instead of Ireland, then you have got to find a place where there are a lot of workers, because if you locate there, then you will actually be able to fill up the plant. And so I think that that big picture effect is probably the biggest thing that we can do.

Earlier, we talked with Chairman Tiberi about a proposal that he has put forward, which the White House has no current position on, about how to address geographic inequality, more specifically with a bipartisan proposal that Mr. Tiberi is a co-sponsor of. But I think that ideas like that—or a cosponsor of, excuse me—ideas like that are things that we need to explore as well.

Senator Klobuchar. You mentioned the tax and other countries, locating overseas. Certainly, one of the biggest goals here we have is to have jobs in America. And I was just talking before I came over here with some tax experts about the difference of someone that would like to bring money back from overseas that is over there, between a global minimum tax idea, where you have the average among countries, versus the previous administration had proposed a territorial tax idea, where you would have a minimum tax per country as opposed to having this average, and what would the average do. Could you talk about the difference between those two proposals? I am not talking about specific rates. I am talking about the mechanics of how that would work and the effect that could have on companies' incentives to keep jobs in America.

Chairman Hassett. I know that this issue is something that is currently being studied carefully by the committees. I think that everybody involved who has studied it, including President Obama, thinks that we should move towards a territorial system. The frustrating part for people who do taxes is that there really isn't just a territorial system and a worldwide system, but there are degrees of territoriality and worldwide. And I look forward to seeing what the committee has come up with specifically on this issue. And I think it is a very important one for understanding the international tax implications of the corporate tax. But I think we have to let the committees decide where they are going to go on that.

Senator Klobuchar. Okay. Last question I have is just on the economic opportunities that we could have with immigration reform. And Grover Norquist, when I was the ranking on this committee, came in and gave his full-throated support for immigration comprehensive reform with the basis that we could bring the debt. And there have been many studies, CBO studies, on that, and also that we could actually bring in more talent and create more jobs, and I think the 2013 figure back then, it would reduce the deficit by $158 billion over 10 years, $685 billion over the following—include the following decade. Twenty-five percent of our U.S. Nobel laureates were born in other countries. Seventy of our Fortune 500 companies are headed up by immigrants. Could you tell me where you are on this?

Chairman Hassett. Sure. You know, I think that, as an economist, we talked earlier in the hearing about how, if you want more output, you need more input, and one of the inputs is labor. And so, for sure, in any economy, immigration is an important source of labor. And also we have borders, and they need to be protected.

I am not an expert on border security. But I think it is also that there is bipartisan agreement that we——

Senator Klobuchar. We had a bill like this out of the Senate that did both things.

Chairman Hassett. Excuse me?

Senator Klobuchar. We had a bill that passed the Senate that had significant funding for order at the border but also allowed this kind of legal immigration that I am talking about.

Chairman Hassett. I would be happy to discuss that specific bill with you——

Senator Klobuchar. Okay. Very good.

Chairman Hassett [continuing]. And that specific study.

Senator Klobuchar. Time is of the essence here. We have been waiting a decade.

Chairman Hassett. And I could add that I am very grateful that my Irish ancestors came here, and I am pretty sure they weren't allowed here because they had computer degrees.

Senator Klobuchar. Exactly. Good point. Same with mine, came as a chef or a chef's assistant, not a chef. Thank you.

Chairman Hassett. Thank you.

Senator Lee. Congressman Beyer.

Representative Beyer. Thank you, Senator.

Mr. Chairman, reports out of the recent fourth round of the NAFTA renegotiations have not been positive, particularly regarding the reactions in Ottawa and in Mexico City to certain U.S. proposals. And the successful conclusion of the negotiations was always going to be difficult, and now we seem to be further away from that goal than ever before. If those renegotiations don't produce an outcome that is acceptable to the Administration or to Congress, would the economy be better off if the U.S. pulled out of NAFTA rather than the status quo?

Chairman Hassett. Thank you for the question. I am not involved in the negotiations, and I think that the President's position on trade is that our trade deals could be made better. And I think that, as an economist, I can say that, if an economist wrote a free trade deal, then it would be one sentence. We would say: We got free trade. If you look at the free trade deals, then they take months and months to negotiate, and they have got thousands and thousands of pages. And so I don't think that one could dispute the observation that we could make those deals better. I am also hopeful to see where the negotiations lead and hope that the trade deals could be made better.

Representative Beyer. I am glad to hear it. Implicit in your remarks is that you are very much a free trader.

Chairman Hassett. I am an economist——

Representative Beyer [continuing]. Put those together.

You have written in the past about the stock market. And based on public statements by senior administration, including our Treasury Secretary, who described government, quote, as a mark-to-market business. Many market participants believe that this Administration views higher stock prices as a validation of its economic policies. But, as you know, stock prices go up and down. What are the risks, in your view, of guiding policy based on the whims of the equity markets?

Chairman Hassett. You know, I don't think that there is anyone, that I know of, in the White House that is guiding policy based on what happened yesterday in the stock market. I think that our economic proposals are based on sound economic reasoning and objective analysis. I think that you are right, that the market goes up and down. And the market has gone up a lot lately, and I think that if I were going to write down an economic model that predicted a couple of reasons why, the most important would be that there is an anticipated tax reform. And if the statutory corporate tax rate were to drop as significantly as is proposed, then that would certainly have a positive impact on the market. And so exactly how big that effect is and what the probability is that the markets factored in of the tax reform is unclear to me. There is not really a good estimate of that. But I think that one could be quite confident that, if the tax reform were to fail, that that would be a big negative for the market.

Representative Beyer. Okay. You know, Mr. Chairman, several Fed presidents have recently noted that cutting taxes at this point in the business cycle would be highly procyclical.

Robert Kaplan of Dallas Fed said, quote: My concern is you would create a bump in gross domestic product that would be short term. It would then decline back down to trend growth, except that when you decline back down, you would be more leveraged than when you started.

And San Francisco Fed President John Williams said: Unless targeted to raise productivity and underlying potential, the tax cut could feed unsustainable growth that could ultimately be undone by asset price bubbles, inflation, and possible recession.

So why is now the time for added stimulus? I know you have been concerned in the past about inflation risks and fiscal risks in the past. Were those concerns unfounded in the past? Why are we being so procyclical right now?

Chairman Hassett. I would share those concerns if the tax proposal right now were a demand stimulus, but the tax proposal is to stimulate supply. And so, if we stimulate supply, then there is more capital, there is higher labor productivity, and you are actually making even the workers that are already employed more productive because they have better machines to work with. And so that doesn't create a kind of Keynesian demand inflation spiral at all, but rather the increase in capital supply puts downward pressure at the margin given the positive GDP growth because you are increasing supply.

Representative Beyer. But we already have—corporate profits are at an all-time high right now. There is more capital sitting on the sidelines than there has ever been. Why do we think that changing the corporate tax structure is going to put more of that money to work?

Chairman Hassett. The money is on the sidelines, and it is on the sidelines, across the ocean. And the fact is that the corporate money isn't turning into factories here in the U.S. because we have the highest corporate taxes on Earth. It is not rocket science. And if we were to reduce the corporate tax rate, then companies would come back, and the money would come off the sidelines because the U.S., again, would be an attractive location for investment.

Representative Beyer. If 25 percent of those corporations pay no taxes, and the 35 percent is the statutory rate, and the actual rate is closer to 14, wouldn't we be better off finding a way to get it much lower, 20, 22, 25, whatever the target rate is, by eliminating the preferences and the exceptions that allow 25 percent to pay nothing?

Chairman Hassett. They paid nothing mostly because they have located the money in Ireland or some other country offshore, and, therefore, avoid the U.S. tax. And so that is precisely the offshoring model that we are trying to sever with this proposal.

Representative Beyer. Mr. Chairman, thank you. I yield back.

Senator Lee. Mr. Hassett, I wanted to ask you, generally speaking, what you believe the bright spots are in our economy. We talk a lot, understandably and with good necessity, about some of the things that scare us, that worry us. But I am curious to know, as an economist, not only what you think are the bright spots but also what has surprised you about our economy over the last few years.

Chairman Hassett. Sure. I think that there are a number of bright spots, and we are really starting to see it in the data, that with GDP growth going up north of 3 percent, we will get another release this week. It will probably be hurricane-affected, but be a little bit below 2 percent would be my guess. But the expectation of the professional staff at the CEA is that we are currently looking at a second half of the year that, on average, will be north of 3 percent growth. So that would be, on average, three-quarters in a row. And I think that going from the new normal of 1.9 to 3 percent, that that bright spot, which is really a nice headline for America's workers, is mostly attributable to a surge in capital formation that I think is there because of increased optimism about deregulation and lower taxes. And so I think that right now it is incumbent on us to see that bright spot and to make sure that it stays bright by delivering on the policies that we promised but, especially on taxes, haven't been delivered yet. But I think that firms are optimistic because they expect that we are going to succeed.

Senator Lee. Thank you. That is good insight.

As you are aware, some of the tax reform proposals that we have been looking at have included a discussion of a separate rate for pass-through entities. The idea is that there would be separate rules that would go along with the separate pass-through rate that would be there to thwart opportunistic, manipulative tax avoidance. What, in your opinion, would those rules look like? And how would this work?

Chairman Hassett. Yeah. We absolutely believe that the corporate rate reduction to 20 percent requires some kind of commensurate rate reduction for pass-through businesses, America's small businesses, but we also recognize that the guardrails around that 25 percent rate need to be very good because, otherwise, for example, if LeBron James is going to be getting the 25 percent because he is a small business. And, you know, I love him. He may be the greatest basketball player of all time, but I think he should pay the top marginal tax rate because it is labor income. You see how hard he works on the court.

I am not a lawyer. I hear the lawyers talk about guardrails, and I know that there is a lot of optimism that this can be constructed in a prudent way. But I have to wait and see what the final outcome is before I can do an economic analysis of it.

Senator Lee. Thank you.

Representative Comstock.

Representative Comstock. Thank you.

You know, I think this morning we did hear a lot of the same critiques that we have heard in the past from 1980s, you know, really for the past 30 years. You know, all the disparaging remarks that you heard today. But we are really in a different economy now, this information economy and the international economy that we have. And as you pointed out numerous times, you know, if people can leave and go to Ireland and find a talent pool there that allows them, you know, Microsoft, or a lot of our tech companies to go there, that is what we are competing with. So what kind of new thinking maybe gets past some of the same partisan language that you have—that, you know, has kind of been renewed. I thought we had all sort of agreed our corporate rate was too high, but now we are kind of—we are seeing that reversion on the partisan front to the same old tired critiques. What kind of new thinking can we do with this new economy so that we can get past some of those partisan divides? And if you can just—kind of following up on some of the bright spots but also that we can't really thrive and have 3, 4 percent growth if we stick with those old models.

Chairman Hassett. I think that there is so much that the members of this committee agree about: the fact that there is a disconnect between profits and wages; the fact that we have got the highest statutory rate on Earth, but there is a whole bunch of companies that don't pay it; the fact that wage growth has been completely unacceptable. And it is really the responsibility of the Members of Congress to think about why those patterns exist in the data and then to come up with something that we are going to do about it.

And I understand that partisanship is part of what we do here in Washington. It is inevitable. But I have not seen an alternative theory for this set of facts that is in any way moving for me. And I just honestly hope that the responsibility that we all have for America's workers, for the people that are working harder every day and not getting more money, can help us work together on this bipartisan tax reform. I think it is designed to be the same kind of process we had in 1986 where a great tax reform passed that was a big positive for the economy, and I am still hopeful that that can be achieved if people will start to focus on the actual analysis. For example, why have wages been growing so slowly even though profits have not? What is your story for that if it is not the one that we are talking about? I don't think that there is a good alternative.

Representative Comstock. And Larry Lindsey had an article where he was talking about the difference between the 3.1 or 3.2 percent growth and the 2.1 that we have had from 2011 to 2016, that average of 2.1. What is the difference between a 2.1 and a 3.1 to the economy and to long-term things like Social Security and our entitlements?

Chairman Hassett. Sure. You know, these are going to be slightly incorrect, but they are useful rules of thumb because they are round numbers and they are easy to remember: If we get an extra percent of GDP growth, then that is about a million jobs. That is about a thousand dollars per household.

And so, if we can come up with a tax plan that adds—you know, pick your favorite number—3 or 4 percent over 10 years, then multiply those out. It is a lot of money. It is a lot of jobs. And so that is how I think about it.

Representative Comstock. And then, as we were talking earlier, if we also have that skill upgrade, you are really talking about wage growth of a lot more than a thousand. If you go from being somebody who maybe loses your coal job—although, those very high income, $80,000, $90,000, $100,000 in coal country—but if you move into some of these technology jobs, engineering, construction, a lot of these things also have very high pay, we need to be supporting, you know, through the tax structures, through the business process, supporting that relocation and that reassignment of jobs and labor, too, also. So you would be talking about a lot more than $1,000 increase when you get them into that higher information economy, right?

Chairman Hassett. Sure. You are exactly right. It is something that we have talked a lot about in the White House. The President even tweeted about people needing to move if they are having a hard time finding a job to the labor markets that are hot.

Representative Comstock. Great. Well, thank you.

Chairman Hassett. Thank you.

Representative Comstock. Thank you. I really appreciate the opportunity to visit this morning.

Chairman Hassett. Thank you.

Senator Lee. Mr. Hassett, we thank you for coming.

Chairman Hassett. Thank you for having me.

Senator Lee. And your insight today has been very helpful. We are grateful, also, for the service you provide for the country and the Administration.

Should members wish to submit questions for the record, the hearing record will remain open for 5 business days.

And, with that, we will be adjourned.

Chairman Hassett. Thank you.

[Whereupon, at 11:18 a.m., the committee was adjourned.]

SUBMISSIONS FOR THE RECORD

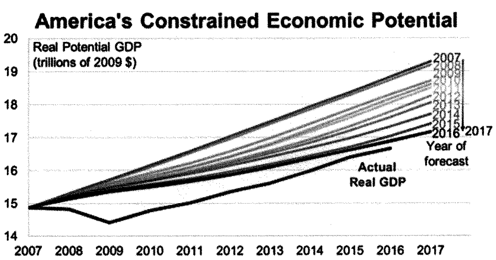
PREPARED STATEMENT OF HON. PATRICK J. TIBERI, CHAIRMAN, JOINT ECONOMIC COMMITTEE

Good morning and welcome. I want to welcome Senator Peters and Vice Chairman Senator Lee as well as the other Members of the Committee to what I expect will be a most informative hearing on how we can accelerate economic growth in the United States.

What is holding back economic growth in America has been of central interest to this Committee from the onset of my term as chairman. Our hearings have produced useful information and insights. I am particularly pleased to have Chairman Hassett lend his insights today on the forces and constraints that are holding back private investment, labor force participation, and wages. We hope to get a clearer picture of how the right policies can help the economy recover its full potential.

The economy is dealing with the aging of the population, slowing population growth, and technological changes that are altering the methods of production. But self-imposed constraints also have altered the way the economy performs and not in a good way. I strongly believe we can do something about that.

I would like to direct your attention to the graph showing how the Congressional Budget Office (CBO) lowered its assessment of the economy's output potential every year since 2007 until 2016. These are not projections of actual GDP, mind you, but of potential GDP—the economy's output capacity—normally, a fairly stable concept. Back in 2007, CBO estimated the U.S. output potential for 2016 to be over 12 percent higher than it is now.

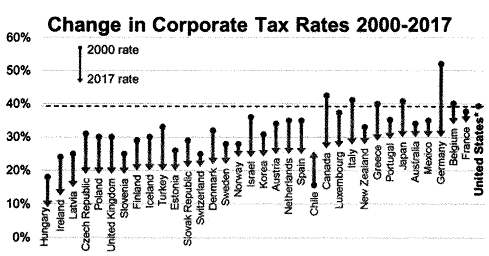


Source: CBO, JEC converted dollar amounts to 2009 $

What happened? The aging of the population was predictable. Not anticipated was that U.S. business investment would be down from prerecession rates and that the rate at which Americans participate in the labor force would drop so markedly. Despite the low unemployment rate, the labor market's health has not been fully restored. Indeed, the labor force participation rate of people of prime working age remains substantially below where it was prior to the recession.

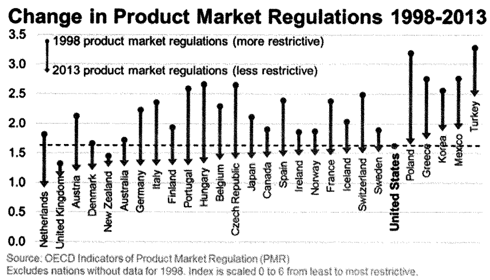
I believe that economic policy, including the failure to act when other countries were improving their business climate, is largely to blame.

I would like to show you two graphs that illustrate the changes U.S. firms face on the international playing field. The first chart shows how 34 countries changed their corporate tax rates since 2000. All these countries, save Chile, which had the lowest rate initially, reduced their corporate tax rates to make their economies more competitive while the U.S. rate remained the same.



Source: OECD
* Combined U.S. federal and state corporate income tax rate; comparable international tax rates.

The next chart shows how 27 countries eased product market regulations from 1998 to 2013, based on an OECD index. All these countries save Chile reduced taxation and regulation.



This paints quite a startling picture. It explains why U.S. corporations have been moving offshore.

Other countries have purposefully improved the international competitiveness of their business sector while the United States has taken the competitiveness of its businesses for granted. As a result, we now have an economy that does not fully engage its resources and entrepreneurial spirit.

A JEC hearing earlier this year on declining economic opportunity revealed a dramatic decline of new business formation in this country since the last recession. From 2008 to 2014, more businesses actually closed than opened. A JEC hearing earlier this month showed how detrimental the tax code can be to starting a new business—in terms of both its provisions and its sheer complexity.

All the challenges we face are more daunting as a result. The national debt is a bigger problem with a slow-growing economy. This is why we so urgently need both tax and regulatory reform. We must restore a more highly functioning market economy that offers hope and opportunity for entrepreneurs, investors, and workers and that removes the artificial constraints on faster economic growth.

Dr. Hassett's expertise is well grounded in economic research, and one of his areas of specialization is taxation, which is especially useful at the present time. I cannot think of a better witness to explain just how tax and regulatory reform can lift the economy and living standards. Chairman Hassett, we appreciate your appearance before the Committee and look forward to hearing your views today.

I will now yield to Senator Peters for his statement.

Prepared Statement of Chairman Kevin Hassett, Council of Economic Advisers

Chairman Tiberi, Ranking Member Heinrich, Vice Chairman Lee, and Members of the Committee, thank you for inviting me to discuss the state of the economy with you today. In the testimony that follows, I will provide an overview and discuss the status of a number of sectors. I will emphasize some areas that need attention, as well as recommend policy changes that will improve our citizens' economic well-being.

Overview: the economy, which is buoyed by heightened expectations, is now growing at a solid and sustainable pace with low unemployment and low inflation. Financial markets appear to recognize the likelihood of continued growth with low inflation, with the major stock price indexes up substantially over the past year, and with expected inflation (from the market for Treasury's inflation-protected securities) remaining low.

That said, the Trump Administration is not satisfied with business as usual nor with the pace of real output and income growth during the past several years. As a result, we have put forward a program designed to boost the rate of real GDP growth. That program includes tax cuts designed to boost the rate of investment, raise productivity, and boost real wages. The Administration also plans to improve the regulatory landscape, and thereby to keep the flow of new regulations from further reducing the pace of economic growth. We recently put out a report that looked specifically at the burden of regulation on our economy, and there is no doubt that overly burdensome regulation hurts GDP growth.

I am happy to report that the economy is doing well so far in 2017. Real GDP growth during the first two quarters of the year averaged 2.1 percent at an annual rate, and the range currently being estimated for third-quarter growth (2-to-3½ percent) despite the negative effects of Hurricanes Harvey and Irma. As a result, some snap-back can be expected in the fourth quarter, especially in the petroleum-producing sectors whose Texas operations were shut down by Hurricane Harvey. Since

January, the unemployment rate fell 0.6 percentage points to 4.2 percent in September, the lowest rate since 2001, and overall growth is poised to average about 3 percent over the second half of the year.

Financial Markets: Since the election, stock market values have climbed steeply, with a value of large companies in the Standard and Poor's 500 index increasing [20] percent and the values of the small companies in the Russell 2000 climbing even more, [26] percent. The joint Administration-Congressional tax proposal, the "Unified Framework for Fixing our Broken Tax Code," likely boosted the overall stock market, which has priced in an increased chance of a major tax cut. Also, the President's program to stabilize the regulatory environment may be partly responsible for the relatively strong performance of small company stocks because regulation is an approximately fixed cost and is therefore more of an impediment for small firms than for large firms. The rise in the stock market—together with the increase in home prices—has generally positive implications for the rest of the economy, such as its role in supporting consumer spending.

Real consumer spending grew 2.6 percent at an annual rate during the first two quarters of 2017, only slightly below the 2.9 percent rate of growth during the preceding two years. Consumer spending has outpaced disposable income growth during the past four quarters (1.2 percent). As a result the saving rate fell to 3.8 percent in the second quarter from a 2016 average of 4.9 percent. High levels of consumer sentiment and the recent gains in housing values and stock-market wealth have supported growth in consumer spending and the accompanying decline in the saving rate.

Business investment grew at a 7 percent annual rate during the first half of 2017, a notable acceleration from an essentially flat pace during the preceding two years. The acceleration was in the equipment and structures components while the intellectual property component continued to grow at a healthy (5 percent annual) rate. Looking back over the whole of this past business-cycle, business investment fell more during 2008–09 than during any previous recession, but then recovered in line with a normal recovery—at least through about 2014. During the past two years (2015–16), however, it plateaued. Because of the deep dive during the recession, however, the level of investment did not rebound to the level of the previous (2007) peak until four years into the recovery.

After translating this pattern of investment into the flow of capital services, it is apparent that capital deepening—the flow of capital services per hour worked—has made essentially no contribution to the growth of labor productivity in contrast to a post-WWII average of 0.8 percentage point per year. As I will discuss in a moment, this Administration thinks that tax policy could play a role in reviving the contribution of capital services to labor productivity growth, and through that channel to the growth of real wages.

Real residential investment grew at a slow (1.5 percent) annual rate in the first half of 2017. Growth was also slow during the four quarters of 2016, after five years of rapid growth. We have reason to expect somewhat faster growth during the next year in view of tight housing-market conditions, rising home prices, and a shortage of existing homes for sale. Building permits have exceeded housing starts for the past [7] months and the level of permits authorized but not yet started is near its business-cycle high, suggesting solid near-term prospects for an increase in housing starts.

Consistent with tight supply, nominal national home prices increased 6.3 percent during the 12-months ended in July (according to the FHFA Purchase-Only Index). Nominal national home prices were 10 percent above their 2007 peak. However, after adjusting for inflation with the Consumer Price Index, real home prices in July were still 8 percent below their peak. The changes in home prices varied considerably across states. Over the four quarters that ended in 2017:Q2, home prices rose in 48 states and the District of Columbia. West Virginia experienced the largest decrease (−1.2 percent), while Washington State experienced the largest increase (12.4 percent). A consensus of housing-price experts expects that home prices will continue to increase, albeit at a moderating rate over time. The median forecast from Zillow's survey of house price experts is for home prices to increase 5.0 percent in 2017 and 4.0 percent in 2018.

The low-and-steady rate of core inflation is notable. Core CPI inflation (that is, excluding food and energy prices) was only 1.7 percent for the 12 months through September, down from 2.2 percent during the year-earlier period. Low prices on goods imported from our trading partners have been one force holding down domestic inflation. The low and roughly stable rate of core inflation suggests that the U.S. economy has not yet bumped up against a capacity constraint and that it still has room to grow.

Looking back at the past few years, it appears that real potential GDP appears to be growing at about only a 2 percent annual rate, or perhaps less. After all, the unemployment rate has fallen 0.5 percentage points per year during the past two second-quarter to second-quarter intervals with only 1.7 percent per year real GDP growth. Looking back at this recent history, I can understand why the Congressional Budget Office projects growth of potential GDP of 1.8 percent during the next 10 years in their current-law forecast, although I am not endorsing that CBO forecast. If economic policy can do anything to elevate this growth rate, it should . . . because of the importance of potential growth for the soundness of our Budget and the welfare of our Nation. This recent disappointing growth is the key motivation behind this Administration's growth agenda.

Real wage growth in America has stagnated. Over the past eight years, the real median household income in the United States rose by an average of six-tenths of a percent per year. But even as Americans' real wages stagnated, real corporate profits soared, increasing by an average of 11 percent per year. The relationship between corporate profits and worker compensation broke down in the late 1980s. Prior to 1990, labor compensation rose by more than 1 percent for every 1 percent increase in corporate profits. From 1990–2016, the pass-through from corporate profits to labor compensation was only 0.6 percent, and looking most recently, from 2008–2016, only 0.3 percent.[1] The profits of U.S. multinationals are still American profits, but, increasingly, the benefits of those profits do not accrue to U.S. workers.

The deteriorating relationship between the wages of American workers and U.S. corporate profits reflects the state of international tax competition. Countries around the world have responded to the international outflow of capital by cutting their corporate tax rates to attract capital back. They have doubled down on such policies as they have seen business-friendly policies benefit workers.

A key feature of the joint proposal for taxes of this Administration together with Congressional leadership is the proposed reduction of the statutory Federal corporate tax rate from 35 to 20 percent. An analysis by the Council of Economic Advisers suggests that this tax rate cut would increase the level of average household income (relative to a no-tax-cut baseline) in the United States by, conservatively, $4,000 annually after the effects have taken hold.

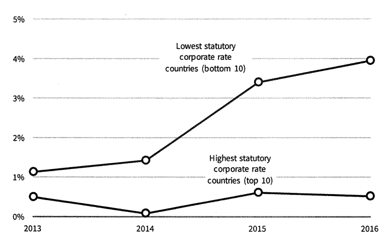
It may sound counter-intuitive to some that a cut in the tax on profits might boost wages, but the chain of causality is straightforward. Real wages reflect output per hour (labor productivity) of American workers. The productivity of workers in an economy depends, in part, on tools and machinery in the hands of the workers. The services of these tools, known technically as the flow of capital services—in the right hands—enables production. Even in an economy without international capital flows, reductions in the corporate tax rates and the associated capital deepening may imply a higher marginal product of labor and higher wages. The issue becomes more dramatic when the international dimensions are considered. The ability of domestic U.S. firms to invest foreign profits overseas magnifies the implications of corporate tax policy for domestic workers because an uncompetitive domestic corporate tax rate reduces the demand for U.S. workers by encouraging capital formation abroad. Indeed, when viewed in this way, the incidence of the corporate tax could theoretically fall entirely on U.S. workers, so long as workers are immobile and capital moves freely across borders. And wage changes of the scale we have modeled happen in just a few years simply if capital deepening returns to normal.

This conclusion—that the incidence of the corporate tax falls partly but importantly on workers—is driven by empirical patterns that are highly visible, in addition to extensive peer-reviewed research, not to mention a number of follow-up studies to ours that have appeared during the past 10 days or so. For example, the covariation between real wage growth and statutory corporate tax rates between the most-taxed and least-taxed developed countries (OECD) over recent years, visible in Figure 1 (attached), is indicative of this larger literature. Between 2012 and 2016, the 10 lowest corporate tax countries of the OECD had corporate tax rates 13.9 percentage points lower than the 10 highest corporate tax countries, about the same scale as the reduction currently under consideration in the United States. The average real wage growth in the low-tax countries has been dramatically higher, as would have been predicted by a consumer of the recent academic literature, which looks at much longer time periods and explores the relationship with modern econometric techniques.

[1] Results from a regression of total labor compensation in the U.S. on corporate profits from BEA data covering 1966–2016. A Wald test supremum trend break occurs in Q4 1989.

Figure 1. Wage Growth in Developed Countries: Lowest vs. Highest Corporate Tax Countries

(Year-over-year change)



The U.S. economy has made great progress during the past years in reducing the jobless rate, but the rate of productivity growth and therefore real wage growth has been slow. It is time to turn our attention to building a plan for boosting the rate of growth in the long-run. As I have discussed, the Administration's plan for tax reform will have an important role in improving the rate of productivity growth, in combination with its plan to stabilize the regulatory environment, and we look forward to working with you to reach these goals.

I will be happy to respond to any questions the committee may have. Thank you.

Submitted by Representative Carolyn B. Maloney

Washington Post - April 25, 2017

Arthur Laffer's Theory on Tax Cuts Comes to Life Once More - By Peter Baker

WASHINGTON — A white cloth napkin, now displayed in the National Museum of American History, helped change the course of modern economics. On it, the economist Arthur Laffer in 1974 sketched a curve meant to illustrate his theory that cutting taxes would spur enough economic growth to generate new tax revenue.

More than 40 years after those scribblings, President Trump is reviving the so-called Laffer curve as he announces the broad outlines of a tax overhaul on Wednesday. What the first President George Bush once called "voodoo economics" is back, as Mr. Trump's advisers argue that deep cuts in corporate taxes will ultimately pay for themselves with an explosion of new business and job creation.

The exact contours of the plan remained murky and Mr. Trump will not produce a fully realized proposal on Wednesday. But what the president has called a tax reform plan is looking more like a tax cut plan, showering taxpayers with rate reductions without offsetting the full cost by closing loopholes or raising taxes elsewhere. In the short run, such a plan would add many billions of dollars to the national deficit. Mr. Trump contends that it will be worth it in the long run.

"The tax plan will pay for itself with economic growth," Steven Mnuchin, the Treasury secretary and main architect of the plan, told reporters this week.

The scope of the president's plan, as it has leaked out in recent days, has excited the markets even as it has worried fiscal hawks. If this feels like a familiar debate, it is because it has played out repeatedly in the past four decades as the dominant Republican orthodoxy shifted from deficit reduction to tax cuts.

Presidents Ronald Reagan and George W. Bush both cut taxes deeply on the promise of economic payoffs, putting aside concerns about deficits, which grew during their tenures. Mr. Trump at points during the campaign talked tough about deficits, promising not only to eliminate them but also to wipe out in just eight years the entire $19 trillion in national debt that has accumulated over the history of the United States — a pledge so wildly unrealistic that even he has since dropped it.

Indeed, since taking office, Mr. Trump has made no sustained effort to rein in deficit spending. In his first partial spending plan, called a skinny budget, he proposed $54 billion in cuts to domestic and foreign spending programs, some of them quite deep, to pay for $54 billion in additional military spending. That would leave the bottom line unchanged. In the current fiscal year, which started under former President Barack Obama, the government is spending $559 billion more than it is taking in through taxes, according to the Congressional Budget Office.

Mr. Trump's plan reportedly will cut corporate tax rates to 15 percent from 35 percent, and cut taxes for small businesses and other firms that pay through personal income taxes as well. The administration has also promised tax breaks for middle-income Americans. And the plan may be paired with an expansive spending proposal to build new roads, bridges and other infrastructure.

Mr. Mnuchin argues that an ambitious tax cut would unleash businesses that now feel constrained by one of the highest corporate tax rates in the world. Corporations would be freed to build plants and create jobs in the United States instead of in foreign countries, and would bring home money that currently is sheltered overseas.

While a corporate tax rate cut of the dimension Mr. Trump envisions would reduce tax revenues by more than $2 trillion over the next 10 years, Mr. Mnuchin noted that an increase in economic growth of a little more than one percentage point would generate close to the same amount. The goal, he said, was to produce a sustained national growth rate of 3 percent, instead of the 1.8 percent now projected over the next decade. That would not include the cost of personal income tax cuts.

The question comes down to how the effect of a tax cut is measured. Under what is called static scoring, changes are judged without assuming any difference in growth. Under what is called dynamic scoring, assumptions are made about how much growth will change. "Under dynamic scoring, this will pay for itself," Mr. Mnuchin said at a public forum last weekend. "Under static scoring, there will be short-term issues."

Critics scoffed at the math. "There is not a shred of evidence to support the secretary's pay-for-itself claim," said Jared Bernstein, a top White House economics adviser under Mr. Obama. "Sure, significantly faster growth would spin off more revenues. But there's simply no empirical linkage between tax cuts and growth that's both a lot faster and sustained."

Douglas Holtz-Eakin, a former Congressional Budget Office director who advised Senator John McCain's Republican presidential campaign in 2008, was equally skeptical. "I can imagine cutting the rate to 15 percent," he said. "I can imagine growing a percentage point faster. I can imagine raising $2 trillion in revenue. I can't imagine them being one and the same policy."

N. Gregory Mankiw, a Harvard University economist who was chairman of the President's Council of Economic Advisers under the younger Mr. Bush, said tax cut supporters exaggerate the possible growth benefits while opponents overemphasize the budgetary cost. "A reasonable rule of thumb, in my judgment, is that about one-third of the cost of tax cuts is recouped via faster economic growth," he said.

One-third, of course, is not the same as fully paid for, which is one reason some Republicans on Capitol Hill are concerned. "I certainly want to see corporate taxes decreased," Representative Leonard Lance, Republican of New Jersey, said on CNN. "I'm not sure we can go down to 15 percent."

The Committee for a Responsible Federal Budget, an advocacy group focused on reducing deficits, said that Mr. Trump's tax plan was more likely to increase growth by 0.2 percentage points than by the higher estimates Mr. Mnuchin forecast. "These tax cuts, of course, would not pay for themselves," the group said in a statement. "As we've explained before, there is little evidence to suggest any major tax cut could pay for itself with economic growth alone."

But one fan of Mr. Trump's approach is Mr. Laffer, now 76 and still every bit the believer in the virtues of lower taxes as he was the night he went to a restaurant in 1974 with three fellow conservatives named Dick Cheney, Donald H. Rumsfeld and Jude Wanniski and outlined his thinking on that famous napkin.

He said that he would urge Mr. Trump to close loopholes and eliminate tax shelters as he slashed rates, but that even without doing so, a corporate tax rate cut would generate cascades of tax revenue. The businesses themselves would no longer look for ways to avoid paying, and so report more of their income.

"We would bring people back and we would create jobs without tariffs and without protectionism," Mr. Laffer said by telephone. "I'm a big believer in using honey rather than vinegar, and incentives are much better. I think it would be a flood of businesses coming back in short order, and it would stop inversions" — when companies move overseas for tax reasons.

He also said greater economic activity would increase revenues from other taxes, including those on personal income and sales. Moreover, he said, with more jobs would come lower expenses for welfare.

"It's a slam dunk," Mr. Laffer said. "It's a no-brainer."

Politically, at least. He noted that both Mr. Reagan and the second Mr. Bush won re-election.

Correction: April 25, 2017

Because of an editing error, an earlier version of this article misattributed the passage beginning with the quotation, "We would bring people back and we would create jobs without tariffs and without protectionism," and concluding with the quotation, "It's a no-brainer." The remarks were made by Arthur Laffer, not Jude Wanniski.

Submitted by Representative Carolyn B. Maloney

April 19th, 2017 at 10:38 am

On The
ECONOMY
JARED BERNSTEIN BLOG

Supply-side, trickle-down nonsense on the NYT oped page

There's a robust debate to be had as to why the NYT published this op-ed on the alleged economic benefits of trickle-down tax cuts, as virtually every paragraph touts an alternative fact. It is the opinion page, I guess, and the authors advise (or at least advised) the president, so I can see why it's there. But it does require debunking, so thanks NYT, for some make work.

Here's much of the article's text, followed by my comments in italics:

In the aftermath of the health care blowup, President Trump and the Republicans need a legislative victory. Tax reform probably should have gone first, but now is the time to move it forward with urgency.

By tax reform, as they admit below, the authors mean tax cuts. This is no such urgency at all. If anything, based on simple demographics alone, we're going to need more, not less, revenue. This is a typical ploy in this space: create an emergency that can only be solved by tax cuts on the wealthy. If you listen carefully, you hear their fear that their tactics aren't working, and the tax debate has gotten gummed up. That's music to my ears, but cacophony to theirs.

Unfortunately, the White House seems all over the map on the subject. One day there is a trial balloon for a value-added tax. The next, the idea of a carbon tax or a reciprocal tax. And now we are hearing the curve ball of a payroll tax cut. Steve Mnuchin, the Treasury secretary, has thrown cold water on the idea of any tax bill meeting the August deadline.

One sure lesson from the health care setback is the old admonition "Keep it simple, stupid." The Republicans tried to fix the trillion-dollar health insurance market instead of keeping the focus on repealing Obamacare.

I take their point re the lurching of the White House on taxes, which really is remarkable and reveals the lack of not just any planning or coalition building, but even a clear sense of what they want to do on taxes. The idea that "keeping the focus on repealing Obamacare" would work, however, makes no sense, and reveals that the authors' magical thinking extends beyond tax cuts to *health care. Republican voters don't want Obamacare to be replaced with nothing. They want more health care at less cost, which was what Trump promised them.*

...Instead, the primary goal of Mr. Trump's first tax bill should be to fix the federal corporate and small-business tax system, which has made America increasingly uncompetitive in global markets and has reduced jobs and wages here at home. The White House and the Treasury already have a tax plan that we were involved with last year. The three most important planks of that plan are:

First, cut the federal corporate and small-business highest tax rate to 15 percent from 35 percent, which is now one of the highest corporate tax rates in the world.

Our statutory business rate is a globally high 35 percent. What companies actually pay—their effective rate—is about 10 points lower, because of all the loopholes. Also, because so many businesses are now pass-throughs (where you claim your business income as personal income), you can't talk about corporate taxes without noting a new loophole these guys are including in the plan they wrote for Trump: take the pass-through rate down to 15 percent as well. This creates a huge incentivefor every high earner to become a pass-through.

Second, allow businesses to immediately deduct the full cost of their capital purchases. Full expensing of new factories, equipment and machinery will jump-start business investment, which since 2000 has grown at only one-third the rate recorded from 1950 to 2000.

Here we have the first in a series of trickle-down claims. The alleged sequencing is: cut taxes of business and the wealthy, they invest more, that raises profits and productivity, and the benefits trickle down to the middle class. Every link in that chain is broken: tax cuts, even on investment income, do not correlate with greater investment, and they certainly are uncorrelated with faster productivity growth. Businesses already receive very favorable tax treatment on their investments; in fact, their tax burden on debt-financed investments can be negative. No question, tax cuts raise after-tax profitability, but absent much more worker bargaining power, those profits stay in the pockets of those at the top of the income scale.

Third, impose a low tax on the repatriation of foreign profits brought back to the United States. This could attract more than $2 trillion to these shores, raising billions for the Treasury while creating new jobs and adding to the United States' gross domestic product.

To help win over Democratic votes in the House and Senate, we would also suggest another component: What many workers across the country want most from President Trump is infrastructure funding. As part of this bill, we should create a fund dedicated to rebuilding America's roads, highways, airports and pipelines, and modernizing the electric grid and broadband access — financed through the tax money raised from repatriation of foreign profits.

We at CBPP have done a lot of work on this question of "tax holidays," where multinationals are offered a much-reduced tax rate if they "repatriate"—bring back to the US—their foreign earnings, which they've long held abroad to avoid US taxes. When the program is voluntary with no strings attached, it's a big revenue loser, and you can't pay for something (infrastructure) with less than nothing. That said, required (vs. voluntary) repatriation as part of a transition to broader reform of how we tax our MNCs would constitute real tax reform.

As much as possible, this bill should include private financing for projects like toll roads and energy drilling. We also favor "user pays" financing, such as toll roads, and we would oppose any Fannie Mae-type financing structure for projects that would put taxpayers on the hook for hundreds of billions in potential losses.

This user-fee stuff is a terrible idea for infrastructure. The whole point of "public goods" is that they are projects that don't generate the return on investment that would motivate private firms to make such investments. In other words, this is a thinly disguised privatization plan.

...We should emphasize that business tax relief is not a sellout to corporations but a boon for middle-class workers. A study by the Tax Foundation and Kevin A. Hassett, then at the American Enterprise Institute and now the chairman of President Trump's Council of Economic Advisers, found that middle-class wages rise when business taxes fall.

The additional increase in real wages could be nearly 10 percent over the next decade, which would reverse 15 years of income stagnation for the working class in America. And, if we are right that tax cuts will spur the economy, then the faster economic growth as a result of the bill will bring down the deficit.

Here we have the "money" 'graf: the straight-up claim that trickle down tax cuts will boost the earnings of the working class, which will help offset their cost—the Laffer curve in action. I guess I should give the authors credit for adding "if we are right," though I'll give you very long odds that the editors insisted on this addition. Because there's no reason to ask if they're right. They're not, with the latest exhibit being the state of Kansas, an "experiment" derived by some of these very authors.

BTW, I've endorsed my friend Kevin Hassett for his new job as a voice of economic reason in this administration. But I've been careful to note this flaw in his work and his thinking. In fact, the study they reference here has been thoroughly debunked in various places.

...As for fixing the maddeningly complex individual income tax system — lowering tax rates and ending needless deductions — we are all for it, but that should wait until 2018. Jobs and the economy are the top priority to voters.

Republicans need to act with some degree of urgency. The financial markets and American businesses are starting to get jittery over the prospect that a tax cut won't get done this year. A failure here would be negative for the economy and the stock market and could stall out the "Trump bounce" we have seen since the president's election.

Again with the urgency, and "trust us, folks, it's not the zillionaires for whom our hearts bleed—it's 'jobs and the economy.'" Not to mention the stock market, which is getting "jittery" over the possibility that Trump won't deliver a tax plan like the one these guys wrote, which delivers fully half of its goodies to the top 1 percent (or even better, the Ryan plan, which, once fully phased in, delivers 99 percent of its cuts to the top 1 percent).

Puh-lease. How stupid do these people think we are (rhetorical question!)? Their simple scheme—Trump wins, the rich get big tax cut—has turned out to be harder to pull off than they'd hoped. That's a feature, not a bug, of our current political moment, even if it means we have to read a WSJ oped in the NYT.

Submitted by Representative Carolyn B. Maloney

The Washington Post

August 15, 2016

Here's why we're still arguing about trickle-down tax policy

For all his anti-establishment posturing, Donald Trump's tax plans are standard Republican fare: big tax cuts that favor the wealthy by lowering top marginal rates (on individual, corporate, and pass-through income) and eliminating the estate tax.

While it hardly seems newsworthy to point out that a Republican presidential candidate introduced yet another supply-side, trickle-down tax plan, in this unique election-cycle, it raises a few questions. First, why are we still arguing about the viability of this failed approach to tax policy, and second, why is Trump, a candidate who's trying to appeal to working-class voters hurt by a "rigged" system and surely not helped by eliminating the estate tax, going there, too? (Note: the estate tax hits 0.2 percent of estates; for couples, estates worth less than $11 million are exempt; the average beneficiary from this cut gets $3 million.) Finally, is there an alternative conservative vision on taxes that's less untethered from reality?

If facts could kill the trickle-down myth, I'd be giving its eulogy at its gravesite. Instead, part of what's going on here is that these candidates are doing the bidding of their wealthy donors, if not themselves. Trump's new version of his plan hasn't been fully evaluated yet, but 35 percent of the benefits of his first plan went to the richest 1 percent, and one analysis suggests that his proposal to repeal the estate tax would save his family billions.

20 things Trump says he'll do for the U.S. economy

At a rally in Detroit, Republican presidential candidate Donald Trump outlines what he would do as president to take the U.S. economy to "amazing new heights" (Sarah Parnass/The Washington Post)

But the real target of these plans is the size of government itself. Since large tax cuts don't come close to paying for themselves and Republicans won't countenance any tax increases, the only way to truly offset the cuts is to reduce spending (or to dramatically increase the budget deficit, something Republicans typically say they oppose).

Consider the distributional outcomes from this scenario: the tax cuts benefit the wealthy while the spending cuts invariably whack the poor. Paul Ryan's trickle-down tax plans, for example, have consistently offset part of their costs — most recently, 60 percent — by cutting spending on Medicaid, food stamps, education and housing programs.

What's so misguided about all of this is that, based on just demographics alone — not to mention climate change, geopolitics, and inequality — meeting our future challenges will demand more, not less, tax revenue.

But today's conservatives won't go there. Their view was efficiently summarized by columnist Robert Novak years ago: "God put the Republican Party on earth to cut taxes. If they don't do that, they have no useful function." And if there's a theory, like supply-side growth effects, that gives these tax cuts a patina of academic credibility, they'll tightly embrace it. Regardless of the evidence, they'll build it into their models, as did the conservative Tax Foundation in a recent analysis that found growth effects to offset 92 percent of $2.4 trillion in lost revenue from the latest House GOP tax plan.

Importantly, some conservative thinkers are urging their party to get outside this old box. James Pethokoukis agrees with the needed revenues point, noting that it will be "exceedingly difficult for the U.S. to maintain the average post–World War II tax burden given the aging of American society." A recent Times piece featured ideas by "reformocon" policy types rejecting tax cuts on the wealthy in favor of tax credits to boost the incomes of low- and middle-class working families. Oren Cass, a former Mitt Romney adviser, went so far as to predict that future conservatives would be more open "to raising taxes when justified."

Unfortunately, these "reformers" have been at this for years and have gotten nowhere. They pack intellectual heft, but the coin of this realm is actual coin.

One also might suspect that the trickle-down-touting establishment wing of the party would recognize that the voters they need to attract aren't moved by estate and corporate tax cuts. President Reagan may have made the supply-side sale, but it didn't work for Mitt Romney, and recently, in what I consider a promising development, a bunch of state elected officials in Kansas lost their jobs for supporting supply-side tax cuts that are starving their budget and stressing government services, most notably education. There's a lot of money at the top of the wealth scale, but not a ton of votes. But such electoral math hasn't broken through the supply-side tax orthodoxy.

I thus conclude that as long as big money remains in politics and de-Nile isn't just a river, the GOP, including alleged renegades like Trump, will continue to insist that evidence be damned: tax cuts pay for themselves, the rich will create jobs for the rest of us if we just let them pass on their estates tax free, and multinational corporations will come back home if we just halve their tax rates.

I wish I had a happy ending to this story. I wish I could stop wasting time arguing against the junk economics that claims trickle-down works. But this dark fantasy goes deep, and it's blocking needed changes in tax policy, fomenting gridlock, and promoting fact-free policy analysis in a crucial area of political economy.

RESPONSE FROM HON. KEVIN HASSETT TO QUESTIONS FOR THE RECORD SUBMITTED BY VICE CHAIRMAN MIKE LEE

During the hearing, you identified geographic inequality as not only an important issue, but also one that is central to the reason you chose to become an economist. My Joint Economic Committee staff, who have spearheaded the "Social Capital Project," are exploring a number of topics including how the decline in marriage, participation in community institutions, and religious adherence might be connected with the economic challenges faced in some of these struggling areas. What role do you see these social and cultural shifts playing, at the local level, in driving or exacerbating declines in economic outcomes in some communities?

Thank you for this thought-provoking question.

As you note, I have had an interest in geographic inequality starting from watching my hometown of Greenfield, Massachusetts, decline once our mill closed. It is an interest that I was proud to pursue through the nonprofit Economic Innovation Group, EIG, even aside from any research that I performed as an economist at AEI, up until I became the Chairman of the Council of Economic Advisers (CEA). And it is a privilege to answer this question for you and your Committee as the Chairman of the CEA.

The economics profession has yet to converge toward any kind of consensus about how economic activity and social and cultural shifts relate to one another. The philosopher of science Karl Popper once characterized science as a process of "conjecture" of hypothesis and "refutation" by evidence. I will outline three main sets of conjectures about your question.

I should advise as I begin that the citations below do not purport to be anything close to exhaustive: the research in this field is enormous and continues to expand.

The first set of conjectures attempts to estimate the causal effects of economic challenges on variables that proxy for social or cultural outcomes. One approach looks at what happens to mortality after an individual loses a job when a firm-level layoff that an individual could not plausibly have caused—an "exogenous" job loss—causes an individual to lose a job. The results are disheartening to say the least: mortality increases by up to 50 to 100 percent (Sullivan and von Wachter 2009), including the risk of death from suicide (Classen and Dunn 2012). Another approach looks at the experience of a community rather than an individual after it loses its sources of jobs and income, finding similar results. As a local government loses its economic tax base, property values decline, crimping the community's capacity to invest in local public services like public schools; in addition, property crime rises (Feler and Senses 2017). Rates of marriage decrease even rates of out of wedlock births increase (Autor, Dorn, and Hanson 2017). And deaths from suicide and drug overdoses rise (Pierce and Schott 2017).

In spite of the rigor their methodology, however, these estimates are far from the last word on how economic challenges may interact with social and cultural outcomes. Even the most ironclad evidence of an effect that runs from the economic to the social and cultural does not rule out the possibility that other causal channels affect this same set of outcomes. And nothing in this evidence explains why some individuals or some communities may respond better to economic challenges than others. In principle, the effect of any economic shock on mortality estimated in any study could, say, double if some set of social and cultural factors that helps individuals or communities adapt to economic challenges were to cease to exist. Yet such an effect could virtually never be detected by any of the standard statistical techniques economists use to estimate the causal effect of economic challenges on social and cultural factors.

A second school of thought posits, citing the apparent explanatory failure of economic variables alone to explain variation in social and cultural outcomes, that variation in social "norms" of some variety must themselves be exerting a distinct causal influence on the outcomes in question. Kearney and Riley (2017), for instance, find that the Appalachian coal boom of the 1970s and 1980s induced increases in family formation and marital births—but that the fracking boom post-2005 induced an increase in marital and non-marital births, but no increase in marriage. Kearney and Riley (2017) interpret this evidence as consistent with the idea that economic forces influence social and cultural outcomes through their interaction with social norms rather than through a causal mechanism constituted by economic forces alone. Other analyses, however, interpret evidence of a similar nature to suggest that variation in social norms alone do not need to have any interaction with economic factors to explain the social and cultural outcomes of interest. An example of analysis that marshals quantitative data to make an argument to this effect is Murray (2013).

However, from the perspective of insisting that all conjectures in science be vulnerable to refutations by evidence, many explanations that rely on variation in norms to explain social and cultural outcomes seem to leave something to be desired. An explanation of how social norms explain social and cultural trends would seem to require, to be fully useful to policy makers, a theory of how the norm arose in the first place. Lacking such an explanation, it would seem difficult to refute any specific conjecture about how the rise and fall of a social norm explained a social or cultural trend.

A third set of explanations, however, does make reference to deep-seated historical factors that can plausibly explain both geographic variation in social norms and economic outcomes. Inspired in their hypothesis by Frederick Jackson Turner's 1893 essay The Significance of the Frontier in American History, a new strand of research integrates historic data from the U.S. Census and GIS data from additional historical sources on the frontier experience. In spite of the time elapsed since the closing of the frontier, constructing a variable for plausibly exogenous "frontier experience" within a local area, the authors find that the legacy of the frontier indeed persists into the present. They find, for instance, that the greater the "frontier exposure" of a community, the less its current residents favor redistribution. The authors attribute this attitude to the greater reward of effort in the historical frontier environment.

To be sure, this research program of attempting to identify deep-seated historical factors that explain both social norms and economic variables—at least as applied to the United States—remains in its infancy.

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RESPONSE FROM HON. KEVIN HASSETT TO QUESTIONS FOR THE RECORD SUBMITTED BY SENATOR MARTIN HEINRICH

1.) The Joint Committee on Taxation, Congressional Research Service, Congressional Budget Office and the Treasury Department have all recently reviewed the literature regarding how the corporate tax is split between capital and labor. Each reached different conclusions from the CEA's recent report that finds that average household income would increase by at least $4,000 following a cut in the corporate tax rate from 35 to 20 percent. For example, the 2012 Treasury Paper, "Distributing the Corporate Income Tax: Revised U.S. Treasury Methodology," which recently was removed from the Treasury website, finds that less than one-fifth of the corporate tax is borne by labor.

- *As policymakers try to understand the impacts of different tax cut proposals, do you intend to encourage Treasury to repost the study?*

Assessing how the Treasury Department should manage the research produced by its previous staff is not within the purview of my role as Chairman of the Council of Economic Advisers.

I would recommend that individuals who want to read analyses of the share of the corporate tax burden that falls on labor read more-recent estimates of this parameter in recent peer-reviewed literature. That literature estimates that the labor share is significantly higher than 20 percent. Our most recent paper on the impact of corporate tax reform on both growth and wages did an exhaustive literature review of this topic. It was common for models used in the 1960s and 1970s to assume that international capital mobility is not an important factor to consider when model ling the U.S. but such an assumption is inconsistent with the modern world.

- *Why did CEA choose to ignore the experience of the United Kingdom, which cut the corporate tax rate from 30 to 19 percent and saw wages fall? What can we learn from the U.K. experience?*

The CEA did not ignore the experience of the United Kingdom. The United Kingdom, in fact, is within the sample of OECD countries that CEA analyzed. But, like any one country included in a statistical analysis of many countries, the United Kingdom alone does not alone determine the conclusions of the analysis.

As a historical example, however, the United Kingdom does offer some suggestions for how U.S. policymakers can design corporate tax reform in such a way as to ensure that America's workers get as much of the benefit from corporate tax reform as possible. And I am pleased to report that the tax legislation now under consideration does take these suggestions from the United Kingdom's historical experience into account.

As the U.K. lowered its headline corporate tax rate over the period, as a recent Tax Foundation analysis pointed out, it also concurrently changed other provisions in the tax code that had the effect of increasing the marginal tax rate on new investment. According to economic theory, then, one should not have expected any wage increase from capital deepening from the U.K. corporate tax changes—the U.K. changed other provisions in the business tax code that had the effects of offsetting the reduction in the statutory rate. The corporate tax changes now under consideration in the U.S., however, reduce the headline corporate tax rate and include additional reforms (e.g., changes to the tax treatment of new investment expenditures) that serve to decrease rather than to increase the effective marginal tax rate on new investment.

An examination of the other changes to the U.K.'s corporate tax code that accompanied its reduction of its statutory rate suggests that one would be mistaken to expect the effect of the U.K.'s corporate tax changes on wages to necessarily speak to the anticipated effects of the corporate tax reforms now under consideration in the United States.

2.) Recently we've seen a disturbing trend of attacking nonpartisan scorekeepers when analysis comes out that disproves administration and GOP leadership talking points.

- *In your opinion, do the Congressional Budget Office and Joint Committee on Taxation undergo rigorous processes in developing their models and releasing legislative analysis?*

The staffs of the Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) have a level of technical expertise that is difficult for any institution to match. At the same time, however, as a tax economist I am aware of how many judgment calls must be made in order to perform analysis at the complexity and level of detail that the CBO and JCT are required to perform. And reasonable people can disagree about the judgment calls that must inevitably be made when conducting tasks involving the magnitude of the complexity of those performed by CBO and JCT.

So, yes, I think CBO and JCT have processes that meet standards of rigor. But I would note that the existence of processes that meet standards of rigor does not mean a reasonable person cannot disagree with the conclusions derived from assumptions made in those analyses. For example, we cite in our CEA report on the growth effects of tax reform empirical papers that are published in top journals that find that exogenous tax changes, like this one, have large growth effects. Should the JCT or CBO provide an analysis that suggests that the tax bill will not have large growth effects, then one would be correct to inquire whether the position of the staff is that this literature should be ignored, and to follow up and ask why that is their position. The IMF, for example, has a talented staff as well, and a recent paper that we cite in our report explicitly discusses, as is scientifically appropriate, the modeling assumptions required to generate results from their equilibrium models that are consistent with the broader macroeconometric results emerging in the latest literature.

- *Do you believe that they have become partisan?*

As before, I would emphasize that the depth and breadth of expertise at CBO and JCT are virtually unmatched. They are important institutions. At the same time, I think that reasonable people can disagree even with expert judgments that meet high standards of rigor without having disagreements be viewed as "partisan." This is what professional tax economists spend most of their time doing: engaging in debates in which they disagree about calculations and the interpretation of them, even though they believe the person who performed the calculation is an expert acting in good faith whose calculation possessed no shortage of rigor.

- *When JCT and CBO release their analysis of the tax reform plan, would you recommend that Congress use it to inform their actions?*

I believe that members of Congress and citizens more generally should base their views on a wide variety of rigorous analyses, including those produced by the JCT and CBO. But the value of that analysis of a tax policy or any other policy provides to the consumer of that information depends at least in part on the transparency of the assumptions used to generate that analysis, and the ability of the models being relied upon to reproduce accepted patterns in the data.

3.) The International Trade Commission just recommended that the Administration levy tariffs on imported solar cells. While tariffs may help a few domestic manufacturers, they could lead to tens of thousands losing their jobs distributing, selling, and installing solar panels.

- *How would you advise the President about the effectiveness of protective tariffs?*

As you know, through Section 201 of the Trade Act of 1974, Congress created a technocratic process for providing domestic industry relief in the event that a large amount of increased imports is causing or threatens to cause serious injury to firms producing in the United States. On October 31, the International Trade Commission (ITC) issued a series of recommendations to the President after determining that crystalline silicon photovoltaic cells are being imported at such quantitates as to cause serious injury to the domestic industry.

On November 13, the ITC forwarded its report and recommendations to the President. As this is a matter currently subject to an administrative proceeding, it would be inappropriate for me to comment further at this time. However, I can assure you that the Office of the United States Trade Representative, which is tasked with developing recommendations for the President, will adequately consult with the various agencies that have equities in this matter, including the Council of Economic Advisers.

- *Based on your knowledge of the economic research on tariffs, do protective tariffs like the one proposed for solar panels help American workers and consumers in the long run?*

Given that this is subject to an ongoing administrative proceeding and a matter before the President, it would be inappropriate for me to elaborate on my conversations with the President at this time. As you know, the ITC forwarded its report and recommendations to the President on November 13th. I can assure you that the Administration is carefully considering the pros and cons of these recommendations and in the process of determining the most appropriate path forward.

4.) The President has said many times in the past that he will not support cuts to Medicare or Medicaid. But the budget Congress just passed cuts nearly half a trillion dollars from Medicare and $1 trillion from Medicaid in order to partially pay for tax cuts. This is the budget the President has lauded on twitter.

- *Would you advise the President that cuts to Medicare and Medicaid are acceptable if they are necessary to pass tax reform?*

The Employment Act of 1946 created the Council of Economic Advisers, and it reads that "It shall be the duty and function of the Council . . . to gather timely and authoritative information concerning economic developments and economic trends, both current and prospective." Consistent with that mandate, I view providing the President economic analysis of the costs and benefits of the policies under consideration as part of my role as Chairman of the Council of Economic Advisers.

But I do not necessarily think that the "timely and authoritative information concerning economic developments and trends" would necessarily be the only set of information relevant to a decision about the specific tradeoffs involved in a specific legislative decision. Nor can I, as Chairman of the Council of Economic Advisers, commit to providing anything but objective economic analysis to the President.

5.) You've spoken, written, and testified in the past about the economic benefits of immigration. In the hearing, you mentioned that immigrants help grow the economy, but that immigration policy must also factor in border security concerns. In regards to Americans protected under the Deferred Action for Childhood Arrivals (DACA) program, border security is unlikely to be a main concern.

- *What would the economic impact be of deporting these 800,000 young, hard-working Americans?*

As I have mentioned, the Employment Act of 1946, which created the Council of Economic Advisers, declares that "It shall be the duty and function of the Council . . . to gather timely and authoritative information concerning economic developments and economic trends, both current and prospective." Consistent with that mandate, I provide the President with objective economic analysis of the costs and benefits of the policies under consideration.

The complexities involved in the economic analysis of immigration are, to say the least, significant: there are few subjects that generate as much debate between economists as immigration. But CEA has not yet evaluated any specific policies involving DACA. The enormity of the effort that would be required to complete an analysis on this subject is, as an economist, hard to overstate. As Chairman of the CEA, I would not regard myself as in a position to comment about a specific proposal involving DACA.

- *How will you make the case to the President that keeping protections in place for these young Americans is important for the economy?*

I view a key task of the CEA that I chair as the provision of "timely and authoritative information concerning economic developments and economic trends, both current and prospective." Rather than recommending a specific course of action, as Chairman of the Council of Economic Advisers, I commit only to providing the President with objective economic analysis.

6.) The Republican tax plan proposes eliminating "special interest" deductions such as the Medical Expense deduction, a deduction that reduced tax burdens for 8.7 million households in 2015, and the student interest deduction, which was taken by more than 12 million households in 2015.

a. What would be the impact on families facing tens of thousands of dollars in medical expenses be if they are forced to trade this deduction for the CEA's theoretical future wage gains?

The impact of any tax legislation on a specific subset of families depends on the interaction of many provisions of the final legislation. However, many of the specifics that will determine how this bill affects the millions of American households affected by our tax code have not yet been determined. Thus, it would be premature to comment about the effect of the tax legislation on the well being of a subset of households as specific as the subsets of families you describe. However, while I would demur from speculating about the impact of a still-in-progress bill on specific sets of households, I disagree with a characterization as "theoretical" for CEA's estimate of the wage effects. Indeed, the estimate is based on a very large and successfully peer-reviewed empirical literature, and a wide range of estimates has been provided.

b. What would the impact of this tradeoff be on families if they are also paying down tens of thousands in students loans?

As I noted earlier, the impact of any tax legislation on a specific subset of families depends on the interaction of many provisions of the final legislation—and many of the specifics that will determine how this bill affects the millions of American households affected by our tax code have not yet been determined.

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