

**HOW MIDDLE CLASS FAMILIES ARE
FARING IN TODAY'S ECONOMY**

HEARING
BEFORE THE
SUBCOMMITTEE ON SELECT REVENUE MEASURES
OF THE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
ONE HUNDRED SIXTEENTH CONGRESS

FIRST SESSION

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**HOW MIDDLE CLASS FAMILIES
ARE FARING IN TODAY'S ECONOMY**

WEDNESDAY, FEBRUARY 13, 2019

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON SELECT REVENUE MEASURES
Washington, D.C

The Subcommittee met, pursuant to notice, at 10:02 a.m., in Room 1100, Longworth House Office Building, the Hon. Mike Thompson [Chairman of the Subcommittee] presiding.
[The advisory announcing the hearing follows:]



HOUSE COMMITTEE ON WAYS & MEANS
CHAIRMAN RICHARD E. NEAL

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE
February 8, 2019
No. SRM-1

CONTACT: (202) 225-3625

Chairman Thompson Announces a Select Revenue Measures Subcommittee Hearing on How Middle Class Families are Faring in Today's Economy

House Ways and Means Select Revenue Measures Subcommittee Chairman Mike Thompson announced today that the Subcommittee will hold a hearing, entitled "How Middle Class Families are Faring in Today's Economy" on Wednesday, February 13, 2019, at 10:00 a.m., in room 1100 of the Longworth House Office Building.

In view of the limited time available to hear witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit written comments for the hearing record can do so here: WMdem.submission@mail.house.gov.

Please ATTACH your submission as a Word document, in compliance with the formatting requirements listed below, **by the close of business on Tuesday, February 26, 2019.**

For questions, or if you encounter technical problems, please call (202) 225-3625.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but

reserves the right to format it according to guidelines. Any submission provided to the Committee by a witness, any materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

All submissions and supplementary materials must be submitted in a single document via email, provided in Word format and must not exceed a total of 10 pages. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. The name, company, address, telephone, and fax numbers of each witness must be included in the body of the email. Please exclude any personal identifiable information in the attached submission.

Failure to follow the formatting requirements may result in the exclusion of a submission. All submissions for the record are final.

The Committee seeks to make its facilities accessible to persons with disabilities. If you require special accommodations, please call (202) 225-3625 in advance of the event (four business days' notice is requested). Questions regarding special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Note: All Committee advisories are available [\[here\]](#).

###

Chairman THOMPSON. The subcommittee will come to order. Good morning, and I would like to welcome all of my colleagues, especially my friend the new ranking member, Mr. Smith of Nebraska, and the distinguished panel of witnesses who have joined us here today. Thank you all for being here.

This is the first hearing of the Subcommittee on Select Revenue Measures in the 116th Congress, and I want to welcome all the members, Republicans and Democrats, who will be serving on this panel for the next two years. I look forward to working with each and every one of you.

The subject of today's hearing, how the middle class is faring in today's economy, cuts to the core of what I view as the key mission of this subcommittee, a subject that could not be more important, more timely, or more urgent.

It has been eight years since my side of the aisle controlled Ways and Means Committee and subcommittee gavels, and the economy has been transforming rapidly during that time. On the surface, many measures of the American economy look excellent. Unemployment is near its lowest point in 20 years. We have seen 100 straight months of job growth. GDP growth has been steady. We are always pleased to see these positive economic trends, every one of us.

But those top-line economic indicators don't capture the whole story. These indicators don't acknowledge the anxiety of regular, middle-class families in communities all across our country, red and blue communities alike, who feel that their economic position is getting more fragile.

They don't reflect the fact that middle-class wages have been mostly flat for the last 20 years, while basic, unavoidable family costs like housing, higher education, and health care are going up quick.

The unemployment rate is, thankfully, low, as I said earlier. But the jobs it counts are now more often part-time jobs, temporary jobs, or low-paying jobs. Too many people want, but cannot find, full-time, stable, good-paying jobs. We can all agree that it is this kind of job that is key to achieving the middle-class dream, and it is this kind of job that is proving elusive to so many of the Americans we represent.

The GDP is growing, and of course we are glad to see that. But we also understand that, in today's economy, most of that GDP growth is captured by wealthier families with large investment portfolios and big retirement accounts. We are glad to see those families succeed. But the economic prosperity we are supposedly enjoying right now is leaving too many hardworking people behind.

For middle income families who sometimes have trouble making ends meet and who struggle to save much, they aren't necessarily feeling that GDP growth in the same way as their more affluent fellow Americans.

Last May the Federal Reserve found that 40 percent of American adults could not come up with \$400 to cover an unexpected expense without selling belongings or going into debt. Over a fifth of adults are not able to pay their current month's bills in full, and more than a quarter of adults skipped necessary medical care in 2017 because they couldn't afford it.

Consumer debt is at record levels: Americans hold close to \$4 trillion in non-mortgage debt. Student loans play a big role: since the 1970s, the cost of college has exceeded inflation by 500 percent. Seventy percent of today's college students borrow money to attend, and the average debt at graduation is \$39,000.

Home ownership is slipping among Millennials, who are struggling to repay crushing student loan debt. What used to be a mortgage payment a generation ago is now a payment on an education already earned, and the prospect of home ownership, one of the greatest creators of net worth among hard working Americans, slips further away.

I am concerned that, with these trends, upward mobility, which has always been a core part of the American Dream, is in decline. Harvard economist Raj Chetty and his colleagues famously pointed out that Americans born in 1940 had a 90 percent chance of earning more at the age 30 than their parents did at that same age, adjusted for inflation. But among Americans born in 1980, only about half out-earned their parents at age 30.

It used to be that people who worked hard and played by the rules could be confident of getting ahead in America's economy. These days, that is just not a given any more. Middle class families are working so hard to try and get by. They are doing everything

that anyone could ask of them, but life still feels precarious. They worry: Will I get a raise this year? How much will child care cost next month? Can I stay current on my student loan? Will I ever be able to afford to own a house? Can we put something away to help the kids pay for college? Will we ever be able to retire?

I want to be clear. I am an optimist. I want our work here to reflect the idea that we can do good for the people we represent. The policies we enact should result in security, stability, and prosperity for generations to come. To do our work, we need better insight into the financial situation of middle-class families. and that is what I hope to learn today.

And with that I would like to recognize Ranking Member Mr. Smith of Nebraska.

OPENING STATEMENT OF THE HON. ADRIAN SMITH

Mr. SMITH. Thank you, Mr. Chairman. Congratulations on receiving the gavel for the subcommittee, and thank you for holding the first hearing for our subcommittee of the 116th Congress. I appreciate the opportunity to discuss how middle-class Americans are faring in today's economy.

A growing economy and the opportunity to keep more of what taxpayers earn are good for the middle class, and that is exactly what they are seeing under the Tax Cuts and Jobs Act. Our economy is growing at greater than three percent. Wages are growing at nearly four percent. The state of our economy is strong. It has never been easier for an American who wants to take advantage of economic opportunity to get training, enter the workforce, or find a better job.

Last year in the Human Resources Subcommittee we held a series of hearings reviewing what more we could do to engage those not currently in the workforce. We found reconnecting gave workers not just an income, but also the dignity and pride of supporting their family and engaging in society. We also found employers need people as badly as people on the sidelines need that first step to get back toward opportunity.

The message from employers in those hearings was clear: they desperately need workers to fill good jobs, so much so that they are willing to train folks themselves and pay them a competitive wage with good benefits to fill open positions, therefore reducing the need for student debt.

The witnesses we heard from last year came from locations and industries across the country. This was not a regional or industry-specific trend.

I am particularly pleased we will be able to hear a message consistent with this trend from Mr. Berkebile here today.

When I speak with employers throughout Nebraska's Third District, I hear frequently about need for workers to fill good jobs in manufacturing. And this message isn't confined to just traditional manufacturing, either. Last year, when I visited MetalQuest, in Hebron, Nebraska, I had the opportunity to see their state-of-the-art, automated manufacturing facility. During my visit, the head of manufacturing told me that, despite the automated production process, the biggest impediment to growth was a lack of folks to fill open positions to operate and maintain machinery in the facility.

I also recently had the opportunity to visit the heavy equipment program at Central Community College in Hastings, Nebraska. I wanted to visit and see for myself the training programs taking place at community college because I had been hearing from leaders in our state's construction industry how pleased they were to help create and support this program to address the ongoing needs to find workers.

During my visit I was impressed with the competitive cost, quality training, and the speed at which they get people trained to succeed in good jobs, further proof you don't need an expensive four-year degree to succeed in our economy.

I am pleased to see that Dr. Eddinger, the president of the largest community college in Massachusetts, agrees community colleges have an important role to play in preparing their students for jobs. In Massachusetts alone there will be a need for 65,000 such jobs in the coming years.

Alongside the strong job market, tax reform is allowing middle-class Americans to keep more of their—of the money—of their own money. As I mentioned in our hearing last week, under TCJA a single mother with two children doesn't owe a nickel in federal income tax until she earns more than \$53,000, and a typical family of four earning \$75,000 will save \$2,000 in taxes.

The worst thing we could do for middle-class families is to take more of what they earn through tax increases. Raising Social Security taxes won't help a single mom get ahead, either. Increasing the gas tax and raising taxes as part of a green new deal won't help stretch paychecks, further. Repealing corporate tax reform, something even President Obama supported and included in his budget, won't help add new middle-class jobs.

Tax reform shouldn't be a once-every-30-years event. We should work every year to ensure the Tax Code is working well for as many Americans as possible. We should view any changes to tax policy with an eye toward helping Americans help themselves and their neighbors, not with the goal of collecting more money so we can grow government on the backs of hardworking Americans.

Thank you again to our witnesses. I appreciate your sharing your insight and expertise on what I would say is the front lines of our economy. So I am glad you are here today.

Thank you for holding this hearing, Mr. Chairman, and I yield back.

Chairman THOMPSON. Thank you, Mr. Smith. We have got a great panel of witnesses today who I believe will be able to really open the pages on how the middle class is faring in today's economy. And I know we are all anxious to hear what you have to say.

I would like to first introduce—I will go through and introduce all the witnesses. Then we will just go in order for your testimony.

First we have Dr. Mark Zandi. Dr. Zandi is the chief economist at Moody's Analytics, and should be a familiar face to my colleagues here in the committee.

Thank you for joining us, Dr. Zandi.

Dr. Heather Boushey is the executive director and chief economist at the Washington Center for Equitable Growth.

Dr. Sara Collins is vice president of Health Care Coverage and Access at the Commonwealth Fund.

Mr. Kevin Brown is the former president of the California Association of Realtors.

Dr. Pam Eddinger is president of Bunker Hill Community College.

Ms. Tatum Tirado is a mathematics and special education teacher at Ballou High School, here in Washington, D.C., and a proud Marine.

And finally, Mr. Guy Berkebile is the owner of Guy Chemical Company in Somerset, Pennsylvania.

Thank you all for being here with us today.

And we will start, Mr. Zandi, with you.

You will each have five minutes for your testimony. Your full testimony will be put in the record. If you can contain yourself to five minutes, that would be very helpful.

Mr. Zandi, thank you.

**STATEMENT OF MARK ZANDI, PH.D., CHIEF ECONOMIST,
MOODY'S ANALYTICS**

Mr. ZANDI. Thank you, Chairman Thompson and Ranking Member Smith, for the opportunity to be here, and to the entire committee to allow me the opportunity.

I am the chief economist at Moody's Analytics, but the views I express today are my own. And just for sake of disclosure, I am on the board of directors of MGIC, one of the nation's largest mortgage insurers. And I am the lead director of Reinvestment Fund, which is a large CDFI headquartered in Philadelphia, which is my home town. So thank you.

I have three points to make in my remarks.

Point number one is middle-class Americans are struggling, despite nearly 10 years of economic expansion. Believe it or not, if expansion continues on through June of this year, it will be 10 years old, the longest in history. And moreover, we are in the midst of the longest period of job growth in history, going back to 2010. But despite that, middle-class Americans are having a difficult time.

One of the best statistics to see that is real median household income, median meaning half of the folks make more than that, half make less. That is a little over \$60,000 a year. Over the past two decades, real median household incomes have not grown very much. In fact, just barely outpacing the rate of inflation.

More disconcerting, middle-class households can't—are unable to raise their wealth. The median net worth of households—This is the difference between what they own and what they owe is about \$100,000. This is no different today than what it was—on an after-inflation basis 30 years ago. So it goes up and down and all around with the stock market and housing values, but no real progress there.

Middle-class Americans can't save. They have over the last 20, 25 years effectively been unable to save. Some periods they save, some periods they dis-save. And, of course, as the chairman mentioned, debt levels are very high, particularly student loan debt.

In fact, one interesting statistic, 10 percent of all households in the middle quintile of the income distribution—that is 20 percent of Americans in the very middle of the distribution—had an experience with serious delinquency on some type of consumer credit or

mortgage in 2016, the latest data available. So, even despite the solid economy, middle-class Americans are struggling.

Point number two—There are lots of reasons for the plight of the middle class. The financial crisis 10 years ago was devastating for all Americans. It was especially very hard on middle-class Americans, one reason why their net worth hasn't been able to recover. They have been just digging out from under. The unemployment rate, if you recall, peaked at 10 percent in the immediate wake of that downturn, and it has taken a long time to get back to full employment.

There are broad secular forces at work here, too, not just cyclical forces including the pace of technological change, particularly information technology. The advances in technology lift all Americans' wealth, but it is particularly hard on middle-class Americans, as they effectively get coded out by the information technology, and if they don't have the requisite skills and education and many do not—when they lose their jobs, and they are losing their jobs, they go down the income distribution, they don't go up. So IT hollows out the middle. And this, obviously, is a trend that is going to remain in place for the foreseeable future.

And again, we want the technology, it is improving living standards, but it is very hard on middle-class Americans.

This gets to point number three. We must do something about it. Lawmakers need to act. One of the most obvious things is don't allow tax rates on middle-income Americans to rise. Under current law they do rise in the middle part of the next decade. That would be a mistake.

I do think tax rates on higher-income households should revert back to previous law, that the tax rates are inordinately low, tax revenues as a share of GDP about as low as it has been in 50 years. And we need the revenue to pay for other programs that will help the middle class.

Let me mention two or three different programs I would focus on. First is infrastructure. I think that is key to growth. It provides an immediate lift to middle-income jobs, construction, manufacturing, transportation. It opens up different parts of the country that are now locked out of this successful economy in rural areas and inner cities. I would also invest very heavily in child care, early childhood education, and higher education. These are things that would support the middle class, but also lift the economy, get more people back to work, and that is, you know, precisely what the economy needs.

I appreciate the opportunity to participate in today's hearing. Thank you very much.

[The prepared statement of Mr. Zandi follows:]

Embargoed until 10am, 2/13/2019

Written Testimony of

Mark Zandi

Chief Economist, Moody's Analytics

Before the House Ways & Means Committee

"How Is the Middle-Class Family Faring in Today's Economy?"

February 13, 2019

American middle-class families are struggling to manage their finances. Yes, the economic expansion is approaching its tenth birthday, which would make it the longest in the nation's history, and unemployment is low and still falling. But the middle class, burdened by heavy debt, continues to grapple with depressed incomes, low savings and stagnant wealth. Compared to high-income households, middle-class families have seen their share of the nation's income, wealth and spending decline for more than a generation.

Stagnant incomes

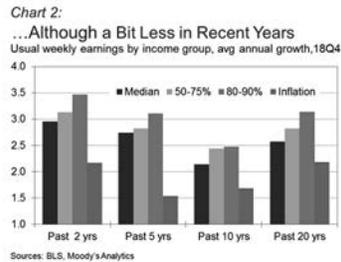
Real median household income has grown very slowly over the past two decades (see Chart 1). Median household income is arguably the most accurate measure of the typical American family's financial gains, with half of households having higher incomes and half having lower incomes. It also accounts for the impact of inflation.¹ Between the late 1990s and the middle of this decade, real median household income was largely unchanged. This was especially disconcerting because it came on the heels of several decades that had seen steady increases in median income.



Behind this poor performance were two recessions: the downturn in the early 2000s triggered by the bursting technology bubble in the stock market and of course the financial crisis that hit a decade ago as the housing bubble burst. Unemployment peaked at 10% in late 2009, and while it has steadily declined during the current expansion, the economy did not return to most estimates of full employment—around 4.5%—until summer 2017. This long stretch of underemployment undermined the finances of the middle class.

Real median incomes have improved in the very tight labor market of the past several years as unemployment fell below 4%. The usual weekly earnings of the median worker and upper-middle-class worker—those in the 50%-75% quartile of the wage distribution—have increased by close to 3% per annum over the past two years, which is well above

the 2% rate of inflation (see Chart 2). However, such low unemployment has never been sustained. And since much of the recent economic growth has been temporarily fueled by deficit-financed tax cuts, particularly for wealthy households and large corporations, middle-class families cannot count on unemployment remaining this low for very long.



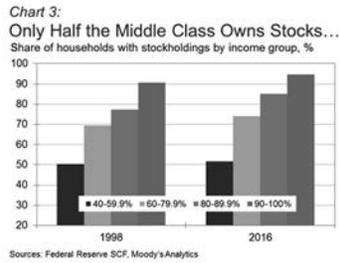
Broader secular forces, the most notable being the rapid pace of technological change, have also hurt middle-class finances.¹¹ The advent of the internet and its incorporation into business activities since the mid-1990s have been especially hard on middle-paying occupations. In a metaphorical if not real sense, these jobs have been effectively coded-out. Many of those losing jobs and without requisite skills have been forced out of the middle class altogether. The economic gains from new technologies have been huge, but so have the costs for many Americans previously in the middle class.

Rapidly expanding global trade with the emerging world, ushered in by the North American Free Trade Agreement in the mid-1990s and the entry of China into the World Trade Organization in the early 2000s, also hurt the middle class.¹² This is clearest in the large decline in manufacturing jobs, which are generally good middle-paying jobs. Laid-off factory workers also have had a tough time finding comparable jobs, particularly since those workers are generally older and less likely to relocate. However, the ill-effects of expanded global trade on the middle class have likely played out, with the emerging world becoming an increasingly large market for U.S. goods and services. Indeed, growing demand from the rest of the world for U.S.-produced wares will be an important source of future middle-class U.S. jobs.

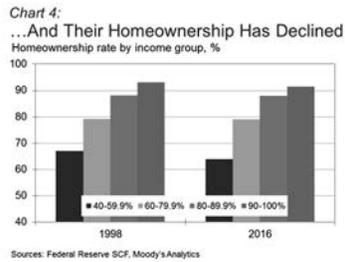
Less wealthy

The finances of middle-class Americans appear even shakier in light of the fact that they are no wealthier today than they were two decades ago. Median household net worth—the difference in value of what the typical American family owns and what they owe—has gone up and down with the wild swings in stock prices and housing values. But, after accounting for inflation, it is currently about where it was in the late 1990s (see Chart 1).

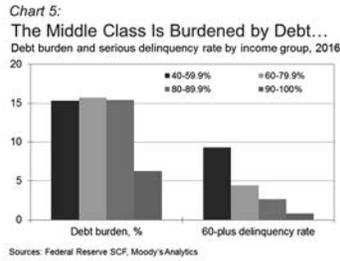
The big gains in the stock market over the past decade have benefited only half of households in the middle quintile of the income distribution (see Chart 3). Moreover, the half of families in this income group that own any stock, directly or indirectly through retirement accounts, have small stock portfolios, typically less than \$20,000.¹³ In contrast, nearly all families in the top 10% of the income distribution own stocks, with a typical portfolio valued at approximately \$400,000.



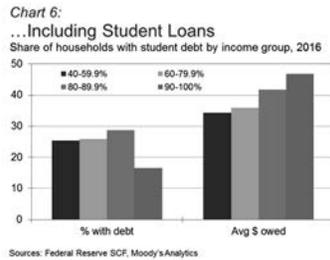
Homeownership is not quite as skewed, but less than two-thirds of families in the middle quintile own their own homes, compared with more than 90% of families in the top 10% of the income distribution (see Chart 4). Homeownership has declined across all income groups since the housing bubble burst, but it has fallen more for middle-class and lower-income families. High-income households have enjoyed consistent access to mortgage loans throughout much of this expansion, whereas middle- and lower-income households had difficulty qualifying for loans in the credit crunch that prevailed for several years after the financial crisis was quelled.^v



Middle-class families are also having more difficulty managing their debt. For those in the middle quintile, about 15% of their income goes to making debt payments, and almost one-tenth of families in this income group have a loan with a serious delinquency of more than 60 days (see Chart 5). Those in higher-income groups are having an easier go of it, at least judging by their ability to make their debt payments on time. Those in the top 10% of the income distribution shell out only about 5% of their income on debt payments, and serious delinquencies among these families are rare.



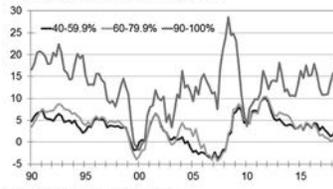
Student loan debt has increased significantly for those in the middle class. About one-fourth of families in the middle of the income distribution have at least one student loan, with a total loan balance of over \$35,000 (see Chart 6). This is up sharply from a decade ago when one-seventh of families had a student loan, and two decades ago when only one-tenth of families had a loan. Prior to the financial crisis and housing bust, middle-class families had traditionally relied on home equity loans to finance their children's college education. This was no longer an option after the bust, and thus these families turned to student loans.



Saving shortfall

With constrained incomes and higher debt loads, it is not surprising that middle-class Americans are having trouble saving money. The personal saving rate—the share of after-tax income that is saved—is currently close to zero for families in the middle quintiles (see Chart 7). Since the late 1990s, the saving rate for these income groups has been negative as often as it has been positive. These families spent beyond their incomes throughout much of the 2000s, most likely by increasing their borrowing.

Chart 7:
The Middle Class Has Difficulty Saving
Personal saving rate by income group, %



Sources: Federal Reserve, Moody's Analytics

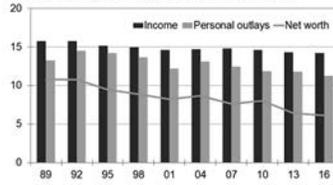
There is strong evidence that the financial crisis was most fundamentally due to the constrained incomes of middle-class families who turned to mortgage and other borrowing to maintain their spending.^{vi} They were motivated to increase their borrowing because their incomes were not growing, and they were empowered to borrow by the very lax lending standards of the time. Ultimately these households could not manage their debt payments, and they defaulted. Poorly capitalized and illiquid lenders were overwhelmed by mounting losses, and the financial system effectively collapsed. Massive intervention by the Federal Reserve and lawmakers was needed to bail out failing institutions.

Even though the middle class continues to struggle and is unable to save, it remains a more cautious borrower. Lenders, for their part, are also much more circumspect in extending credit. Due to regulatory changes since the crisis, lenders are much better capitalized and more liquid. Risk management practices, such as bank stress testing, have also dramatically improved. Prospects for another financial crisis are thus very low, at least for the foreseeable future. Having said this, middle-class baby boomers now in their fifties and sixties may have their own personal financial crises as they retire, because many are financially ill-prepared.^{vii}

Falling behind

The middle class is also falling steadily farther behind those in the top of the income and wealth distribution. Those in the middle quintile of the income distribution, who by definition account for one-fifth of all families, take home well below 15% of overall income, and this share has steadily declined since the late 1990s (see Chart 8). Their wealth, which made up about 10% of overall wealth two decades ago, is now closer to 5%. That is, 20% of the population that makes up the middle of the income distribution, owns only about 5% of the nation's wealth.

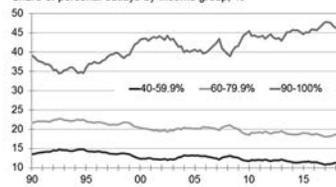
Chart 8:
Middle Class Loses Financial Ground...
Share to the middle quintile of the income distribution, %



Sources: Federal Reserve SCF, Census Bureau, Moody's Analytics

Perhaps more important, these middle-class families account for only about 10% of total consumer spending—a share that has been declining steadily with no hint of stabilizing. The middle class is winning a shrinking piece of the nation's economic pie, which is going instead to those with the highest incomes. Not quite half of all consumer spending is currently enjoyed by those in the top 10% of the income distribution (see Chart 9). This is up from just over one-third of spending about a quarter-century ago.

Chart 9:
... To Those With the Highest Income
Share of personal outlays by income group, %



Sources: Federal Reserve, Moody's Analytics

Conclusions

America's middle-class families have had a tough financial go of it. Their incomes have improved as the economy has finally returned to full employment after the debilitating financial crisis. But this comes after decades of stagnation, and there are reasonable concerns that their recent economic gains are not durable, since they have been temporarily supported by massive deficit-financed tax cuts mainly for the wealthy and large corporations. Their balance sheets have strengthened along with rising stock prices and house values during much of this expansion, but they have had to dig themselves out of the deep financial hole created in the crisis, and even so, they are no wealthier today than they were two decades ago. Moreover, given that they do not have the financial wherewithal to save much, it is unclear how they will be able to build future wealth now that stock and house prices are no longer increasing as quickly. It is also galling that while the middle-class share of the nation's income, wealth and spending is already disproportionately small, that share continues to get smaller.

The Federal Reserve appears to be working to help address the plight of the middle class by letting the economy operate beyond full employment for longer than it might otherwise have allowed.^{viii} While short-term interest rates have risen, they remain low by most historical standards, and given stable inflation that is near the Fed's target, policymakers have indicated they will remain patient when considering future rate increases. The tight labor market should continue to support stronger wage growth across all income groups.

Monetary policy can only go so far in helping the middle class, and lawmakers should also consider policy steps. It makes little sense to allow personal tax rates to increase for middle-income taxpayers, as they are slated to do under current tax law, but tax rates on high-income and wealthy taxpayers and large corporations should increase to pay for fiscal efforts to support the middle class. Particularly effective would be significant increases in infrastructure spending, which would quickly create many middle-paying jobs and open up development in stunted communities in the nation's inner cities and rural areas. Federal dollars to defray the costs of childcare, early childhood education, and higher education would also go a long way to help parents work, save more, and build the wealth needed in retirement. Of course, this will also provide our children with the skills they will need to win future high-paying jobs.

Our nation is only as strong as our middle class, and we are struggling. The causes are many. What is clear is that lawmakers must refocus economic policy onto what matters for the typical American family. The fortunes of the middle class and of the nation depend on it.

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- ⁱ The American middle class includes families that are in the middle of the income and wealth distribution. The median and the middle quintile of these distributions are most often used in this testimony to be representative of the entire middle class.
- ⁱⁱ The impact of technological advances on middle-paying jobs is carefully considered in "Dances With Robots," Frank Levy and Richard Nunnane, *Third Way*, 2013.
- ⁱⁱⁱ A particularly good assessment of the significant labor market adjustments created by China's rapid economic ascent is provided by "The China Shock: Learning From Labor Market Adjustments to Large Changes in Trade," David Autor, NBER paper, January 2016.
- ^{iv} Many of the statistics regarding the strength of the household balance sheet used in this testimony are from the Federal Reserve's triennial Survey of Consumer Finance. The most recent survey was conducted in 2016.
- ^v The unusually tight mortgage underwriting standards that have prevailed since the financial crisis are evident in the Urban Institute's Housing Credit Availability Index.
- ^{vi} This is discussed in "What Does Rising Inequality Mean for the Macroeconomy," Mark Zandi, in "After Piketty: The Agenda for Economics and Inequality," Heather Boushey, J. Bradford DeLong and Marshall Steinbaum, Harvard University Press, 2017.
- ^{vii} Just how ill-prepared baby boomers are for retirement is shown in "Retirement Preparedness: Baby Boomers vs. the Silent Generation," The Sightlines Project, Stanford Center on Longevity.
- ^{viii} This stands in contrast to the stated policy of "opportunistic disinflation," pursued by the Federal Reserve in much of the 1980s, 1990s and early 2000s when the Fed's principal goal was to reduce inflation. This policy is described in "The Road to Price Stability," Athanasios Orphanides, Fed working paper, May 2006.

Chairman THOMPSON. Thank you, Dr. Zandi.
Dr. Boushey.

**STATEMENT OF HEATHER BOUSHEY, PH.D., EXECUTIVE
DIRECTOR AND CHIEF ECONOMIST, WASHINGTON
CENTER FOR EQUITABLE GROWTH**

Ms. BOUSHEY. Thank you. Thank you, Chairman Thompson and Ranking Member Smith, for extending an invitation to me to speak today. I am honored to be here. My name is Heather Boushey. I am the executive director and chief economist at the Washington Center for Equitable Growth.

So I am here today to talk about the state of the American middle class and evidence-backed ideas and policies that you, as a subcommittee and as lawmakers, can use to promote growth that is strong, stable, and broadly shared. That is also the focus of our center.

So statistics that we use to measure the economy, like GDP and job numbers, have become less representative of what people across the United States and your constituents are feeling. There is a reason that the President's boast of four percent growth ring hollow to those—to many of those you may meet at home. And as Chairman Thompson indicated in his opening remarks, headline GDP numbers don't tell us how that growth is distributed, just as headline jobs numbers don't tell us whether or not those are good jobs.

The question of who gains from economic growth is a critical one to understand. Research from economist Thomas Piketty, Emmanuel Saez, and Gabriel Zucman show that, for the 117 million U.S. adults in the bottom half of the income distribution, economic growth has been nearly non-existent for a generation. Meanwhile, incomes at the top have tripled since 1980.

As incomes have stagnated, the building blocks of a stable middle class living have steadily become more expensive. Health care, child care, and education are a few of the fundamental but increasingly unaffordable pillars of the American Dream.

A median-income family has to spend nearly 20 percent—that is about a fifth of their income—to cover child care costs. The total cost to attend a four-year university has increased from \$26,000 to more than \$100,000 over the past four decades.

The United States stands alone among rich countries in not providing workers with nationwide access to paid family and medical leave.

Rising inequality and increasing barriers to middle-class life are limiting economic mobility.

Chairman Thompson told us about Raj Chetty's work that found a decline in upward mobility for people born in the 1980s versus the 1940s. What that study also showed was that the way to address the—that the reason that we saw this lower economic mobility was because of the rise in inequality. Their analysis shows that 70 percent of the decline in upward mobility happened because of rising inequality. So to improve mobility we also need to address inequality.

This subcommittee has a vital role to play in re-balancing policy towards the majority of Americans. The Tax Cuts and Jobs Act is contributing to inequality in the United States by lavishing bene-

fits on corporate shareholders and the already wealthy. The Act cuts taxes for those at the top, while decreasing the revenue available to fund investments in family economic security, education, health care, child care, and housing.

The purpose of the tax system, as with public policy in general, should be to support the living standards of U.S. families, not just those of the very wealthy.

So what can you do about this? The policy agenda should comprehensively address economic issues at the bottom, middle, and top of the income spectrum. At the bottom end, to help people move into the middle class, one easy step is to preserve and expand the evidence-backed refundable tax credits, like the earned income tax credit and the child tax credit, which lifted 8.9 million Americans out of poverty in 2017.

In the middle it is really important to make sure that the fruits of growth are widely shared, and to make the economy work for workers and their families. I want to echo what Dr. Zandi said: It is very important to focus on infrastructure investments and we need to make sure that families have what they need, including access to high-quality and affordable child care, and to offer them paid family and medical leave.

And we need to know more about how to address incomes at the top. Many of the statistics that we rely on to inform us about the state of our economy are measures of the average. Yet in an era of rising inequality, these overall GDP numbers are becoming ever more less informative about the experience of most Americans.

The Measuring Real Income Growth Act, introduced by Congresswoman Maloney, would disaggregate quarterly or annual GDP growth numbers. This would tell us what growth is experienced by people across the income spectrum, giving us more information to help guide policy-making. Instead of promising four percent growth, the goal could become four percent growth for the middle class with these new numbers. This data should be made available in real time, so that we can design policies to lift up those groups that really need it.

Thank you again for inviting me. I look forward to your questions.

[The prepared statement of Ms. Boushey follows:]

Embargoed until 10am, 2/13/2019

Heather Boushey
Washington Center for Equitable Growth

**Testimony before the Ways and Means Committee,
Subcommittee on Select Revenue Measures
Hearing on “How Middle Class Families are Faring in Today’s Economy”**

February 13, 2019

Thank you, Chairman Thompson and Ranking Member Smith, for inviting me to speak today. It’s an honor to be here.

My name is Heather Boushey and I am Executive Director and Chief Economist at the Washington Center for Equitable Growth. We seek to advance evidence-backed ideas and policies that promote strong, stable, and broad-based economic growth.

Economic growth continues steadily in what may become the longest expansion in U.S. history. The economy is adding jobs at a healthy clip month after month and the unemployment rate remains historically low. But the strong headline numbers do not reflect the experiences of middle-class families, which face rising costs in healthcare, childcare, and education, and who receive very little of the total growth being produced. That growth is mostly accumulating to the already wealthy. The jobs being added to the U.S. economy are not all good jobs—those that pay a wage high enough to make ends meet plus enough to save for the things that matter, such as a secure retirement or a child’s college education, and have benefits, including access to health insurance and paid time off for sick leave, family care, and vacations.

The fortunes of middle-class families have become unmoored from the gains of growth as those at the top of the ladder capture more and more. Over the past four decades, earnings for low- and middle-income Americans have grown slowly—or not at all—while incomes and wealth surged at the top. Tax policies have the power to change the dynamics of this inequality and stem the divergence of outcomes between the top and the bottom, but in recent years those policies have only served to exacerbate these worrying trends.

In my testimony, I will first review the longer-term economic challenges facing American families, including rising inequality, slow income growth, and rising costs for the essentials of middle-class life. I will then turn to policy choices that have exacerbated these problems, including recently passed tax legislation, and then to how the Subcommittee can make different choices in the future to support the American middle class. My comments will be motivated by a simple idea: The focus of policy should be to understand the experiences of and improve the living standards of American families, particularly middle-class families and families striving to reach the middle class.

The rise in inequality

Prior to the 1980s, economic growth was equitably shared between most Americans. But we are now in a new economy, which is growing slower than in the past, and where growth mostly benefits those at the very top of the economic ladder. Incomes for the working class and the middle class have grown slowly for decades, while incomes at the very top have exploded.

Economists Thomas Piketty, Emmanuel Saez, and Gabriel Zucman find that between 1980 and 2014 the bottom half of Americans by income saw average annual income growth of just 0.6 percent. The richest ten percent of Americans, by contrast, enjoyed annual income growth of 2.2 percent, adding up to a total after-tax increase of 113 percent over the 35-year period. But even they were left behind by the top one percent, who saw their income triple over the same period. The result is that the pre-tax distribution of income has returned to the Gilded Age levels of the 1920s. Even after government taxes and transfers, the share of total national income held by the top 1 percent has nearly doubled since hitting lows in the 1970s.

Since the 1980s, economic growth or gross domestic product (GDP) growth is slower overall—growing at an annual pace of 1.4 percent compared to 1.8 percent in the decades before—while those at the top of the income ladder have accumulated a far greater proportion of the gains than those in the bottom 90 percent. Between 1980 and 2014, those in the top one percent saw their incomes after taxes and transfers rise by almost 200 percent, and those in the top 0.001 percent saw their incomes grow by more than 600 percent, while those in the bottom half saw only a 20 percent rise. To be very clear, this data show that it truly is only those at the very tippy top that have had disproportionate gains during this period.¹ (See Figure 1, next page)

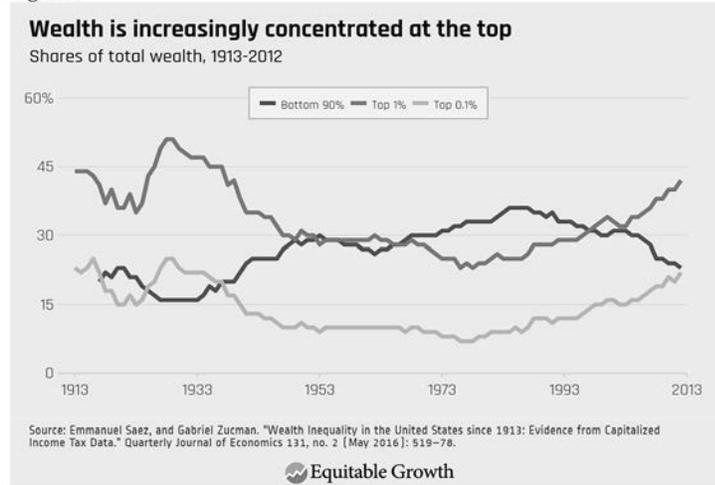
To take just a single year, in 2014, total National Income growth was 2.1 percent. According to Piketty, Saez and Zucman's dataset, income growth for the lowest-earning 50 percent of all Americans was just 0.4 percent, while growth for the richest 1 percent of Americans was 4.3 percent. The statistics for 2014 are not outliers. The DINA dataset shows that since the early 1980s, those at the very top of the income ladder have enjoyed much faster growth than those in the middle and at the bottom. Prior to this period, there was little need to disaggregate national growth because the headline GDP growth statistic was broadly representative of most Americans. Unfortunately, that is no longer the case.

GDP growth has been treated for decades by pundits and policymakers alike as synonymous with prosperity. President Kennedy famously alluded to it when he said that “a rising tide lifts all boats.” In the decades since, economists and commentators have used the metaphor of “growing the pie” to indicate that we should first and foremost be concerned with growing the economy rather than concerning ourselves with who gets a slice. But as Figure 1 demonstrates, overall growth of the economic pie is no longer correlated with prosperity for many Americans.

The unequal distribution of income exhibits inequalities by gender and race as well. Those that occupy the highest rungs on the income ladder are much more likely to be male and white, which means that women and people of color are less likely to have access to the economic and political power that higher incomes confer. The U.S. Census Bureau reports that almost 30 percent of white households earn \$100,000 or more—about double the 15 percent for black households. Conversely, more than one in five black households make less than \$15,000, compared to fewer than one in 10 white households falling under the same bracket.²

Income is the flow of money while wealth is the stock of accumulating assets—money, but also property, stocks, bonds, and other kinds of capital. The distribution of wealth across U.S. households follows the same U-shaped curve as income—but it is even more severely unequal.³ Research by Saez and Zucman documents that in the 1920s, the share of wealth owned by the top 1 percent of households by wealth was 51 percent. As with the share of income owned by the top 1 percent, this fell during the middle of the 20th century, hitting a low of 23 percent in 1978. Since then, however, wealth gains at the top have grown even faster than income—those in the top 1 percent now control 42 percent of all wealth and the top 0.1 percent control more than 22 percent of all wealth in the U.S. economy, three times as much as a generation ago. To put this into real numbers, a group of only 160,000 families each owns more than \$20 million. In 2018, this group’s share of wealth was equal to that of the bottom 90 percent of Americans.⁴ (See Figure 2.)

Figure 2



Given these trends in rising inequality, it is perhaps not surprising that there is a divergence in the data policymakers are seeing and the way that translates into the reported status of many families. Families aren't feeling the benefits of growth in their daily lives and almost all of our national economic statistics are becoming less representative of the experience of most Americans. The implication for how we evaluate the economy is that mean economic progress is pulling away from median economic progress. We see these same divergent trends across multiple measures of economic wellbeing: wages, income, and wealth.

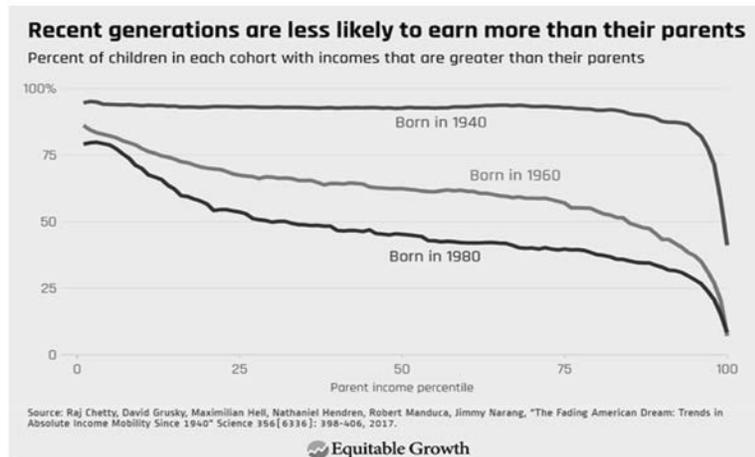
Yet the problems for middle-class families do not stop at unequal growth. Most families also face the daily struggles of rising costs in healthcare, childcare, and education, all of which are increasingly vital pillars for building a middle-class life. Employer-sponsored insurance premium costs rose from \$5,791 to \$18,142 between 1999 and 2016, doubling as a share of the average earnings of the bottom 90 percent of workers. Childcare is another significant monthly expense for many families with the average cost to provide center-based licensed infant childcare now at \$1,230 per month. A median-income family would have to spend 18 percent of its income to cover these costs—and even more for access high-quality childcare. Finally, the total cost to attend a four-year university has doubled over the past four decades from \$26,000 to more than \$100,000. In a world where middle-class incomes are barely rising, if at all, and costs continue to spiral out of control, it should be no surprise that Americans' reported feelings about the economy are so middling,⁵ even as traditional economic indicators say that they should be enjoying the strongest economy in decades.

The fall in mobility

Moving up the economic ladder and earning more than the previous generation is at the heart of the American Dream, an ideal that many Americans still believe in. But groundbreaking research now shows that inequality is hindering upward absolute mobility, obstructing people from moving up, as the rungs of the ladder grow further apart.

Harvard University economist Raj Chetty and his co-authors looked across generations and found that when people born in 1940 were in their prime work-age years, nearly all—92 percent—had an income that was higher than their parents had at the same age. But when those born in 1980—the Reagan-era children—hit their 30s, only half of them had an income higher than their parents had at the same age. Those born in the middle of the income spectrum in 1980 have experienced the largest decline in the share of children out-earning their parents.⁶ That's a remarkable decrease in Americans' upward mobility in a very short time frame, and 70 percent of the decline is explained by the rise in inequality. There is economic growth, but this is not leading to upward mobility because this growth is primarily benefitting those at the very top of the income ladder. (See Figure 3.)

Figure 3



Inequality limits opportunity for those not already at the top—everyone needs some measure of capital to start up a business (an entrepreneur), to give a child a college education (parents), or to take care of sudden medical emergencies (families), yet increasingly only the very wealthy have the means to do so.

What we're learning from the economic evidence is that inequality obstructs economic opportunity. The economic circumstances that children are born into affect children's development in everything from their health to their ability to focus at school to their educational opportunities and these, in turn, affect their economic outcomes as adults. Research shows that children in low-income families have worse cognitive, social-behavioral and health outcomes in part because they are poorer, not just because low income is correlated with other household and parental characteristics. Meanwhile, parents with higher incomes and more advanced education are seeking to make the most of their time with their children by investing in parenting techniques calibrated to boost their children's skills development.

As mobility falls and essentials of middle class life become more unaffordable, many Americans also face an increasingly unequal, precarious, and unstable labor market. Unpredictable work hours not only reduce worker health and wellbeing but also can lead to lower worker productivity and thus lower economic growth.⁷ Moreover, most parents do not have access to the work-life scheduling policies and support they need to address conflicts between work and caring for young children. It is extremely difficult for parents to access reliable childcare when they do not even know what their work schedule will be when a week begins. The United States stands alone among our economic competitors in not providing paid family leave to all parents nationwide and does not ensure that parents have family-friendly schedules that allow them time to care, both of which disproportionately harm low-income families.⁸

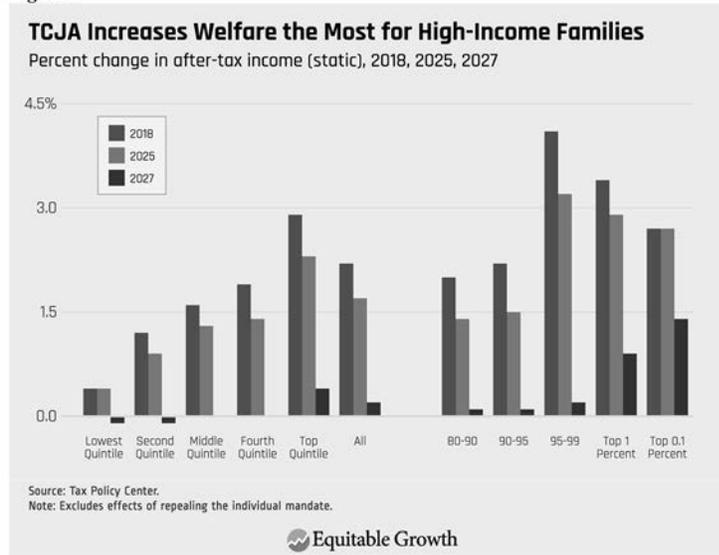
We're also learning, however, that unbridled concentration in income and wealth also affects the economy. Policymakers must find ways to ensure that our tax system delivers the revenue necessary for public investments. The wealthiest segments of society are clearly far better off than they have been in the past, in part because of political decisions where they used their wealth to manipulate political decision-making in their favor. Ameliorating disparities through the tax system could change incentives away from focusing on ever-higher incomes and towards—perhaps—more investments that will improve outcomes for the many, not just the few.

Tax Issues and Tax Cuts and Jobs Act of 2017

This Subcommittee has a vital role to play in rebalancing policy toward the majority of Americans. Unfortunately, the Tax Cuts and Jobs Act is seriously contributing to inequality in the United States. And because it reduces revenue it also will hinder our ability to finance infrastructure, social insurance, education, and other spending priorities that strengthen our economy and support workers and families.

The Tax Policy Center estimates that the Tax Cuts and Jobs Act of 2017 was sharply regressive, with high-income families enjoying larger income gains in both the short- and long-term than low- and middle-income families.⁹ (See Figure 4.)

Figure 4



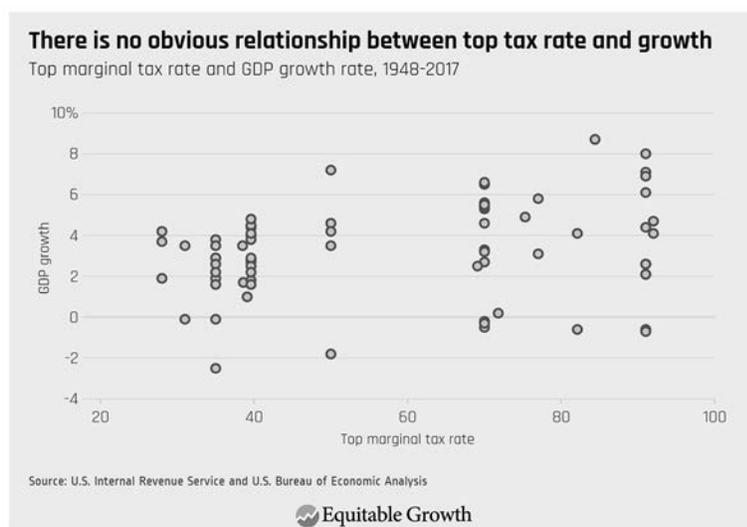
In lavishing most of its benefits on corporate shareholders and the already wealthy, the law is already failing to live up to the unrealistic promises of its proponents. Proponents claimed it would boost wages by \$4,000 per year,¹⁰ but there is no evidence to suggest such an increase is coming. Despite the already strong economy, inflation-adjusted wage growth has been anemic in the year since the law was passed. Proponents claimed that the law would lead to a boom in business investment in things such as factories and technology, but the modest increase in investment in 2018 relative to trend was primarily the result of fluctuations in oil prices.¹¹ Promises of a boom in investment following the 2017 Tax Act have fallen flat. Instead, it is clear that corporations have used their tax windfall to give out a record \$1 trillion-plus in stock buybacks.

Polling shows that the public was not fooled into believing that a tax cut for the wealthy was actually a cut for them. Vanessa Williamson, a fellow at The Brookings Institution, notes that “approximately 32 percent of Americans supported the legislation in the lead-up to its passage, a level of approval lower than that received by a number of major federal tax *increases* in years past” (emphasis hers).¹² Other polling shows that the majority of the public correctly perceives that their personal financial situation was not much affected by the law. These feelings of ambivalence and disapproval feeling is especially strong among members of the middle class.¹³

Finally, many misguided proponents claimed against all evidence that the law would not decrease revenues. The latest *Budget and Economic Outlook* from the Congressional Budget Office confirms that budget deficits in excess of 4 percent of GDP are our new normal, in large part because of the tax cuts, and CBO's projections about what will happen to them in the future.

Given the history of tax cuts, we shouldn't be surprised by the results. Proponents of tax cuts have consistently argued that they would both spur sustained growth and not lead to harmful cuts in services or needed investments. Yet, looking at the data, there's not strong evidence for either. The historical evidence shows that there is no obvious relationship between the top rate and growth. (See Figure 5.) Successive efforts to lower the top tax rate have rewarded those who already possess great means, and starved the U.S. Treasury of funds that could be used to invest in actually produce equitable growth in society.

Figure 5



The purpose of the tax system, as with public policy in general, is to support the living standards of American families. Core to this purpose is raising the revenues necessary to finance the investments in children and families, the social insurance programs, and the many other basic governmental functions that support our quality of life. The Tax Cuts and Jobs Act cut taxes for those at the top in the long run, while leaving us with decreased revenue to fund the things that matter for the well-being of the typical American family.

Recommendations for strengthening the middle class

Public investments

Our nation desperately needs to invest more in education, especially in early childhood, and provide access to high-quality childcare as well as implement policies to ensure economic opportunity across the income spectrum, including access to affordable healthcare, nutrition, and safe housing. Many of these programs will pay for themselves in benefits to our nation over time. For instance, new research shows that universal childcare can pay for itself because having children in childcare both increases the labor force participation of parents, and their earnings, and provides benefits to the children. Gaps in skills among even young children can last into adulthood, which means investments in early education will support productivity and growth for decades to come. The large body of rigorous research has led to a broad consensus that investments in education—especially early childhood education—are in the national interest.

The lack of access to paid family and medical leave has an enormously important bearing on families' lives and many Americans' labor market outcomes. Currently, the Family and Medical Leave Act of 1993 falls far too short, providing unpaid leave to only 60 percent of workers. Policymakers should invest in a well-designed federal paid leave program to help Americans care for a new child, a seriously ill loved one or their own serious health condition. Evidence from the states show that paid leave policies have been overwhelmingly successful, with states seeing increased labor-force participation, hours worked after the birth of a child, and a decline in the use of public assistance to cope with family medical emergencies. These existing models are replicable on the federal level.¹⁴

Policymakers should make greater investments in large-scale projects, such as upgrading the nation's failing transportation infrastructure, addressing climate change, and investing in people and families. There are the traditional investments in transportation as well as developing the technology to limit the emission of greenhouse gases and to address the consequences of climate change. Between the need for investments in the development and deployment of green energy, the need to mitigate the effects on our food supplies, and the need to assist communities upended by the rising prevalence of climate change-induced natural disasters, there's a comprehensive agenda to be enacted.¹⁵

There are immediate and long-term costs to our economy—and society—for failing to make sufficient public investments. A report from McKinsey finds that \$150 billion a year would be required between now and 2030, about \$1.8 trillion in total, to fix all the country's infrastructure needs.¹⁶ A 2018 government report from the National Academies of Sciences, Engineering, and Medicine on America's 60-year-old Interstate Highway System estimates that federal and state governments must more than double their current annual spending of \$25 billion, or face worse traffic congestion, higher maintenance costs, and reduced safety.

Without revenue, government cannot make these critical investments and the public knows that public investments are important and lacking. A majority of Americans report that poorly maintained schools are a threat to our children, and a majority think that all Americans are

endangered by the poor quality of our drinking water infrastructure.¹⁷ A Harvard-Harris Poll in 2017 found, more emphatically, that 84 percent of Americans want to invest more in infrastructure, and 76 percent agree that government should be at least partially responsible for that investment.¹⁸ Governments, within reason, need to spend and regulate to encourage growth, not simply cut and run. The long-term decline in revenue has starved resources that can be directed to critical public investments.

Rebalancing the tax system

Future tax efforts should seek to preserve and expand the evidence-backed refundable tax credits that help working families, while realizing that these do not eliminate the need for direct investment in programs and services that help these families thrive. When raising revenues is necessary, new revenue measures should draw from those who have had the most disproportionate economic success in recent decades. Congress should preserve and expand refundable tax credits such as the Earned Income Tax Credit and the Child Tax Credit, while evaluating these expansions in the context of the broader tax package in which they are a part. Expanding these credits, however, would not take the place of desperately needed increases in investments in child care, paid family leave, and job training.

The Earned Income Tax Credit is designed to encourage and reward work, reduce poverty, and provide assistance to struggling families. The credit is refundable, which means the many families whose incomes are too low to generate substantial federal income tax obligations can still benefit. According to the Center on Budget and Policy Priorities, the Earned Income Tax Credit lifted 5.8 million people, including 3 million children, out of poverty in 2016. The Child Tax Credit, which is only partially refundable, also provides families with a significant economic boost. It provides workers with children a tax credit of up to \$1,000 per child and lifted about 2.7 million people out of poverty, including about 1.5 million children, in 2016.

The TCJA expanded the CTC but that expansion largely left out the most vulnerable families. Further improvements should include measures such as allowing families to receive a CTC refund from the first dollar of income and substantially increase the phase-in rate or make the credit fully refundable. Any CTC expansion should include a particular focus on the poorest families and the youngest children given the evidence that suggests the benefits of additional income—including improved health outcomes, increased educational attainment, and higher expected earnings as adults—are clearest for that group.

But the reality is that improving the EITC and CTC would not take the place of desperately needed increases in investments in childcare or paid family leave. With average center-based childcare costs of around \$18,000 per year, expanded tax credits are not the best approach to deal with this expense. For example, a CTC expansion or other attempts to make childcare more affordable through the tax code would not address issues with access to high-quality reliable childcare. Addressing families' childcare needs requires significant public investments in the childcare system as a whole.

Similarly, though it is tempting for tax policymakers to help solve the problem of a lack of paid family leave through a tax credit for businesses that offer it, as in the TCJA, such efforts can do more harm than good. These kinds of tax credits are generally ineffective at increasing the number of employers offering paid leave, especially for low-wage workers, and thus serve to provide tax cuts to employers that already do. Even while ineffective in increasing access to paid leave, the cost of the tax cuts still require cuts in other services or offsetting tax increases to pay for them. Proposals such as these may only exacerbate inequality by offering tax credits to employers who have already acknowledged that there is a value to offering paid leave.

Disaggregate growth

Finally, many of the statistics we rely on to inform us about the state of our economy are measures of the mean and, in an era of rising inequality, are becoming less informative about the experience of the majority of people you represent. The Measuring Real Income Growth Act, introduced by Representative Carolyn Maloney in the House, and by Senator Schumer in the Senate, would disaggregate quarterly or annual GDP growth numbers, telling us what growth accrued to low-, middle-, and high-income Americans.

This legislation would add distributional measures of economic growth to our policymaking toolbelt. These measures are already the subject of a major academic project that dozens of economists at universities and within the Organization for Economic Co-operation and Development (OECD) are participating in. They break down growth at the subnational level to report growth for workers up and down the income spectrum and give us new insights into how the economy has changed and where it might be going.

Implementing “Distributional National Accounts” here in the United States would provide policymakers with a new tool to track the progress of the economy, evaluate how past policy is changing our economic fortunes, and guide future economic decision-making. This is especially important to implement now as the U.S. economy continues to exhibit increasing inequality, returning us to levels of inequity that we have not seen for nearly a century. To properly design policy, lawmakers need the right measurement tools, otherwise they might be tempted to pass laws that raise average outcomes without actually helping families in the middle.

Implementing a measure to disaggregate growth is critical to the wellbeing of Americans across the country. Present policies may be exacerbating the rise of inequality, but the currently available data requires us to assemble this story piecemeal, sometimes with lags of several years, and we still do not have a complete picture. If we want to build an economy that benefits all Americans, we need to add these distributional statistics to our arsenal now so that policymakers, pundits, and the public can assess where we are and plan for more broad-based, stable economic growth.

In the future, instead of making promises of “4 percent economic growth,” lawmakers could be expected to promise “4 percent economic growth *for the middle class*,” and be held to that promise monthly, ensuring that growth is widely shared in our society.

Endnotes

- ¹ Thomas Piketty, Emmanuel Saez, and Gabriel Zucman, "Distributional National Accounts: Methods and Estimates for the United States," *The Quarterly Journal of Economics* 133, no. 2 (May 1, 2018): 578, <https://doi.org/10.1093/qje/qjx043>.
- ² Jessica L. Semega, Kayla R. Fontenote, and Melissa A. Kollar, "Income and Poverty in the United States: 2016" (Washington, DC: U.S. Census Bureau, September 2017), <https://www.census.gov/content/dam/Census/library/publications/2017/demo/P60-259.pdf>.
- ³ Saez and Zucman begin with the tax return data on incomes to compute their estimates of wealth so the fact that the trends are similar may be because the underlying data source is the same. The assumptions of their method, of course, would adjust for this in theory, but in practice, it may be that it would be hard for this not to be the case.
- ⁴ Emmanuel Saez and Gabriel Zucman, "Wealth Inequality in the United States since 1913: Evidence from Capitalized Income Tax Data," *The Quarterly Journal of Economics* 131, no. 2 (May 2016): 519–78, <https://doi.org/10.1093/qje/qjw004>.
- ⁵ Gallup Inc., "Economic Confidence - Current Conditions," January 2019, <https://news.gallup.com/poll/1609/Consumer-Views-Economy.aspx>.
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- ⁹ Tax Policy Center, "Distributional Analysis of the Conference Agreement for the Tax Cuts and Jobs Act," Available online at <https://www.taxpolicycenter.org/publications/distributional-analysis-conference-agreement-tax-cuts-and-jobs-act/full>
- ¹⁰ Berkeley Lovelace Jr., "Tax Overhaul Means a \$4,000-a-Year Pay Raise for the Average Family, Trump Advisor Says," *CNBC*, January 29, 2018, <https://www.cnbc.com/2018/01/29/tax-overhaul-means-4000-a-year-pay-hike-for-average-family-hassett.html>.
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- ¹⁵ Michael Della Rocca, Tyler Duvall, and Rob Palter, "The Road to Renewal: How to Rebuild America's Infrastructure" (McKinsey & Company, March 2017), <https://www.mckinsey.com/industries/capital-projects-and-infrastructure/our-insights/the-road-to-renewal-how-to-rebuild-americas-infrastructure>.
- ¹⁷ Tom Jensen, "Overwhelming Majority of Americans Support More Federal Funding for Roads and Bridges; Voters See Crumbling Infrastructure as Threat" (Public Policy Polling, September 26, 2016), <https://www.publicpolicypolling.com/polls/overwhelming-majority-of-americans-support-more-federal-funding-for-roads-and-bridges-voters-see-crumbling-infrastructure-as-threat/>.

¹⁸ Jonathan Easley, "Poll Finds Overwhelming Support for Tax Reform and Infrastructure Spending," *The Hill*, September 22, 2017, <http://thehill.com/homenews/administration/351984-poll-finds-overwhelming-support-for-tax-reform-and-infrastructure>; In February of 2018, YouGov polled the questions of whether people supported increasing federal spending for roads, bridges, mass transit, and other infrastructure and found that 71 percent were in support either "strongly" or "somewhat." See Kathy Frankovic, "Spending on Infrastructure Is Popular, but There's No Easy Way to Pay for It," *YouGov*, February 1, 2018, <https://today.yougov.com/news/2018/02/01/spending-infrastructure-popular-theres-no-easy-way/>.

Chairman THOMPSON. Thank you very much.
Dr. Collins.

**STATEMENT OF SARA R. COLLINS, PH.D., VICE
PRESIDENT OF HEALTH CARE COVERAGE AND
ACCESS, COMMONWEALTH FUND**

Ms. COLLINS. Thank you, Mr. Chairman, and members—and Ranking Member Smith and Members of the Subcommittee, for this invitation to testify on how middle-class families are faring in today's economy. My comments are going to focus on the current status of health insurance coverage among people in the United States who get their insurance through their employers.

Job-based health insurance continues to be the primary source of insurance coverage for the majority of the U.S. population. More than half of residents under age 65, about 158 million people, get their health insurance through an employer.

Two recent studies by the Commonwealth Fund indicate that families' costs for employer health insurance are rising faster than median income. Moreover, even as costs climb, families aren't receiving higher-quality insurance. The amount they have to pay out of pocket before their insurance kicks in continues to rise.

Consequently, our research indicates that a growing share of people with employer coverage have such high out-of-pocket costs and deductibles relative to their incomes that they can be considered under-insured.

People across the country are not experiencing health care costs equally. This variation stems from differences in the size of employer premiums across states, how much employees are required to contribute to their premiums, the size of their deductibles, and the widening disparity in median incomes across the country. Families who could potentially spend the greatest amount of their incomes on premiums and deductibles are concentrated in the South.

These high insurance costs have implications. People may decide to go without insurance if it competes with other living expenses like housing, food, and education. And people who maintain their coverage but who are under-insured may make similar tradeoffs. Commonwealth Fund surveys find that under-insured adults are much more likely to skip needed health care, like filling prescriptions or going to the doctor when they are sick, than are people who are not under-insured.

In addition, people who are under-insured are much more likely to report problems paying medical bills or to say that they are paying off medical debt over time. Accumulated medical debt affects other aspects of people's lives. Our survey research finds that many adults with medical bill problems have serious subsequent financial problems such as depleting their savings, racking up credit card debt, or getting a lower credit rating.

People with lower incomes are particularly affected, with about one-third reporting being unable to pay for basic necessities like food, heat, or their rent as a result of their bills.

Take as an example Robert and Tiffany Cano of San Tan Valley, Arizona. The Canos were recently profiled by Kaiser Health News in its series on consumer medical bills. Both Robert and Tiffany work full time and have a combined income of about \$100,000 a

year. At the time of the story, the Canos had a family health plan through Robert's job as a manager at a large chain retail store. They were spending \$7,000 in premiums annually for a plan with a \$3,000 deductible. The birth of their son and some subsequent health problems left them with \$12,000 in medical debt.

Robert has taken on three additional part-time jobs to pay off their debt, and they estimate that it will take two more years to pay it off. Concerned about accumulating more debt, they have postponed needed health care for themselves and their baby.

Tiffany, who works for a regional bank, uses a prosthetic limb because of a birth defect that required her leg to be amputated below the knee as a child. She now needs a replacement prosthesis to accommodate changes in her body since her pregnancy. And although she has difficulty walking and suffers from blisters, she worries about whether they can afford their share of the cost of a replacement.

The personal pain and financial stress suffered by families with high medical costs present a fundamental dilemma for employers. To the extent that they are designing benefits that shift more of their insurance costs to their employees, they are potentially undermining the productivity of their own workforces.

More broadly, the growing number of under-insured people could have implications for the nation's economic health. Research indicates that human capital is key to a country's long-term growth.

In a landmark study in 2003, the Institute of Medicine concluded that people who lack adequate health insurance have fundamentally different life experiences than those who are adequately insured, including lower educational attainment, lifetime earnings, and life expectancy. At the time of the study, the IOM estimated that the aggregate cost of uninsured people's lost capital and earnings from poor health and shorter life spans fell between \$65 billion and \$130 billion, annually.

We have insured—the U.S. has insured 20 million more people since the IOM study through the Affordable Care Act's coverage expansions. But with 28 million people still uninsured, and an estimated 44 million people under-insured, the country continues to squander billions of dollars every year in people's lost capital and earnings.

The subcommittee is to be commended for investigating this timely issue. Thank you.

[The prepared statement of Ms. Collins follows:]

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The Growing Cost Burden of Employer Health Insurance for U.S. Families and Implications for Their Health and Economic Security

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Invited Testimony

U.S. House of Representatives Committee on Ways and Means,
Subcommittee on Select Revenue Measures
Hearing on “How Middle-Class Families Are Faring in Today’s Economy”

February 13, 2019

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**The Growing Cost Burden of Employer Health Insurance for U.S. Families and
Implications for Their Health and Economic Security**

**Sara R. Collins, Ph.D.
The Commonwealth Fund**

EXECUTIVE SUMMARY

Thank you, Mr. Chairman, members of the Subcommittee, for this invitation to testify today on how middle-class families are faring in today's economy. My comments will focus on the current status of health insurance coverage among people in the United States who get their insurance through employers.

Employer health insurance continues to be the primary source of insurance coverage for the majority of the U.S. population. More than half of U.S. residents under age 65—about 158 million people—get their health insurance through an employer, either their own or a family member's.

Two recent studies by the Commonwealth Fund indicate that families' costs for employer health insurance are rising faster than median income. Moreover, even as costs climb, families aren't receiving higher-quality insurance. The amount they have to spend out of pocket before their insurance coverage kicks in also continues to climb. Consequently, our research indicates that a growing share of people with employer coverage have such high out-of-pocket costs and deductibles relative to their income that they can be considered "underinsured".

People across the United States are not experiencing health care costs equally. This variation stems from differences in the size of employer premiums across states, how much employees are required to contribute to premiums, deductible amounts, and the widening disparity in median incomes across the country. We have found that families who could potentially spend the greatest amount of their incomes on insurance costs and deductibles are concentrated in the South.

Higher costs for insurance and health care have implications. People with low and moderate incomes may simply decide to go without insurance if it competes with other critical living expenses like housing, food, and education.

Likewise, people who maintain their coverage but who are underinsured may make similar tradeoffs between getting timely health care and meeting other budget demands. Commonwealth Fund surveys find that underinsured adults are much more likely to skip needed health care, like filling prescriptions or going to the doctor when they are sick, than are those who are not underinsured.

In addition, people who are underinsured are much more likely to report problems paying medical bills or say they are paying off medical debt over time. Many moderate- and low-income families simply do not have the assets or savings to pay for an unexpected medical bill—from an accident or acute illness and subsequent emergency room visit, for example—they may experience because of a high-deductible health plan. A recent Commonwealth Fund survey asked moderate- and low-income adults with employer coverage whether they would have the money to pay for an unexpected \$1,000 medical bill; half said no.

Paying off accumulated medical bills over time affects other aspects of people's lives. A recent Commonwealth Fund survey found that many adults with medical bill or debt problems reported serious subsequent financial problems: 43 percent had used up all their savings to pay their bills, 43 percent had received a lower credit rating as a result of their debt, 32 percent racked up debt on their credit cards, 18 percent said they had delayed education or career plans. People with lower incomes were particularly affected: 37 percent said they were unable to pay for basic necessities like food, heat or rent as a result of their bills.

Take as an example, Robert and Tiffany Cano of San Tan Valley, Ariz., who were recently profiled by Kaiser Health News in its series with National Public Radio on consumers' medical bills. Both Robert and Tiffany work full time and have a combined income of about \$100,000 a year. At the time of the story, the Canos had a family health plan through Robert's job as a manager at a large chain retail store. They were spending about \$7,000 in premiums annually for a plan with a \$3,000 deductible. The birth of their son a year ago and some subsequent health problems has left them with \$12,000 in medical debt that they are struggling to

pay off. Robert has taken on three additional part-time jobs and they have projected it will take about two more years to pay it off. Concerned about accumulating more debt, they have postponed needed health care for themselves and their baby. Tiffany, who works for a regional bank, has used a prosthetic limb most of her life because of birth defect that required her leg to be amputated below the knee as a child. She now needs a replacement prosthesis to accommodate changes in her body since her pregnancy. Although she has difficulty walking and suffers from blisters, she is concerned about whether they could afford their share of the cost of a new prosthesis.

The personal pain and financial stress suffered by families coping with high medical costs present a fundamental dilemma for employers. To the extent that they are designing benefits to shift increasing amounts of their insurance costs to their employees, they are potentially undermining the productivity of their own workforces.

More broadly, the growing number of underinsured people in the United States could have long-term implications for the nation's economic health. Research indicates that human capital is key to countries' long-term economic growth. In its landmark study in 2003, the Institute of Medicine (IOM) concluded that people who lack adequate health insurance all their lives have fundamentally different life experiences and less economic opportunity than those who are adequately insured, including lower educational attainment, lifetime earnings, and life expectancy. At the time of the study, it estimated that the aggregate, annualized cost of uninsured people's lost capital and earnings from poor health and shorter lifespans fell between \$65 billion and \$130 billion annually.

The U.S. has insured 20 million more people since the IOM study through the Affordable Care Act's coverage expansions. But with 28 million people still uninsured and an estimated 44 million more underinsured, the country continues to squander billions of dollars every year in people's lost capital and earnings. The subcommittee is to be commended for investigating this timely issue.

Thank you.

**The Growing Cost Burden of Employer Health Insurance for U.S. Families and
Implications for Their Health and Economic Security**

Sara R. Collins, Ph.D.
The Commonwealth Fund

Thank you, Mr. Chairman, members of the Subcommittee, for this invitation to testify today on how middle-class families are faring in today's economy. My comments will focus on the current status of health insurance coverage among people in the United States who get their insurance through an employer.

Employer health insurance continues to be the primary source of insurance coverage for the majority of the U.S. population. More than half of U.S. residents under the age of 65—about 158 million people—get their health insurance through an employer, either their own or a family member's.¹

Two recent studies by the Commonwealth Fund indicate that families' costs for employer health insurance are rising faster than median income.² Moreover, even as costs climb, families aren't receiving higher-quality insurance. The amount they have to spend out of pocket before their insurance coverage kicks in also continues to climb.

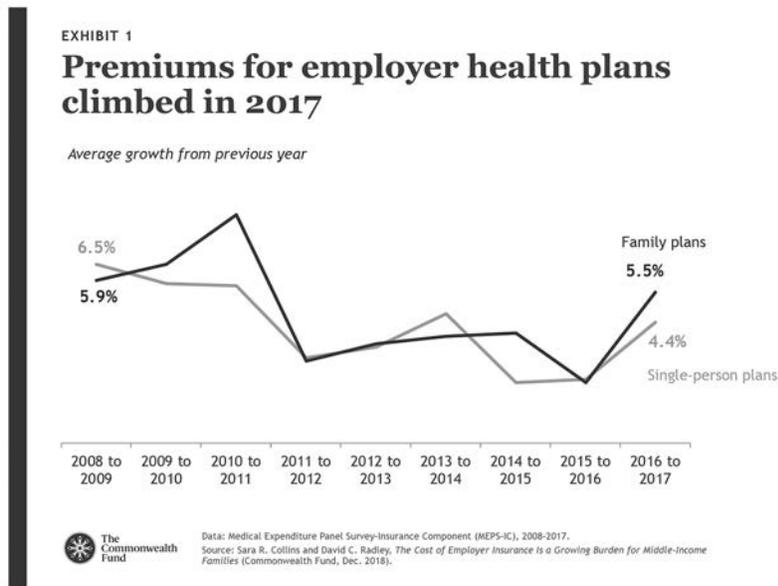
Consequently, our research indicates that a growing share of people with employer coverage have such high out-of-pocket costs and deductibles relative to their income that they can be considered "underinsured." We find that underinsured adults are much more likely to skip needed health care, like filling prescriptions or going to the doctor when they are sick, than are those who are not underinsured. In addition, people who are underinsured are much more likely to report problems paying medical bills or say they are paying off medical debt over time.

¹ Analysis of the 2018 Current Population Survey by Ougni Chakraborty and Sherry Glied of New York University for the Commonwealth Fund.

² Sara R. Collins, Herman K. Bhupal, and Michelle M. Doty, Health Insurance Coverage Eight Years After the ACA: Fewer Uninsured Americans and Shorter Coverage Gaps, But More Underinsured (Commonwealth Fund, Feb. 2019). <https://doi.org/10.26099/penv-q932>; Sara R. Collins and David C. Radley, The Cost of Employer Insurance Is a Growing Burden for Middle-Income Families (Commonwealth Fund, Dec. 2018). <https://doi.org/10.26099/mf87-p820>

Families' costs for employer health insurance are rising faster than median income

According to a recent Commonwealth Fund state-by-state analysis of the most recent federal Medical Expenditure Panel Survey–Insurance Component,³ premiums for employer health plans ticked up in 2017 by 4.4 percent for single plans and 5.5 percent for family plans (Exhibit 1).⁴ Average single-person premiums increased in 45 states and the District of Columbia and family premiums increased in 44 states and D.C.



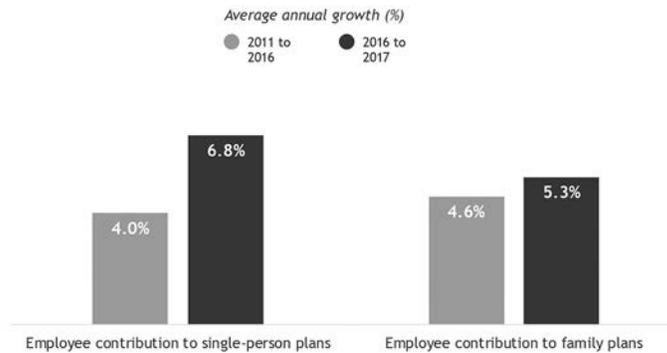
Workers and their families contribute about one-quarter of the cost of employer premiums, on average. But in 14 states, people with family plans paid for 30 percent or more of

³ The Medical Expenditure Panel Survey- Insurance Component (MEPS-IC) is the most comprehensive survey of U.S. employer health plans. In 2017, the most recent year of the survey, the MEPS-IC surveyed more than 40,000 business establishments, with an overall response rate of 65.8 percent.
⁴ Sara R. Collins and David C. Radley, *The Cost of Employer Insurance Is a Growing Burden for Middle-Income Families* (Commonwealth Fund, Dec. 2018). <https://doi.org/10.26099/mf87-p820>

the cost of their insurance. While these percentages have not changed very much in recent years, because the rate of growth in employer premiums increased overall in 2017, the amount employees paid rose too (Exhibit 2). Between 2016 and 2017, average annual employee premium contributions nationally rose by 6.8 percent to \$1,415 for single-person plans and by 5.3 percent to \$5,218 for family plans.

EXHIBIT 2

Employer premiums have risen, so have employee contributions



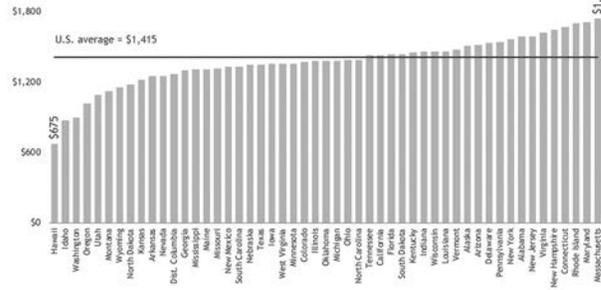
Data: Medical Expenditure Panel Survey-Insurance Component (MEPS-IC), 2011, 2016, 2017.
Source: Sara R. Collins and David C. Radley, *The Cost of Employer Insurance Is a Growing Burden for Middle-Income Families* (Commonwealth Fund, Dec. 2018).

Across the country, the amount that workers contribute for single-person plans increased in 32 states in 2017. Average payments for single plans ranged from a low of \$675 in Hawaii to a high of \$1,747 in Massachusetts (Exhibit 3). The amount that workers contribute for family plans increased in 35 states and the District of Columbia. These annual costs ranged from a low of \$3,646 in Michigan to a high of \$6,533 in Delaware (Exhibit 4).

EXHIBIT 3

Workers' premium payments for single plans range from \$675 in HI to \$1,747 in MA

Average annual employee contribution for single plans

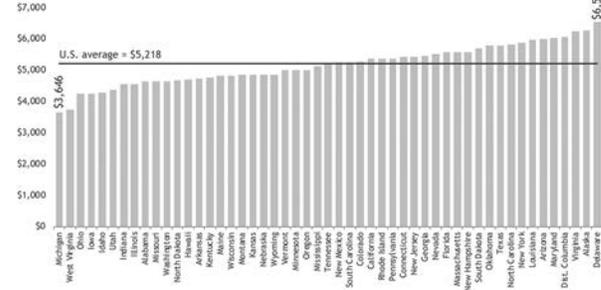


Data: Medical Expenditure Panel Survey-Insurance Component (MEPS-IC), 2017.
 Source: Sara R. Collins and David C. Radley, *The Cost of Employer Insurance is a Growing Burden for Middle-Income Families* (Commonwealth Fund, Dec. 2018).

EXHIBIT 4

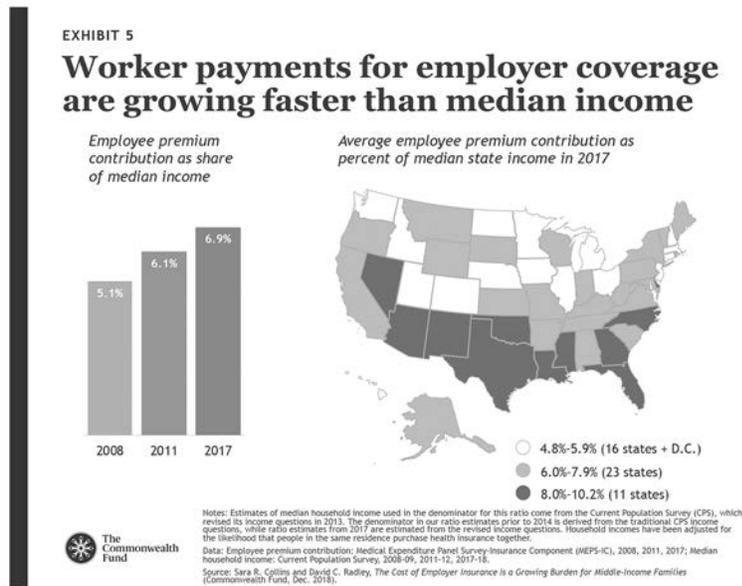
Workers' premium payments for family plans range from \$3,646 in MI to \$6,533 in DE

Average annual employee contribution for family plans



Data: Medical Expenditure Panel Survey-Insurance Component (MEPS-IC), 2017.
 Source: Sara R. Collins and David C. Radley, *The Cost of Employer Insurance is a Growing Burden for Middle-Income Families* (Commonwealth Fund, Dec. 2018).

To understand what these insurance costs mean for people with incomes in the middle range of the U.S. income distribution (about \$62,000 a year), the Commonwealth Fund study looked at the ratio of employee premium contributions to median income in the 50 states and D.C. The average employee premium cost across single and family plans amounted to nearly 7 percent of median income in 2017 (Exhibit 5). This is up from 5.1 percent in 2008. In 11 states (Arizona, Delaware, Florida, Georgia, Louisiana, Mississippi, Nevada, New Mexico, North Carolina, Oklahoma, Texas), premium contributions were 8 percent of median income or more, with a high of 10.2 percent in Louisiana.

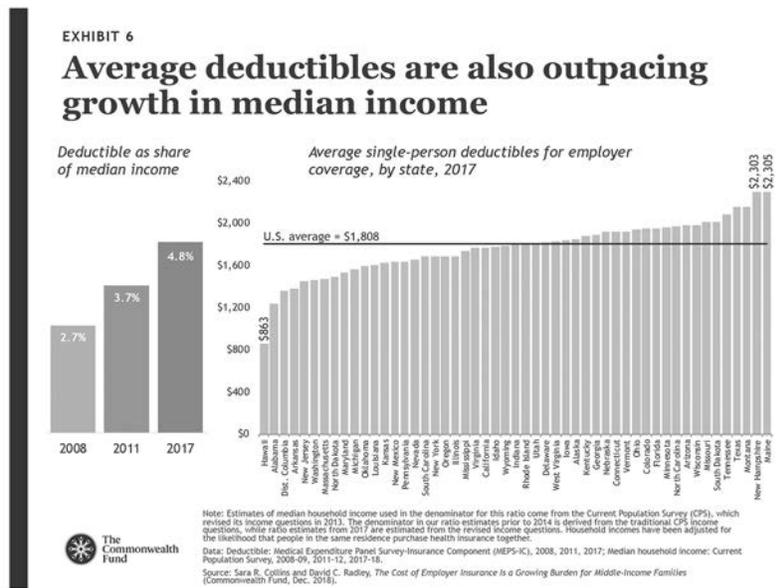


Even though premium costs are rising many families are not getting better plans

In many states, even though premium costs are rising, people are not getting insurance that offers them better protection. This is because deductibles are also increasing. Deductibles are the

amount of health care services people must pay for out of pocket before their insurance coverage kicks in.

In 2017, the average deductible for single-person policies rose by 6.6 percent to \$1,808. Average deductibles increased in 35 states and the District of Columbia. Deductibles ranged in size from a low of \$863 in Hawaii to a high of about \$2,300 in Maine and New Hampshire (Exhibit 6). Among families who spend enough on health care during the year to meet their deductibles, those at the midrange of the income distribution would spend 4.8 percent of their income on average before their coverage kicked in.⁵ This is up from 2.7 percent of income in 2008.



⁵ Not everyone with a deductible has enough medical expenses in a given year to meet the deductibles; some services are covered by plans before people meet deductibles. By law, preventive care services and many cancer screens must be covered pre-deductible without cost-sharing. And many plans also cover certain prescription drugs and other services before the deductible is met.

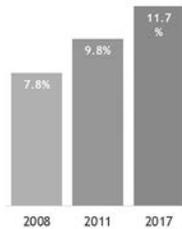
Added together, the total cost of premiums and potential spending on deductibles, averaged across single and family policies, climbed to \$7,240 in 2017. This combined cost ranged from a low of \$4,664 in Hawaii to a high of more than \$8,000 in eight states (Alaska, Arizona, Delaware, New Hampshire, North Carolina, South Dakota, Texas, and Virginia).

For people with middle incomes, total spending on premiums and potential out-of-pocket costs amounted to 11.7 percent of median income in 2017 (Exhibit 7). This is up from 7.8 percent a decade earlier. Costs were 12 percent or more of median income in 18 states. In Louisiana and Mississippi, these combined costs rose to 15 percent or more of median income.

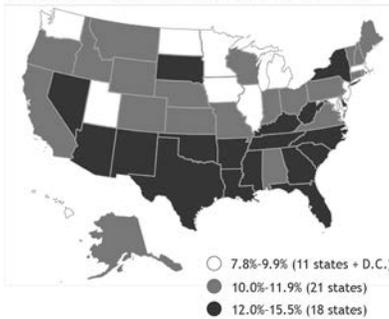
EXHIBIT 7

Premium and deductible costs amounted to nearly 12 percent of median income in 2017

Combined employee premium contribution and deductible as share of median income



Average employee premium contribution plus average deductible as percent of median state income in 2017



Note: Estimates of median household income used in the denominator for this ratio come from the Current Population Survey (CPS), which revised its income questions in 2013. The denominator in our ratio estimates prior to 2014 is derived from the traditional CPS income questions, while ratio estimates from 2017 are estimated from the revised income questions. Household incomes have been adjusted for the likelihood that people in the same residence purchase health insurance together.

Data: Employee premium contribution and deductible: Medical Expenditure Panel Survey-Insurance Component (MEPS-IC), 2008, 2011, 2017; Median household income: Current Population Survey, 2008-09, 2011-12, 2017-18.

Source: Sara R. Collins and David C. Radley, *The Cost of Employer Insurance is a Growing Burden for Middle-Income Families* (Commonwealth Fund, Dec. 2018).

People across the U.S. are not experiencing employer health insurance costs equally

People across the United States are not experiencing health care costs equally. This variation stems from differences in the size of employer premiums across states, how much employees are

required to contribute to premiums, deductible amounts, and the widening disparity in median incomes across the country. For example, of the 18 states where potential cost burdens are above the national average, average contributions to family premiums exceeds the national average in 13. All 18 states have median incomes that are below—in some cases well below—the national average.

Families who could potentially spend the greatest amount of their incomes on insurance costs and deductibles are concentrated in the South. In Mississippi, for example, people on average spend 15 percent of their incomes on premiums and meeting deductibles. The overall premium for a family policy is below the national average, but families are asked to contribute 30 percent of the cost, which is higher than the national average. Further, Mississippi has one of the lowest median incomes in the country (\$42,500). In contrast, people in New Hampshire pay more per year for their insurance and deductibles, but median income is among the highest in the country (\$75,000).

The share of adults in employer plans who are underinsured has nearly tripled this century

The Commonwealth Fund has been measuring and tracking the number of underinsured adults since 2003 with its Biennial Health Insurance Survey. The purpose of this measure is to gauge the quality and cost protectiveness of a person's health plan relative to income. We do not include premiums in the measure. Our underinsured measure is based on a continuously insured adult's reported out-of-pocket costs over the course of a year and his or her health plan deductible. Someone who is insured all year is defined as underinsured if:

- out-of-pocket costs, excluding premiums, over the prior 12 months are equal to 10 percent or more of household income; or
- out-of-pocket costs, excluding premiums, are equal to 5 percent or more of household income if their income is under 200 percent of poverty (\$24,120 for an individual or \$49,200 for a family of four); or
- health plan deductible comprises 5 percent or more of household income.

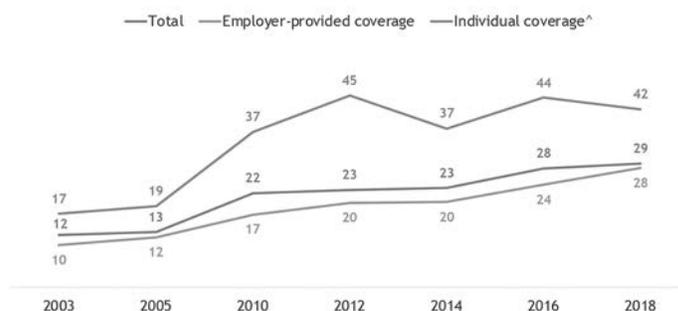
In the most recent Commonwealth Fund Biennial Health Insurance Survey, an estimated 44 million working age adults, or 29 percent of those who were continuously insured, were

deemed underinsured because of high out-of-pocket costs and deductibles.⁶ This is up from an estimated 29 million, or 22 percent, in 2010 (Exhibit 8). People who buy plans on their own through the individual market—including the ACA marketplaces—are underinsured at the highest rates. However, the greatest growth in the share of underinsured adults is occurring among those in employer health plans.

Exhibit 8

More adults are underinsured, with the greatest growth occurring among those with employer coverage

Percent of adults ages 19-64 insured all year who were underinsured



Notes: "Underinsured" refers to adults who were insured all year but experienced one of the following: out-of-pocket costs, excluding premiums, equalled 10% or more of income; out-of-pocket costs, excluding premiums, equalled 5% or more of income if low-income (1-200% of poverty); or deductibles equalled 5% or more of income. Total includes adults with coverage through Medicaid and Medicare. Respondents may have had another type of coverage at some point during the year, but had coverage for the entire previous 12 months. [^] For 2014 and 2016, includes those who get their individual coverage through the marketplace and outside of the marketplace.
 Data: Commonwealth Fund Biennial Health Insurance Surveys (2003, 2005, 2010, 2012, 2014, 2016, 2018).
 Source: Sara R. Collins, Herman K. Bhupal, and Michelle M. Doty, *Health Insurance Coverage Eight Years After the ACA: Fewer Uninsured Americans and Shorter Coverage Gaps, But More Underinsured* (Commonwealth Fund, Feb. 2019).

The share of adults covered by employer plans who are underinsured has nearly tripled this century, rising from 10 percent in 2003 to 28 percent in 2018 (Exhibit 9). Growth in both the proliferation and size of deductibles in employer plans, along with stagnant wages, are the key culprits in this phenomenon. The share of working-age adults with employer plans whose deductibles are 5 percent or more of their income has grown by a factor of eight, from just 2 percent in 2003 to 16 percent in 2018.

⁶ Sara R. Collins, Herman K. Bhupal, and Michelle M. Doty, *Health Insurance Coverage Eight Years After the ACA: Fewer Uninsured Americans and Shorter Coverage Gaps, But More Underinsured* (Commonwealth Fund, Feb. 2019). <https://doi.org/10.26099/penv-q932>

EXHIBIT 9

Underinsured indicators among adults with employer coverage

<i>Underinsured indicators among adults ages 19-64 insured all year, with employer coverage at the time of the survey*</i>	2003	2005	2010	2012	2014	2016	2018
Out of pocket medical expenses equal 10% or more of family annual income	6%	8%	11%	13%	12%	14%	14%
Out of pocket medical expenses equal 5% or more of income if low income [^]	6%	5%	7%	7%	8%	8%	7%
Cumulative percent/millions, using two indicators above	9%	11%	14%	15%	15%	16%	17%
Deductible equals 5% or more of income	2%	2%	6%	8%	11%	13%	16%
Cumulative percent/millions, using all three indicators [^]	10%	12%	17%	20%	20%	24%	28%



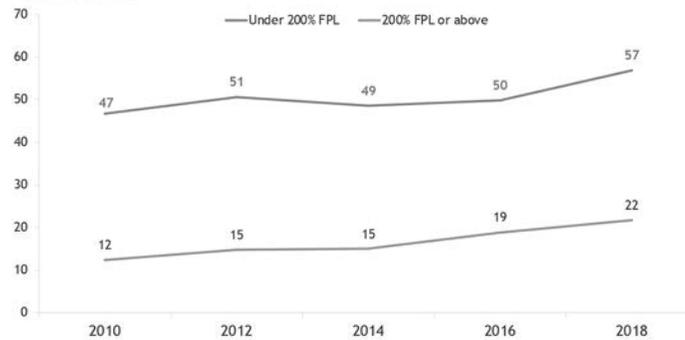
* Respondents may have had another type of coverage at some point during the year, but had coverage for the entire previous 12 months.
[^] Less than 200% of the Federal Poverty Level. ** Underinsured defined as insured all year but experienced one of the following: out of pocket expenses, excluding premiums, equaled 10% or more of income; out of pocket expenses, excluding premiums, equaled 5% or more of income if low income (1-200% of poverty); or deductibles equaled 5% or more of income.
 Data: Commonwealth Fund Biennial Health Insurance Surveys (2003, 2005, 2010, 2012, 2014, 2016, and 2018).

People with modest incomes in employer plans are underinsured at the highest rates. More than half (57%) of adults in employer plans with incomes under 200 percent of poverty (\$24,120 for individual or \$49,200 for a family of four) were underinsured in 2018, more than twice the rate of those with incomes above that level (Exhibit 10). Underinsured rates have also climbed steadily among adults in employer plans with incomes of 200 percent of poverty or more, and are now nearly double what they were in 2010.

EXHIBIT 10

Underinsured rates among people in employer plans are highest among lower-income adults

Percent of adults ages 19-64 insured all year, with employer coverage at time of survey, who were underinsured



Notes: "Underinsured" refers to adults who were insured all year but experienced one of the following: out-of-pocket costs, excluding premiums, equaled 10% or more of income; out-of-pocket costs, excluding premiums, equaled 5% or more of income if low-income (<200% of poverty); or deductibles equaled 5% or more of income. Respondents may have had another type of coverage at some point during the year, but had coverage for the entire previous 12 months.
Data: Commonwealth Fund Biennial Health Insurance Surveys (2010, 2012, 2014, 2016, and 2018).

Higher premiums and greater cost sharing have implications

Higher costs for insurance and health care have implications. People with low and moderate incomes may simply decide to go without insurance if their premium costs compete with other critical living expenses like housing, food, and education. In 2017, average per-person expenditures on food in the U.S. amounted to 13 percent of median income and housing costs were 32 percent.⁷

Likewise, people who maintain their coverage but are underinsured may make similar tradeoffs between getting timely health care and other budget demands. Our survey research finds that that underinsured adults are much more likely to skip needed health care than are those who are not underinsured. Among underinsured adults in employer plans, 40 percent reported

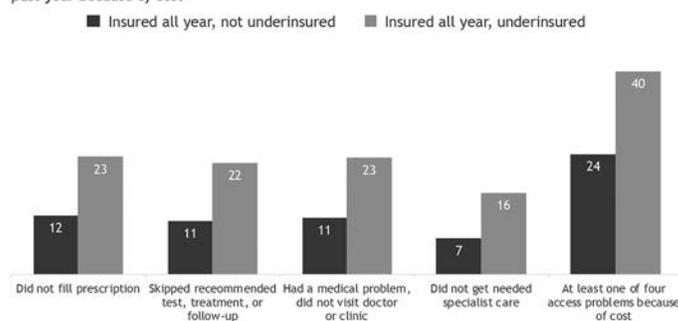
⁷ Bureau of Labor Statistics, "Consumer Expenditures — 2017," news release (U.S. Department of Labor, Sept. 11, 2018). <https://www.bls.gov/news.release/pdf/cesan.pdf>

that they had not received needed health care because of cost in the prior year (Exhibit 11).⁸ These adults reported that over the last 12 months, because of the cost, they had either not filled a prescription (23%); skipped a medical test, treatment or follow up visit recommended by a doctor (22%); had a medical problem but did not go to a doctor or clinic (23%), or did not see a specialist when their doctor thought they needed to (16%).

EXHIBIT 11

Underinsured adults in employer plans report more cost-related problems getting needed care

Percent of adults ages 19-64 with employer coverage who had any of four access problems in past year because of cost*



Notes: * Includes any of the following because of cost: did not fill a prescription; skipped recommended medical test, treatment, or follow-up; had a medical problem but did not visit doctor or clinic; did not see a specialist when needed. "Underinsured" refers to adults who were insured all year but experienced one of the following: out-of-pocket costs, excluding premiums, equalled 10% or more of income; out-of-pocket costs, excluding premiums, equalled 5% or more of income if low-income (<200% of poverty); or deductibles equalled 5% or more of income. Respondents may have had another type of coverage at some point during the year, but had coverage for the entire previous 12 months.
Data: Commonwealth Fund Biennial Health Insurance Survey (2018).

In addition, people who are underinsured are much more likely to report problems paying medical bills or say they are paying off medical debt over time. Many moderate- and low-income families simply do not have the savings or assets to pay for unexpected medical bills they may experience — from an accident or acute illness and subsequent emergency room visit, for example — because of a high-deductible health plan. In a recent Commonwealth Fund survey, we asked working-age adults about potentially experiencing an unexpected medical event that

⁸ In this measure, people have been insured continuously over the prior 12 months. The insurance source is at the time of the survey. In our sample, 89% of people with employer coverage who were underinsured had had the same plan for one year or longer.

left them with a \$1,000 bill. Among those with employer coverage, one-half of moderate- and low-income adults (less than \$30,150 for an individual or \$61,500 for a family of four) said they would not have the money to pay the bill within 30 days (Exhibit 12).

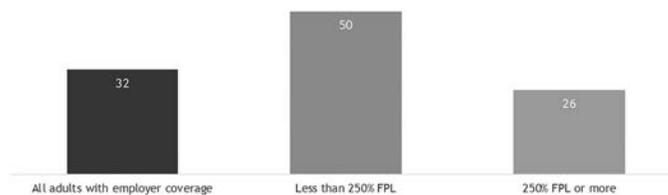
EXHIBIT 12

One of third of adults with employer coverage say they would not have the money to pay an unexpected \$1,000 medical bill within 30 days



If you were to experience an unexpected medical event in 2018 that left you with a bill for \$1,000, would you have the money to pay the bill within 30 days?

Percent of adults ages 19-64 with employer coverage who responded "no"



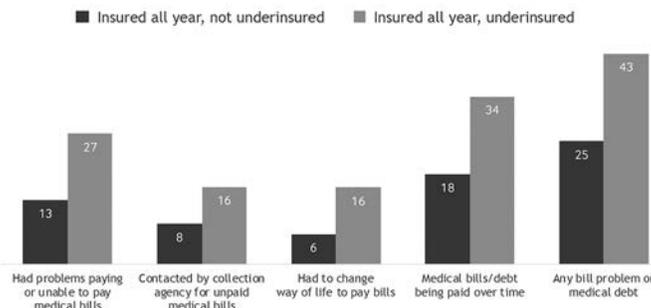
Data: Commonwealth Fund Affordable Care Act Tracking Survey, Feb.-Mar. 2018.

Nationally, underinsured adults are much more likely to report struggling with medical bills than are those who are not underinsured. Among people in employer plans, 43 percent of those who were underinsured reported problems with medical bills (Exhibit 13). These included problems paying or being unable to pay a medical bill (27%), being contacted by a collection agency about an unpaid medical bill (16%), having to change their way of life significantly in order to pay their bills (16%), or paying off medical bills over time (34%).

EXHIBIT 13

Underinsured adults in employer plans report more problems paying medical bills

Percent of adults ages 19-64 with employer coverage who had medical bill or debt problems in past year*



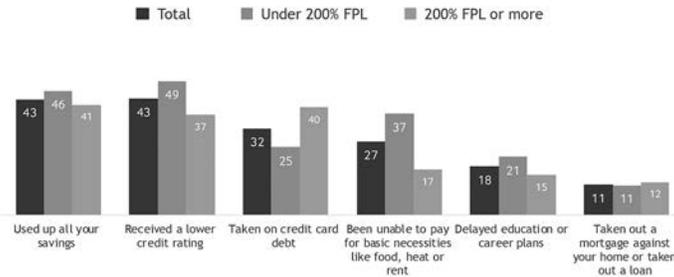
Notes: * Includes any of the following: had problems paying or unable to pay medical bills; contacted by collection agency for unpaid medical bills; had to change way of life to pay bills; medical bills/debt being paid over time. "Underinsured" refers to adults who were insured all year but experienced one of the following: out-of-pocket costs, excluding premiums, equaled 10% or more of income; out-of-pocket costs, excluding premiums, equaled 5% or more of income if low-income (<200% of poverty); or deductibles equaled 5% or more of income. Respondents may have had another type of coverage at some point during the year, but had coverage for the entire previous 12 months.
Data: Commonwealth Fund Biennial Health Insurance Survey (2018).

Paying off accumulated medical debt over time affects other aspects of people's lives. Our survey research finds that many adults with medical bill or debt problems have serious subsequent financial problems as a result. In 2018, among all U.S. working-age adults who reported any medical bill or debt problems, 43 percent said they had used up all their savings to pay their bills, 43 percent had received a lower credit rating as a result of their medical debt, 32 percent racked up debt on their credit cards, and 18 percent said they had delayed education or career plans (Exhibit 14). People with lower incomes were particularly affected: 37 percent said they were unable to pay for basic necessities like food, heat, or rent as a result of their bills.

EXHIBIT 14

Adults with medical bill problems had lingering financial problems

Percent adults ages 19-64 who reported the following happened in the past two years because of medical bill problems[^]



[^] Base: Respondents who reported at least one of the following medical bill problems in the past 12 months: had problems paying medical bills, contacted by a collection agency for unpaid bills, had to change way of life in order to pay medical bills, or has outstanding medical debt.
Data: Commonwealth Fund Biennial Health Insurance Survey (2018).

One family's struggle to pay off accumulated medical debt

For about a year, reporters at Kaiser Health News (KHN) and National Public Radio (NPR) have been interviewing people about their experiences with medical bills and featuring their stories in a series called "Bill of the Month."⁹ In December 2018, the series featured a story about Robert and Tiffany Cano of San Tan Valley, Arizona.¹⁰

Both Robert and Tiffany work full-time. Tiffany is a compliance officer at a regional bank and Robert is a manager at a large chain retail store. The couple has one-year-old son and have a combined income is \$100,000 a year. At the time of the KHN story, the Canos were

⁹ Kaiser Health News and National Public Radio, Bill of the Month, <https://khn.org/news/tag/bill-of-the-month/>

¹⁰JoNel Aleccia, "Insured But Still In Debt: 5 Jobs Pulling In \$100K A Year No Match For Medical Bills; Kaiser Health News, December 28, 2018, <https://khn.org/news/insured-but-still-in-debt-5-jobs-pulling-in-100k-a-year-no-match-for-medical-bills/>.

insured by a family health plan through Robert's job. They were spending about \$7,000 in premiums annually for a plan with a \$3,000 deductible along with 40 percent coinsurance.

The birth of their son and some subsequent health problems have left the Canos with \$12,000 in medical debt that they are struggling to pay off. The cost of the delivery at an in-network hospital was nearly \$4,000 along with additional fees from the physician who performed the delivery and the anesthesiologist. At two months, their son was hospitalized for breathing problems related to asthma. The family has experienced other minor health problems and the bills have accumulated. As Tiffany told KHN, "It's been like \$300 here, \$700 there... We had a hospital bill for him being sick of \$1,800."

The couple has payment arrangements with the doctors and hospitals they owe and keep track of it on a spreadsheet. Combined, the cost of these payments and their premiums are almost as much as their \$1,300 monthly mortgage for their home, one hour outside Phoenix. Currently, they are spending 15 percent of their annual income on health care costs.

In addition to his full-time job, Robert has taken on three part-time jobs to help pay off the medical debt. He works as a substitute teacher, a nighttime security guard, and delivers sandwiches for a fast-food chain in Scottsdale. The couple projects it will take about two more years to pay off their medical debt.

Concerned about accumulating more debt, Robert and Tiffany have postponed needed health care for themselves and their baby. Tiffany has used a prosthetic limb most of her life because of a birth defect that required her leg to be amputated below the knee as a child. She now needs a replacement prosthesis to accommodate changes in her body since her pregnancy. Although she has difficulty walking and suffers from blisters, she is concerned about whether they could afford their share of the cost of a new prosthesis.

The couple has also decided to switch to the health plan offered by Tiffany's employer. Their premium costs will rise by \$150 per month to about \$7,800 a year but they will have a lower deductible (\$1,500) and coinsurance (10%). As Tiffany told KHN, "It is going to be a lot more per paycheck, which is going to hurt us. But after what just happened, I want to make sure we are prepared in case anything does occur."

Conclusion

The personal pain and financial stress suffered by families coping with high medical costs present a fundamental dilemma for employers. To the extent that they are designing benefits to shift increasing amounts of their insurance costs to their employees, they are potentially undermining the productivity of their own workforces.

More broadly, the growing number of underinsured people in the United States could have long-term implications for the nation's economic health. Research indicates that human capital is key to countries' long-term economic growth.¹¹ In its landmark 2003 study, the Institute of Medicine (IOM) concluded that people who lack adequate health insurance all their lives have fundamentally different life experiences and less economic opportunity than those who are adequately insured, including lower educational attainment, lifetime earnings, and life expectancy.¹² At the time of the study, it estimated that the aggregate, annualized cost of uninsured people's lost capital and earnings from poor health and shorter lifespans fell between \$65 billion and \$130 billion annually.

The U.S. has insured 20 million more people since the IOM study through the Affordable Care Act's coverage expansions. But with 28 million people still uninsured and an estimated 44 million more underinsured, the country continues to squander billions of dollars every year in people's lost capital and earnings. The subcommittee is to be commended for investigating this timely issue.

Thank you.

¹¹ Thomas Piketty, *Capital in the 21st Century*, The Belknap Press of Harvard University Press, 2014.

¹² Institute of Medicine, Committee on the Consequences of Uninsurance, *Hidden Costs, Value Lost: Uninsurance in America*, Washington, DC: National Academies Press, 2003, <https://www.ncbi.nlm.nih.gov/pubmed/25057665>

Chairman THOMPSON. Thank you very much.
Mr. Brown.

**STATEMENT OF KEVIN BROWN, FORMER PRESIDENT,
CALIFORNIA ASSOCIATION OF REALTORS**

Mr. BROWN. Chairman Thompson, Ranking Member Smith, and Members of the Subcommittee, thank you for the opportunity to be here today to testify on behalf of the 1.3 million members of the National Association of Realtors about the vital issues of middle-class families and barriers to home ownership.

The American dream of home ownership is not dead. Ninety-two percent of renters aged 34 and younger aspire to own a home, and for good reason. The economic and social benefits to families, communities, and the nation are overwhelmingly positive.

The importance of home ownership and household wealth-building is difficult to overstate. Based on Federal Reserve data, the typical home owner's household net worth was 45 times the wealth of a renter in 2016.

In addition to tangible financial benefits, studies show home ownership brings many other advantages, including increased stability, higher educational achievement, better health, and lower crime.

Federal policy has long recognized these benefits by including various provisions to encourage more home ownership. This has especially been true in our tax law, at least until recently.

However, barriers that have long existed for many in the middle class to accomplish their goal of owning a home seems to be growing larger. Middle-class families face issues with affordability, high student debt, and a Tax Code that has become a lot less home-ownership-friendly. Unfortunately, these factors can be even worse in high housing cost areas, such as many in my home state of California.

Since 2012 home prices nationwide have increased by 44 percent, while wages have increased only 17 percent. Today a median household can afford to buy 39 percent of homes listed for sale, while a year ago the same household could afford to purchase 50 percent of homes listed.

Lack of inventory of affordable homes is a big culprit. NAR produces a housing shortage tracker, which is an index comparing building permits to new jobs. Historically, the nationwide index has been one single home permit used for every two new jobs for an index of two. Today the index is three.

But some areas are far worse. Seven of the nation's top ten inventory shortage areas are in California, ranging from the worst in San Jose, suffering an index of 13.6, to 8.1 for Thousand Oaks. Washington, D.C. has an index of 3.9.

High student debt is also taking a toll, particularly on Millennials, who are now the largest generation. Nine of ten Millennial renters want to own, but less than five percent plan to do so within a year. Most lack savings for a down payment, and high student debt is a major factor.

The Tax Cut and Jobs Act is also playing a role, even though this is not yet widely recognized. The new law cut taxes significantly for most, but it also increased the after-tax cost of owning a home by

directly cutting the mortgage interest and property tax deductions. These changes will mostly hurt those in high state and local tax (SALT) areas.

But it is the new law's stealthy indirect changes that are the most wide-reaching. By nearly doubling the standard deduction, the Act saps the incentive power of the mortgage interest and property tax deductions for all but a fraction of taxpayers, those who will still itemize.

In 2017 almost a third of filers itemize, and it was often the purchase of one's first home that brought the incentive power of these deductions to life. Starting in 2018, however, only one in eight will itemize, and thus find owning a home makes a tax difference over renting.

According to the Joint Committee on Taxation, the amount of mortgage interest deducted in 2017 will drop by 62 percent in 2018, while state and local tax deductions claimed will fall by 71 percent.

The new tax law creates a barrier to the middle class home ownership everywhere, because now the law will rarely allow first-time home buyers to lower their tax burdens by making the purchase. Now the great majority of these households won't have enough deductions to itemize. And now, for the first time since 1913, when the modern Tax Code was born, owning a home will be the tax equivalent of renting for most.

These tax changes, combined with the significant challenges in affordability, lack of adequate inventory, and rising student debt mean that purchasing a home has become significantly more difficult for many middle-class families, and particularly those who live in high-cost areas.

Thank you.

[The prepared statement of Mr. Brown follows:]

Embargoed until 10am, 2/13/19



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**HEARING BEFORE THE
HOUSE WAYS AND MEANS
SELECT REVENUE MEASURES SUBCOMMITTEE**

ENTITLED

**“HOW MIDDLE CLASS FAMILIES ARE FARING
IN TODAY’S ECONOMY”**

**TESTIMONY OF
KEVIN BROWN**

**ON BEHALF OF
THE NATIONAL ASSOCIATION OF REALTORS®**

FEBRUARY 13, 2019

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Introduction

Chairman Thompson, Ranking Member Smith, and members of the Subcommittee, my name is Kevin Brown. I am an owner of both a residential and a commercial real estate brokerage in Oakland, California, and have over 40 years of experience as a real estate professional. Over the years, I have been very active as a volunteer leader in the real estate industry at the local, state, and national levels, including as the 2014 president of the California Association of REALTORS®.

I am here today to testify on behalf of the more than 1.3 million members of the National Association of REALTORS®. NAR's members are real estate professionals engaged in activities including real estate sales and brokerage, property management, residential and commercial leasing, and appraisal. The business approach of REALTORS® is a highly personal, hands-on, face-to-face model, focused on helping fulfill a family's fundamental need for shelter. NAR has long prided itself as a voice for not only its members, but for America's 78 million homeowners, as well as the tens of millions more Americans who aspire to own their home one day.

Thank you for the opportunity to present NAR's views on how middle-class families are faring in today's economy. This is a vital issue with multiple facets. Naturally, the focus of my remarks will be on residential housing, and especially on the middle-class and home ownership. Purchasing a home is one of the most significant events that most Americans undertake in their lives, and the ability and decision to do so is fundamental to various aspects of individual, family, community, and national well-being. Because of the importance of this issue, the barriers to home ownership deserve the serious attention of all Americans, and especially policymakers.

Homeownership and American Culture

Policymakers should not dismiss or underestimate Americans' passion for homeownership, notwithstanding the most recent economic crisis. Calling homeownership the "American Dream" is not a mere slogan, but rather a bedrock value. Owning a piece of property has been central to American values since Plymouth and Jamestown. Homes are the foundation of our culture, the place where families eat, learn and play together, and the basis for community life. The cottage with a picket fence is an iconic and irreplaceable part of our heritage.

The Nation's long-standing commitment to homeownership as a foundation of our society is not misplaced. Now, more than ever, homeownership does and should remain in the forefront of our cultural value system.

The fundamental assumptions about the social benefits of housing and homeownership remain essentially unchanged. NAR polling and focus group research confirm that the public continues to share those assumptions, including those who currently do not own their own home. An overwhelming majority (92 percent) of renters aged 34 and younger aspire to own a home. And among renters of all ages, 83 percent have a desire to own. Seventy-six percent of them believe that homeownership is part of the American Dream.¹ Remarkably, even after the housing problems stemming from the Great Recession, this faith in homeownership persists.

¹ 2018 *Homeownership Opportunities and Market Experience (HOME) Survey* conducted by the National Association of REALTORS®.

The Benefits of Homeownership

Economic Impact. Research has consistently shown the importance of the housing sector to the economy and the long-term social and financial benefits to individual homeowners and communities. The economic benefits of the housing market and homeownership are immense and well documented.

The housing sector directly accounted for more than 17 percent of America's total economic activity in 2017. Moreover, the economic impact of a typical home sale exceeds \$80,000.

Household Wealth Building. Net of mortgage liabilities, real estate household equity reached a record \$15.4 trillion in the third quarter of 2018.²

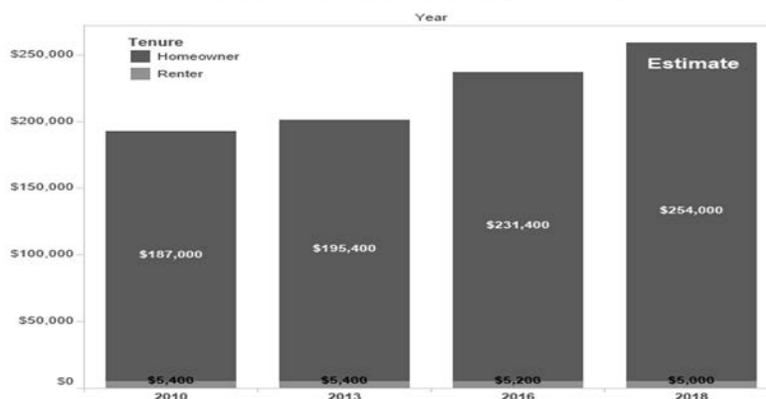
The importance of homeownership on household wealth building in the United States is difficult to overstate. According to data from the Federal Reserve Flow of Funds, the aggregate net worth of households and non-profits reached a record \$109 trillion in the third quarter of 2018. This is an astounding 60 percent (\$39 trillion) above its peak before the recent downturn.

Homeowner equity is a substantial component of household wealth. The Federal Reserve's Survey of Consumer Finances provides a snapshot of household income and net worth along with basic demographic details and a breakdown of household assets. Based on these data, the typical homeowner's net worth in 2016 was 45 times greater than was the net worth of those who rent a home.

NAR has projected the 2018 household wealth figures for 2018 based on price appreciation since 2016. As can be seen in the chart below, NAR estimates the typical net worth of homeowners in 2018 was \$254,000, an increase of 10 percent since 2016, while the typical household wealth of a renter in 2018 has decreased to \$5,000, a 7 percent drop over the same period. Thus, according to these projections, the typical homeowner's household net worth in 2018 was 51 times greater than that of the typical renter. This is up from 45 times the wealth of a renter just two years ago and 35 times as much in 2010.

² Federal Reserve Bank of St. Louis, <https://fred.stlouisfed.org/series/OEHRENWB5HNO>

Net Worth by Tenure (2010-2018)



Sources: Survey of Consumer Finances (Federal Reserve),
NAR Calculations

Social Benefits. In addition to tangible financial benefits, homeownership brings substantial social benefits for individuals, families, neighborhoods, and the Nation as a whole. These include increased education achievement and civic participation, better physical and mental health, and lower crime rates. Such salutary effects stem from not only the higher stability that homeownership brings to neighborhoods and communities but also from the increased financial stake that comes to homeowners as a result of their investment in their property. These economic and societal advantages do not change and will not change, despite the ups and downs and challenges of the housing market.

In a survey by NAR released last June, homeowners and non-homeowners were asked if a high rate of homeownership strengthens a community. Sixty-seven percent of respondents said that homeownership strengthens communities a great deal, and this number jumps to 76 percent for current homeowners and 77 percent for those 65 and older.

Experience shows that homeowners are more likely to be involved and engaged in the issues facing their communities, since they tend to be more rooted in the area than are renters. Homeowners are more likely to vote, to volunteer their time at local charities and to support neighborhood upkeep. This involvement helps shape and strengthen our Nation's communities.

Government Support for Homeownership. Federal policy has long recognized the proliferation of benefits brought about by homeownership and has thus included various provisions to encourage more of it in our society. This has especially been the case in the federal tax law, which has, since its inception, provided strong tax incentives for purchasing and owning a home.

To be clear, our tax system does not “cause” homeownership. People buy homes to satisfy many social, family and personal goals. Rather, the tax system facilitates ownership. The tax system supports homeownership by making it more affordable.

When academics talk about these tax incentives for home ownership and refer to them as “expenditures,” they are speaking in the language of macroeconomics. In reality, the billions of tax dollars they see as expenditures are the cumulation of individual savings of millions of families. Every time homeowners make a mortgage payment, they are generally creating non-cash wealth for their families. Many seasoned REALTORS® describe their satisfaction in helping a family secure its first house and then a larger home(s) for raising families. The most satisfying of a long-term series of transactions is often in helping a couple buy its last house without a mortgage. Those couples are able to make this “last” purchase because ownership over a long term of years has resulted in the accumulation of household wealth sufficient to meet their needs.

The federal policy choice to support homeownership has been key to making homeownership possible for tens of millions of Americans. However, several changes in the tax law brought about in the Tax Cuts and Jobs Act of 2017 have undermined significantly the incentive effect for those who hope to move from renting to owning a home. This is discussed more fully in the next section on barriers to homeownership to the middle class.

Barriers to Homeownership for the Middle Class

Despite the multitude of benefits accompanying the ownership of one’s home and the many ways that various government programs and incentives strive to make the purchase of a home easier, there are significant barriers to accomplishing this goal for many in the middle class. And unfortunately, these obstacles seem to be growing.

Affordability. Over the last 6 years (2012-2018) nationwide, home prices increased by 44 percent while wages increased by only 17 percent. This gap between price and wage growth reduces the ability of Americans to buy a home by lowering the affordability.

Based on the REALTORS® Affordability Distribution Curve and Score, affordability has dropped significantly across the United States over the past year. In January 2019, a median household can afford to buy 39 percent of the homes currently listed for sale while the same household could afford to buy 50 percent of such homes a year earlier³.

While nationwide statistics such as this are useful, it is vital to note that individual families buy homes in specific geographic areas, and these areas vary widely around the Nation. For example, in San Francisco, one of the most expensive housing markets in the country, households earning \$100K can afford to buy only 11 percent of the homes for sale.

Lack of housing inventory is considered the main factor that drives up home prices. Although new home construction has picked up, it is still not enough to accommodate the increased housing demand. Recently, the pace of building permit issuance has been only about half the peak level in 2005. Furthermore, the unemployment rate is hovering at 4 percent due to the strong economy. As

³ REALTORS® *Affordability Distribution Curve and Score, December 2018*, <https://www.nar.realtor/research-and-statistics/housing-statistics/realtors-affordability-distribution-curve-and-score>

more people enter back into the work place the demand for housing is expected to increase as more Americans set their sights on homeownership.

The strong economy also negatively affects the affordability of homes in another way. The U.S. is experiencing a serious shortage of skilled construction labor, and this both drives up costs and delays the completion of housing construction.

NAR also produces a housing shortage tracker, which is an index that compares how many building permits are issued relative to the number of new jobs. The higher the index the higher the housing shortage in an area, since it shows that more jobs have been created than homes.

Nationwide, we see that a single-family permit is issued for every three new jobs for a ratio of 3. Historically, the average has been a single-family permit issued for every two new jobs, or a ratio of 2. In some metropolitan areas, the index is much higher.

Our most recent housing shortage tracker computed the top 10 metro areas in the U.S. with housing shortages. Seven of the top ten were in California, and they ranged from the number one shortage area – San Jose-Sunnyvale-Santa Clara with an index of 13.6 to the eighth, which is Oxnard-Thousand Oaks-Ventura, with an index of 8.1. By way of comparison, the Washington, DC area had a ratio of 3.86 and the Atlanta area had a ratio of 2.72.⁴

The National Association of REALTORS® is forecasting that home prices will continue to rise nationwide over the next couple of years – by 2.2 percent in 2019 and by 3.2 percent in 2020.

Higher Burdens of Student Debt. Over the past two decades, rising college costs, along with stagnant incomes, state budget cuts to higher education and the shift to student loans as the predominant form of federal financial aid, have all combined to create a much larger financial burden for students and families.

The U.S. has a student debt load of \$1.4 trillion, which accounts for 10 percent of all outstanding debt and 35 percent of non-housing debt. The magnitude of the debt continues to grow in size and share of the overall debt in the economy.

According to the National Association of REALTORS® Profile of Home Buyers and Sellers (2018)⁵, 24 percent of all recent home buyers have student loan debt and the typical amount is \$28,000. Among first-time homebuyers, the share with student loan debt rises to 40 percent. Even though these groups were successful in purchasing a home, student loan debt was cited as a difficulty in their home buying process.

⁴ NAR Housing Shortage Tracker, *Economists Outlook*, <http://economistsoutlook.blogs.realtor.org/2018/06/13/housing-shortage-tracker/>

⁵ 2018 Profile of Home Buyers and Sellers, National Association of REALTORS®, <https://www.nar.realtor/research-and-statistics/research-reports/highlights-from-the-profile-of-home-buyers-and-sellers>

CHAPTER 5: FINANCING THE HOME PURCHASE

Exhibit 5–15: Buyers Who Have Student Loan Debt
(Percentage Distribution)

	ALL BUYERS	FIRST-TIME BUYERS	REPEAT BUYERS
Have student loan debt	24%	40%	17%
Under \$10,000	19%	16%	23%
\$10,000 to \$24,999	27%	27%	27%
\$25,000 to \$49,999	24%	24%	25%
\$50,000 to \$74,999	12%	14%	11%
\$75,000 or more	18%	20%	15%
Median amount of student loan debt	\$28,000	\$30,000	\$25,000

The 2017 Student Loan Debt and Housing Report focuses on younger millennials (born 1990 to 1998) and older millennials (born 1980 to 1989). The results of the survey demonstrate the impact that student loans, even amongst those who are managing to pay their bills on a timely schedule, have on their housing situation. Among survey respondents, 79 percent received their loans from a four-year college, 19 percent from a two-year college, 29 percent from graduate/post-graduate school, and seven percent from a technical college. While the respondents are now paying on time, 32 percent had defaulted or forbore on their loans in the past. Student loan debt impacts other life decisions including employment, the state the debt holder lives in, as well as life choices such as continuing education, starting a family, and retirement.⁶

Findings indicate that borrowers would put the extra money they would have if they did not have student loan debt towards long-term savings, investments, or a home purchase.

Among non-homeowners, 83 percent cite student loan debt as the factor delaying them from buying a home, as it made it impossible to save for a down payment. Of those who did buy a home, 50 percent reported that student loans made saving for the down payment difficult.

Among homeowners, 28 percent say student debt is impacting the ability to sell their existing home and move to a different home. The typical delay in buying a home among non-homeowners is seven years. For homeowners wanting to move to another home, the delay is three years.

Millennials and Homeownership. Millennials have recently surpassed Baby Boomers as the Nation's largest generation, and the biggest group of potential and actual home buyers. According to the 2018 Millennial Homeownership Report, 90 percent of millennial renters want to purchase a home, but under 5 percent plan to do so within the next year, while over a third expect to wait five years or more.

Seventy-two percent of millennial renters who plan to someday purchase a home cite affordability as a reason for the delay, with 62 percent specifying a lack of down payment savings. Of these millennial renters, 48 percent have no savings for a down payment and just 11 percent have saved at least \$10,000.

⁶ 2017 Student Loan Debt and Housing Report, National Association of REALTORS®
<https://www.nar.realtor/sites/default/files/documents/2017-student-loan-debt-and-housing-09-26-2017.pdf>

Student debt plays a role in delaying homeownership for many millennials. About 23 percent of college graduates without student debt can save enough for a down payment within five years, compared with just 12 percent of college graduates who are paying off student loans. Only about 6 percent of those without a college education will likely be able to save for a down payment within five years.⁷

More About Regional Cost Differences. The wide variety of costs around the Nation means that the size of the barriers to homeownership for the middle class will greatly depend on where one lives. While living in a high-housing-cost area can also mean that income is higher, this does not necessarily mean that affordability will be equalized.

And even within states, there can be a great disparity between cities and counties in different regions.

To some extent, the median price of houses tracks the median household income in a particular area. But even at its best, this is certainly not a perfect correlation. For example, the state with the highest median listing price is Hawaii, at \$619,000. However, the Aloha State ranks number 6 among states for median household income, at \$73,575.

The state with the lowest median listing price of homes, West Virginia (at \$159,000) is also near the bottom (number 48) for median household income, at \$44,061.

Other states, however, are quite a bit out of kilter in this lineup. For example, California, which is the second highest state in terms of median house listing price (at \$544,000) is all the way down to number 14 in terms of median household income, with \$69,759. Based on this, of course, it might be even harder to afford a home in the Golden State than it might at first appear. Ohio, on the other hand, is ranked 49th among the states in median house listing price, at \$169,900. Its median household income, however, is right in the middle of the pack, at \$52,407, making it relatively easier to afford a home.⁸

As challenging as these disparities may make it in terms of middle-class families affording a home, the tax law, with its one-size-fits-all incentives, can be far worse.

Tax Incentives for Purchasing and Owning a Home. As mentioned above, federal housing and tax policies have long supported the goals of widespread homeownership in America. Over the

⁷ 2018 Millennial Homeownership Report: American Dream Delayed, 12/06/2018, <https://www.apartmentlist.com/rentonomics/2018-millennial-homeownership-report-american-dream-delayed/>

⁸ Sources: Median Household Income by State: 2017 Update, 10/30/18, <https://www.advisorperspectives.com/dsboort/updates/2018/10/30/median-household-income-by-state-2017-update>; Business Insider: The most expensive and affordable states to buy a house, ranked, 08/18/2018, <https://www.businessinsider.com/cost-to-buy-a-house-in-every-state-ranked-2018-8>

years, this has taken several forms, including a first-time homebuyer tax credit, which was vitally important during the depths of the most recent housing crisis. However, the longest-running and largest tax incentives for home ownership by far in terms of impact on taxpayers and on the Treasury have been the mortgage interest deduction (MID) and the deduction for property taxes.

From the inception of the modern Internal Revenue Code in 1913 until 1987, both of these deductions were essentially allowed without limit, as long as homeowners itemized their deductions. The Revenue Act of 1987 placed a \$1 million cap on the amount of mortgage debt the interest of which could be deducted. Significantly, this limit was not adjusted for inflation.

At the time the limit was enacted into the tax law, relatively few homes in America had mortgages of more than \$1 million. However, due to inflation and other economic factors, home price increased, and those increases varied greatly throughout the Nation, and after some years the limit began to affect more and more home purchasers in those parts of the country with the highest housing prices.

By 2017, the cap was still well above the amount of most mortgages taken out throughout the U.S., but in some of the highest price housing markets, the limit was routinely breached, even for relatively modest homes. Thus, in those areas with the highest-priced homes, the mortgage interest deduction limit was already affecting many current and prospective homeowners, not because their homes were necessarily lavish or large, but in many cases simply because they happened to live in a higher-cost area.

The Tax Cuts and Jobs Act of 2017. The Tax Cuts and Jobs Act (TCJA), enacted in December 2017⁹ represented the largest reform of the tax law in more than 30 years. Among the multitude of its provisions were several that directly and indirectly affected the tax incentives for purchasing and owning a home.

Direct Changes of TCJA on Tax Incentives to Purchase and Own a Home. As to the MID, the TCJA lowered the mortgage debt limit from \$1 million to \$750,000, although the larger limit was grandfathered for existing loans and even for the refinancing of those loans to the extent that the loan balance was not increased. Again, for most of the population of America, the lower limit did not immediately affect new home buyers as the average medium existing home price in the country on November 30, 2017 was \$247,200¹⁰.

However, in areas where the home prices were much higher, the lower limit had an immediate and negative effect for those who borrowed more than \$750,000 to purchase their home. For example, for someone in the new 24 percent tax bracket, the first-year reduction in the tax benefit from the MID was about \$2,300, assuming a mortgage of at least \$1 million financed with a 3.9 percent 30-year loan.

⁹ *Public Law No. 115-97, enacted December 22, 2017.*

A similar negative impact from the TCJA can also be found in the new \$10,000 limitation on the state and local tax (SALT) deduction. In this case, the new tax reform act represented the first encroachment on full deductibility of real estate taxes¹¹. As with the direct MID change, however, the new limit was regional in its impact, as most homeowners through the U.S. fall far below the \$10,000 limit for all state and local taxes, as can be seen from the chart on the next page.

The chart indicates that for the tax year 2014, all but a handful of states had an average SALT deduction of well less than half the new limit. While there will be some homeowners in every state that are pinched by the new SALT cap, it will be a non-factor for the majority of homeowners in the nation. That is, at least for the immediate future. As with the old and new MID mortgage limits, the new SALT limitation was not indexed for inflation¹². So, as taxes naturally rise with inflation and other economic factors, more and more current and prospective homeowners will be caught by the new cap and will see the amount of tax benefits of owning a home go down.

Despite the situation that most of the nation is not immediately affected by the new and direct changes of the TCJA on MID and the property tax deduction, the fact remains that millions of homeowners in the higher-housing-cost areas of the nation will be negatively impacted by the changes. And many of these will be members of the middle-class living in homes that are far from large and lavish.

¹¹ The new SALT deduction limit is also notable for its creation of a significant marriage penalty, as its \$10,000 limit applies both to single as well as to married taxpayers.

¹² It is also important to note that the SALT limit, along with most of the other tax changes to individual taxpayers, is scheduled to sunset at the end of 2025. At this time, it is practically impossible to know whether the current or future Congress and President will be able to extend the provisions before they expire.

Figure 7 — Percentage of Tax Units that Use the SALT Deduction and the Average Deduction by State

State	% with SALT Deductions	Average SALT Deduction	State	% with SALT Deductions	Average SALT Deduction
MD	45%	\$5,604	NE	28%	\$2,992
CT	41%	\$7,774	ME	28%	\$2,997
NJ	41%	\$7,045	VT	27%	\$3,246
DC	39%	\$6,056	SC	27%	\$2,224
VA	37%	\$3,998	MI	26%	\$2,434
MA	37%	\$5,421	OH	26%	\$2,650
OR	36%	\$4,211	MO	26%	\$2,436
UT	35%	\$2,753	KY	26%	\$2,438
MN	35%	\$4,273	AL	26%	\$1,457
NY	34%	\$7,182	KS	26%	\$2,338
CA	34%	\$5,807	NV	24%	\$1,422
RI	33%	\$3,985	OK	24%	\$1,878
GA	33%	\$2,830	IN	23%	\$1,916
CO	33%	\$2,796	MS	23%	\$1,418
IL	32%	\$4,164	LA	23%	\$1,519
DE	32%	\$2,787	NM	23%	\$1,557
WI	32%	\$3,551	AR	23%	\$1,993
NH	31%	\$3,003	TX	22%	\$1,694
WA	30%	\$2,125	FL	22%	\$1,548
IA	29%	\$2,812	WY	22%	\$1,244
HI	29%	\$2,624	AK	21%	\$1,023
NC	29%	\$2,629	TN	20%	\$1,043
PA	29%	\$3,083	ND	18%	\$1,211
AZ	28%	\$1,977	SD	17%	\$ 982
MT	28%	\$2,483	WV	17%	\$1,535
ID	28%	\$2,312			

Source: *The Impact of Eliminating the State and Local Tax Deduction*, (based on 2014 IRS data), Government Finance Officers Association.

Indirect Changes of TCJA on Tax Incentives to Purchase and Own a Home. As discussed above, the direct changes to the homeownership tax incentives were either serious and potentially costly, or of little or no meaning, depending on which region of the country one's home is located. This is not true of the indirect changes, which may be harder to immediately detect, but are nevertheless present for a large number of current and prospective homeowners.

These indirect changes were mostly¹³ brought about by the TCJA's near doubling of the standard deduction, which is a major feature of the architecture of the current U.S. income tax system.

The Enigma of the Standard Deduction. The standard deduction reduces some of the complexity of the tax system, and can ease recordkeeping burdens, but it also can eviscerate the incentive value of itemized deductions that are meant to encourage certain behavior, such as purchasing and owning a home. To fully appreciate this conundrum, it helps to take a look at the history of our modern tax system. In 1913, Congress and the President enacted the income tax. The original tax law provided for both a deduction for interest paid and for state and local taxes paid (including for property taxes). These two deductions, plus the deduction for charitable contributions, which was added to the tax law in 1917, together comprise the majority of itemized deductions that are claimed each year.

For many years, the tax law provided that taxpayers who paid interest, state and local taxes, and/or made charitable contributions, could take a deduction for them. A few other deductions, such as for casualty and theft losses or for medical expenses, were also allowed. However, to qualify for these deductions, taxpayers actually had to incur these expenses and keep track of them.

This changed in 1944, when Congress decided to simplify the tax law by enacting the standard deduction. Legislative history (both original and subsequent) shows that the standard deduction was based on a composite basket of typical deductions that taxpayers claimed, including the MID, taxes paid, charitable contributions made, and so forth. The simplification came about by Congress deeming that all individuals were to receive a certain amount of generic deductions, represented by the standard deduction. Taxpayers claiming the standard deduction did not need to prove that any amounts were actually paid in order to take the standard deduction. Congress simply designated that all taxpayers could claim the standard deduction whether they made the deductible expenditures or not.

In enacting the standard deduction, Congress did not modify the deductions themselves. Rather, taxpayers who paid deductible expenditures exceeding the standard deduction were allowed to claim the actual amounts as what were (from then on) called itemized deductions. Taxpayers with deductions totaling an amount below the standard deduction threshold could simply claim the standard amount and not worry about even keeping track of what was actually paid. This was a big step toward simplifying the tax lives of millions of American taxpayers.

What is often not recognized today is that the standard deduction represents a tax giveaway for virtually all taxpayers who claim it. This is because if a taxpayer has deductions in excess of the standard deduction, he or she may claim the higher amount. But those who have actual deductions less than the standard are given the benefit of the standard deduction amount whether or not they actually incurred the expenses. Thus, the giveaway equals a range of as much as the standard deduction for taxpayers who have absolutely no deductions, on the high end, to as little as \$1 for taxpayers whose actual deductions come just \$1 short of the standard deduction amount, on the low end.

¹³ To the extent that the TCJA repealed or limited certain itemized deductions, including the SALT deduction, this indirect effect is exacerbated.

For example, assume a married couple's deductible amounts for state and local tax, mortgage interest, and charitable contributions for 2018 total \$22,000. With the standard deduction for a couple at \$24,000 for 2018, this family would be receiving an extra tax deduction for \$2,000 in expenditures they never made. If they were in the 24 percent bracket, this would amount to a \$480 tax "freebie" ($\$2,000 \text{ excess} \times 24\%$). Suppose another couple had just \$4,000 of state and local taxes, but no mortgage interest and no charitable contributions. This family would also get to claim the standard deduction of \$24,000, for an extra deduction subsidy of \$20,000 ($\$24,000 - \$4,000$), which would be worth \$4,800, assuming they were also in the 24 percent tax bracket ($\$20,000 \times 24\%$).

The point is that whether a taxpayer is being subsidized a little bit (as with the first couple), or a lot (as with the second couple), the actual itemized deductions of each couple have no incentive value. In other words, each couple has the same tax liability whether they rent or own their home because the MID and SALT deductions have no effect because the standard deduction was higher than their itemized deductions.

This effect is not new. Taxpayers with actual itemized deductions below the standard deduction level always found their itemized deductions to be meaningless. However, what is new is the unprecedented jump in the standard deduction included in the TCJA. For tax year 2017, before the changes made by the new tax reform act took effect, about 32 percent of tax filers itemized their deductions¹⁴. In other words, almost one in three taxpayers could access the tax benefits of purchasing a home. Further, it was often the act of purchasing that first home that put a tax filer's total itemized deductions over the standard deduction amount, thereby giving meaning to the incentives of the MID and property tax deduction, which acted to reduce the home buyer's tax liability and provide a tax incentive to own rather than rent.

However, for tax year 2018, when the higher standard deduction amounts are in effect, only about 13 percent, or about one in eight taxpayers, are expected to elect to itemize their deductions¹⁵. This means, of course, that seven of eight taxpayers will claim the standard deduction and will find no incentive effect of the MID and property tax deduction. While some few of these who are not homeowners will find that purchasing a home would increase their itemized deductions to a level higher than the standard deduction and thus enter the range where the MID and property tax could lower their tax liability vis-à-vis renting, the numbers who do so will be very low as compared to those who could enjoy these incentives before the tax reform law changes went into effect.¹⁶

Reduction in Tax Expenditures for Home Ownership Tax Incentives. There is at least one way to demonstrate the approximate degree of the direct and indirect reductions in the amount of tax incentive dollars projected to flow into homeownership in the wake of the enactment of the Tax Cuts and Jobs Act. This is to compare estimates of MID and SALT deductions provided by the staff of the Joint Committee on Taxation in the estimated tax expenditure report for 2017, the year before the changes took effect, with the report for 2018, when the changes were in full effect.

¹⁴ *Overview of the Federal Tax System and Policy Considerations Related to Tax Reform*, Joint Committee on Taxation, JCX-36-17, July 14, 2017, page 4.

¹⁵ *Overview of the Federal Tax System as in Effect for 2018*, Joint Committee on Taxation, JCX-3-18, February 7, 2018, page 4.

¹⁶ It is important to note that the Tax Cuts and Jobs Act will, in many cases, lead to a lower tax liability for those who will no longer be itemizing their deductions. This is especially true if the tax filer can claim the newly-increased credit for children under age 17. However, that lower tax liability will often be available whether the filer owns a home or rents one and the incentive effect of the tax benefits of homeownership will be decreased or nullified.

For example, on Table 3 of the latest report, dated October 14, 2018¹⁷, we see the estimated number of tax returns expected to claim the MID and the estimated total amount deducted on those returns. The table projects that 13,728,000 returns will claim a total of just over \$25 billion in mortgage interest deduction for 2018.

Table 3 also shows the estimated number of tax returns expected to claim SALT deductions and the projected total amount deducted. Here we see 16,577,000 returns are expected to claim SALT deductions totaling \$20.2 billion.

However, in the similar table published in the previous tax expenditure estimate report dated January 30, 2017¹⁸, before the new tax law had been passed and signed into law, the amounts shown for MID for 2017 tell a very different story. This Table 3 shows an estimated total tax returns claiming the MID of 33,856,000 for a total deduction amount of \$64.9 billion.

And for the SALT deduction for 2017, the table shows 43,274,000 taxpayers claiming a total of \$69.8 billion.

In other words, the number of tax filers claiming the MID is projected to drop by over 20 million, or 60 percent. And the amount of the deduction is estimated to fall by almost \$40 billion, or 62 percent. And the amount of SALT deduction claimants is projected to fall by almost 27 million (a drop of 62 percent) and the amount of the deduction to drop by nearly \$50 billion, a reduction of 71 percent.

These estimates make it clear that the Tax Cuts and Jobs Act punched a huge hole in the amount of federal tax dollars being steered toward incentivizing homeownership.

Conclusion

While federal tax policies designed to reduce the cost of purchasing and owning a home by making that home more affordable are still present in the current law, they have been significantly reduced and are a fraction of what they were just one year before. Such policies can still be considered benefits for those who are fortunate enough to still be able to enjoy them. However, for the large number of current and would-be middle-class homeowners who are no longer able to claim these benefits, the changes in the Tax Cuts and Jobs Act amounts to a significant barrier to homeownership.

These tax changes, combined with significant challenges in the areas of affordability, lack of adequate inventory, and rising student loan debt, mean that purchasing and owning a home has become significantly more difficult for many middle-class families, and particularly those who reside in high-cost areas of the Nation.

¹⁷ *Estimates of Federal Tax Expenditures for Fiscal Years 2018-2022, Joint Committee on Taxation, October 4, 2018 (JCX-81-18)*

¹⁸ *Estimates of Federal Tax Expenditures for Fiscal Years 2016-2020, Joint Committee on Taxation, January 30, 2017 (JCX-3-17)*

Chairman THOMPSON. Thank you.
Dr. Eddinger.

**STATEMENT OF PAM EDDINGER, PH.D., PRESIDENT,
BUNKER HILL COMMUNITY COLLEGE**

Ms. EDDINGER. Chairman Thompson, Ranking Member Smith, and Members of the Subcommittee, thank you for the opportunity today to brief you on Bunker Hill Community College, the mission and challenges of our nation's community colleges, and the key role we play in educating and advancing the middle class.

My name is Pam Eddinger, and I am the college's president. Bunker Hill is the largest of 15 community colleges in Massachusetts, and one of 1,100 community colleges across the country.

Bunker Hill is a mid-size institution in Metro Boston. But my sister colleges across the nation vary substantially in size, demographics, and geography. We are urban, we are rural, and we are suburban, and we range from under 1,000 students to 50,000 students. Together we educate 13 million students, 1 out of every 2 undergraduates in the United States.

In fact, both middle and lower-income students are more likely to attend community colleges than any other type of higher education institution: private four-years, public four-years, or for-profit.

You might know us best as educators of our first responders in emergency health, fire, and public safety. But increasingly, we are also the source for the future workforce, for what we call new collar jobs, jobs that are middle-skills, requiring some post-secondary training, and pay well. Jobs in IT, in STEM, big data, health care, manufacturing, and the creative economy driven by the expansion of gaming and artificial intelligence.

We are poised to shore up the work infrastructure of the crumbling middle class, and to lift those in poverty through higher education. You hear often that not everyone needs to go to college, and that is true. The concept of college as a four-year experience is not for everyone. But some training beyond high school is not only important, but imperative to working in this new collar economy.

Between 1980 and 2015, the earnings of men with a B.A. rose 29 percent, while the earnings of men with only a high school education fell 7 percent. Men who never finished high school saw their earnings decline 24 percent during those 35 years. The rise of earnings for women with a college education is even more dramatic.

College used to be a sure ticket into the middle class, now it is a prerequisite.

In Massachusetts alone, we must fill some 65,000 middle-skills jobs by the end of the decade and the beginning of the next. Those new-collar jobs are critical to economic growth and innovation. And they are the new path to the middle class.

Our hopes of a vibrant workforce, of filling these new-collar jobs, lies in educating and training our adult workers and adult learners. Yet this realization is not widely acknowledged the way it should be, and we see even fewer evidence of it in our policies and our operations.

Already our students are not who you think they are anymore. They are not kids, not 17 or 18, going to college full-time, and sup-

ported by Mom and Dad. The demographics at my own college tells the story.

We have 18,000 students a year. Only a third of them are traditional age. The average age is 27, and the median age is 24. They are likely to be the first in their family to go to college. Many are immigrants living in gateway cities. Three out of four work, and many of them full-time. Three out of four are parents, and likely taking care of parents of their own. Seventy-seven percent—that is over three-quarters—are in the lowest two quintile of income. Out of the 18,000, 8,000 are on financial aid. And out of the 8,000 on financial aid, 1,000 of them are on SNAP. This is a pretty representative profile of the low and middle-income, first-time-to-college working students across all geography.

Even though adult students know that college is their path to the middle class, education is not at the center of their lives. Their family, their children, their jobs—and usually there is more than one job—are their priority. Schooling happens when they can afford it, often a class or two at a time. Our students are one car battery, one pediatric visit, and one small disaster away from dropping out. Yet they are courageous enough to enroll and persist. Our students take an average of four to five years to complete their associate degree, and slightly shorter for certificates.

If we know that the adult learners have good work ethic, and are serious about getting ahead, and will be the key to the labor force, what is holding up progress? What is needed? I would suggest to you two things.

One, we give up the notion that students be college-ready, and insist that our colleges are student-ready. We must meet students where they are, physically and metaphorically. Give up the mental model of the four-year college, and align our financial and college policies with the reality of working adults.

Two, we count the basic needs of food, housing, transportation, and child care as essential education costs, and fund them. It is true that Pell grant pays for tuition and fees, but the average unmet need comes close to \$4,500 a year for my students on my campus. There is no mom and dad to call here. It is not a coincidence that all 15 community colleges in Massachusetts have food pantries and emergency aid offices.

Make applying for aid simpler, by simplifying the FAFSA, the federal application for aid, and cover the full essential costs of our adult students.

Thank you.

[The prepared statement of Ms. Eddinger follows:]

Embargoed until 10am, 2/13/2019

Testimony from Pam Eddinger, President, Bunker Hill Community College, Boston, MA
Subcommittee on Select Revenue Measures, House Ways and Means
Hearing on How Middle Class Families are Faring in Today's Economy
Wednesday, February 13, 2019 – 10:00 AM

Chairman Thompson and Esteemed Members of the House Ways and Means Subcommittee on Select Revenue Measures, thank you for the opportunity to brief you on Bunker Hill Community College, the mission and challenges of our nation's community colleges, and the key role we play in educating and advancing the middle class.

My name is Pam Eddinger, I am the college's president. Bunker Hill is the largest of the 15 community colleges in Massachusetts, and one of over 1,100 community colleges across the country. Bunker Hill is a mid-size institution in Metro Boston. But my sister colleges across the nation vary substantially in size, demographics, and geography. We are urban, we are rural and we are suburban -- we range from under 1,000 students to over 50,000.

Together, we educate over 13 million students. One out of every two undergrads around our nation. In fact, both middle- and lower-income students are more likely to attend community colleges than any other type of higher education institution—private four-year, public four-year, or for-profit. You might know us best as educators of our first responders in emergency health, fire and public safety. But increasingly, we are also the source for the future workforce, for what we call "new-collar jobs." Jobs that are middle-skills, requiring some post-secondary training, and pay well. Jobs in IT, STEM, Big Data, Health Care, Manufacturing, and the Creative Economy driven by the expansion of gaming and artificial intelligence.

We are poised to shore up the work-infrastructure of the crumbling middle class, and to lift those in poverty through higher education. You hear often that "not everyone needs to go to college." That's true. The concept of college as a 4-year experience is not for everyone, but some training beyond high school is not only important, but *imperative* to working in this new-collar economy. Men's wages rise with education. Between 1980 and 2015, the earnings of men with a B.A. rose 29%, while the earnings of men with only a high school education *fell* 7%. Men who never finished high school saw their earnings decline 24% during those 35 years. College used to be a sure ticket into the middle class, now it's a prerequisite.

In Massachusetts alone, we must fill some 65,000 middle-skills jobs by the end of the decade and the beginning of the next. These new-collar jobs are critical to economic growth and innovation. They are the new paths to the middle class.

Our hopes of a vibrant workforce, of filling these new-collar jobs, lies in educating and training our adult learners. Yet this realization is not widely acknowledged the way it should be, and we see even fewer evidence of it in our policies and our operations.

Even already, our students are not who you think they are anymore. They are not “kids,” 17 or 18, going to college full-time and supported by mom and dad. Already, the demographics at my own college tells the story:

- I have 18,000 students a year
- Only 1/3 are “traditional age” students
- The average age is 26, the median age is 24
- They are likely the first in their family to go to college, many are immigrants, living in gateway cities
- 3 out of 4 work, and many full-time
- 3 out of 5 are parents, and likely taking care of parents of their own
- 77% (more than ¾) are in the lowest 2 quintiles of income
- 8,000 are on financial aid, and 1,000 are on SNAP benefits

This is a pretty representative profile of the low and middle income, first-time to college, working students across all geography.

Even though adult students know that college is their path to the middle class, education is not at the center of their lives. Their family, their children, their jobs (and there is usually more than one), are priority. Schooling happens when they can afford it, often a class or two at a time. Our students are one car battery, one pediatric visit, one small disaster away from dropping out. Yet, they are courageous enough to enroll and persist. Our students take an average of 4 to 5 years to complete their associate degree. And slightly shorter for certificate training.

If we know that the adult learners have good work ethic, are serious about getting ahead, and will be the key to the labor force, what’s holding up progress? What is needed? I suggest to you two things:

One: We give up the notion that students be college-ready, and insist that colleges be student-ready. We must meet students where they are – physically and metaphorically. Give up the mental model of the 4-year college model, and align financial and college policies with the reality of a working adult student.

Two: We count basic needs of food, housing, transportation and childcare as *essential* education costs, and fund them. It’s true that Pell grant pays for tuition and fees, but the average unmet need come close to \$4,500 per student on my campus. There is no mom and dad to call. It is not a coincidence that all 15 community colleges in Massachusetts have food pantries and emergency aid offices. Make applying for aid simpler, by simplifying the federal application for aid, and covering the full essential costs for our adult students.

One last story of persistence: A student in his late 20s. Let’s call him Steve. Steve was homeless, spending his nights at Terminal C of Logan Airport because he had a job there, and

there was heat, water, bathrooms, and WIFI to do his homework. The shelters won't have him because he was going to school full time, and he would not relent. Many of us would have given up. Fast forward 3 years. He graduated from us and successfully transferred. But with a *full ride* at Tufts University. But there are many Steves in my world. And I know if you go to any other community college across our country, it won't take you long to find out very similar stories of Steves and people just like Steve that face *real challenges*, but nevertheless are committed to an education because of what it'll mean for them and their family.

Tuition, fees, basic needs – those are the keys to the future workforce, and the restoration of our middle class.

Thank you.



Chairman THOMPSON. Thank you very much.
Ms. Tirado.

**STATEMENT OF TATUM TIRADO, MATHEMATICS
AND SPECIAL EDUCATION TEACHER, BALLOU HIGH
SCHOOL**

Ms. TIRADO. Mr. Chairman and Members of the Committee, thank you for the opportunity to testify about how middle-class families are faring in today's economy. With my own personal story, I intend to illustrate to you that the middle class is barely making their way.

My name is Tatum Tirado, and I am a highly-qualified mathematics and special education teacher at Ballou High School here in Southeast D.C. I am 36 years old and have two gorgeous daughters, a 13-year-old and a 6-year-old. When I graduated from high school in 2001, I wanted to attend college. But the limited academic scholarships I qualified for were not enough to make college truly affordable.

Instead, I enlisted in the United States Marine Corps. I was in boot camp on Sept. 11th, 2001, and I watched the towers fall on an old tube TV in a squad bay on Parris Island in South Carolina. In the fleet I was an ordnance man in the now decommissioned Marine Attack Squadron 513. I have multiple commendations from a year-long tour in Afghanistan in support of Operation Enduring Freedom. I am a disabled veteran with combat experience.

While in the Marine Corps, I developed type I diabetes, and I was awarded early retirement for medical reasons in 2006.

As a veteran, I was able to use a combination of the Montgomery GI Bill and vocational rehabilitation and employment services to complete my undergraduate degree. I attended the University of West Florida in Pensacola, Florida, where I graduated with a bachelor of science in mathematics, with minors in professional education and physics. It was as an undergraduate student that I realized that I could teach by tutoring my peers and high school students, and that is exactly what I did.

As a teacher in Pensacola, Florida I earned \$32,000 a year. This was in 2012. I taught in Escambia County for five years and did not get a pay raise the entire time, even as I was rated a highly effective teacher under Florida's teacher evaluation system. After taxes and deductions, my monthly paycheck was \$2,000. Of that, \$1,000 a month went to child care expenses.

Although I worked multiple side jobs, I could not afford to continue to live and work as a teacher so far from my childhood home. Two years ago I moved back to the D.C. area, where I was born and raised, to be closer to family who could help support me.

I was specifically chosen to work at Ballou High School, where every student has a story and every teacher has a reason. My students, their parents, and I, we forged relationships based on common struggles, and we work together to generate positive outcomes. We understand that without each other, that none of us can be successful.

Marines believe that once we are Marines, we are always Marines. To that end I am always faithful. I intend to support my family and my school community in even greater ways, so I am in

the process of earning a master's degree in educational leadership. My course work is completed, and I am trying to find a way to complete the required internship hours, which I can't do while teaching, even though I need teaching to make a living.

I am a single mother with two children, I am in graduate school, and, like more than a million other Americans, I have type 1 diabetes. I am totally and irrevocably insulin-dependent. I diligently take my medication, I eat a low-carb diet, and I exercise. But none of this is cheap. I knew the health insurance offered by my employer—the cost of my insulin would be prohibitive. Fortunately for myself and my family, as a Marine Corps retiree I have Tricare benefits.

My salary as a D.C. teacher is definitely higher than my salary was in Florida, but so is the cost of living. I can't afford to buy a home in this area, not in the suburbs, and certainly not in the District of Columbia. At the moment I rent an apartment in the suburbs that is about 600 square feet for myself and my two children.

I have a huge amount of student debt from graduate school. I am living on a single teacher's income with a very expensive health condition and two gifted children. Their schools have officially labeled them gifted; these are not just the words of a proud mother. I wish that I could give them things like violin lessons or soccer, but I just can't afford it.

My older daughter is in the eighth grade and scored an 1190 on the PSAT. I taught that PSAT prep class myself at a local community center as a volunteer. There were 20 other students in that class. If it weren't for me, PSAT preparation would have been financially inaccessible for them, as well.

I receive no public assistance.

I have gone over and beyond what you have asked of me. I have served my country. I graduated from college.

I am a dedicated teacher. I am a loving family member. I have devoted my life to public service. I volunteer teach and tutor when I can. And yet, here I am, struggling. How do I provide for my family or feel confident I am climbing the ladder to live the middle-class lifestyle, when everything continues to get more expensive but my salary doesn't go up?

Thank you for allowing me to share my story with you. And I look forward to answering your questions.

[The prepared statement of Ms. Tirado follows:]

Embargoed until 10am, 2/13/2019

Testimony of Tatum Tirado
Ways and Means Committee, Select Revenue Measures Subcommittee
How Middle Class Families Are Faring in Today's Economy
Wednesday, February 13, 2019

Mr. Chairman and members of the committee:

Thank you for this opportunity to testify about "How Middle Class Families Are Faring in Today's Economy." With my own personal story, I will illustrate to you that middle-class families are barely making their way.

My name is Tatum Tirado, and I am a highly qualified mathematics and special education teacher at Ballou High School here in Southeast D.C. I am 36 years old and have two gorgeous daughters, a 13-year-old and a 6-year-old.

When I graduated from high school in 2001, I wanted to attend college. But the limited academic scholarships I qualified for were not enough to make college truly affordable. Alternatively, I enlisted in the United States Marine Corps. I was in boot camp on Sept. 11, 2001, and I watched the towers fall on an old tube TV in a squad bay on Parris Island in South Carolina. In the fleet, I was an ordnanceman in the now decommissioned Marine Attack Squadron 513. I have multiple commendations from a yearlong tour in Afghanistan in support of Operation Enduring Freedom. I am a disabled veteran with combat experience.

While in the Marine Corps, I developed Type I diabetes, and I was awarded early retirement for medical reasons in 2006. As a veteran, I was able to use a combination of the Montgomery GI Bill and Vocational Rehabilitation and Employment services to complete my undergraduate degree. I attended the University of West Florida in Pensacola, Fla., where I graduated with a Bachelor of Science in mathematics, with minors in professional education and physics. It was as an undergraduate student tutoring my classmates and high school students that I discovered I could teach, and upon graduation, I did just that.

As a teacher in Pensacola, I earned \$32,000 per year. I taught in Escambia County for five years and did not get a pay raise the entire time, even as I was rated a "highly effective teacher" under Florida's teacher evaluation system. After taxes and deductions, my monthly paycheck was \$2,000. Of that, \$1,000 each month went to child care expenses. Although I worked multiple side jobs, I could not afford to continue to live and work as a teacher so far from my childhood home. Two years ago, I moved back to the D.C. area, where I was born and raised, to be closer to family who could help support me.

I was specifically chosen to work at Ballou High School, where nearly every student has a traumatic background. My students, their parents and I have forged relationships based on common struggles, and we work together to generate positive outcomes. We understand that without supporting each other, none of us can be successful. Marines believe that once we are Marines, we are always Marines, and to that end I am always faithful. I intend to support my

family and my school community in even greater ways, so I am in the process of earning a master's degree in educational leadership. My course work is completed, and I am trying to find a way to complete the required internship hours—which I can't do while teaching, even as I need to teach to make a living.

I am a single mother with two children, I'm in graduate school, and, like more than a million other Americans, I have Type 1 diabetes. I am totally and irrevocably insulin-dependent. I diligently take my insulin, eat a low-carb diet and exercise. But none of this is cheap. Under the health insurance offered by my employer, the cost of my insulin would be prohibitive. Fortunately for me and my family, I can access insulin through my Tricare benefits as a Marine Corps retiree.

My salary as a D.C. teacher is higher than my salary was in Florida, but so is the cost of living. I can't afford to buy a home in the area. At the moment, I rent an apartment in the suburbs that is about 600 square feet for myself and my two children.

I have a huge amount of student debt from graduate school. I am living on a single teacher's income with a very expensive health condition and two gifted children (their schools have officially classified them both as gifted; these are not just the words of a proud mother). I would love to supplement their educations with enrichment or extracurricular activities such as piano or violin lessons, but I cannot afford to. My older daughter is in the 8th grade and scored an 1190 on the PSAT. I taught her PSAT prep class myself at a local community center as a volunteer. There were 20 other students in the class. If it weren't for me, PSAT preparation would have been financially inaccessible for them as well. I receive no public assistance.

I have gone over and beyond what society asks. I served my country. I graduated from college. I'm a dedicated teacher and a loving family member. I've devoted my life to public service, and volunteer teach and tutor when I can. And yet still I struggle! How do I provide for my family or feel confident I am climbing the ladder to live the middle-class lifestyle so many of us aspire to, when everything continues to get more expensive but my salary does not keep up?

Thank you for allowing me this time to share my story with you. I look forward to answering any questions you may have.



Chairman THOMPSON. Thank you, and thank you for showing the courage to share that fantastic story.

Mr. Berkebile.

**STATEMENT OF GUY BERKEBILE, OWNER, GUY
CHEMICAL COMPANY**

Mr. BERKEBILE. Chairman Mike Thompson, Ranking Member Adrian Smith, and distinguished Members of the Subcommittee, I am Guy Berkebile, president and founder of Guy Chemical Company, located in rural Somerset County, Pennsylvania. And I thank you for inviting me to speak about how the Tax Cuts and Jobs Act has had a positive impact on my company and on my employees.

At Guy Chemical we are manufacturers. We manufacture primarily adhesives, silicone sealants, silicone grease, two-part epoxies, anaerobic adhesives that are used by mechanics for repairing your car, by homeowners for repairing their houses, by contractors for building a building. And these products are made here in the U.S. and they are shipped, literally, over the entire world.

I started Guy Chemical in 1995 by taking the \$80,000 in savings that I had—I took out a \$70,000 development loan, and then I mortgaged my house and I used the equity in my house as working capital for my business. And the start was a very rocky one. I went on to—I didn't have an employee for eight months. I lost money for two-and-a-half years. I did not draw a salary from my business for the first five years of the existence of Guy Chemical because making my payroll and the survival of my business was always more important than how much money I put in my pocket at any given time. Over the first 15 years of—after I started Guy Chemical I mortgaged my house a total of 7 times to pay—or to finance the growth of my business.

Today I have over 160 employees in production facilities located in Somerset, Pennsylvania and Bethel, Vermont. The company is doing well. And whenever you have a manufacturing company like Guy Chemical in your community, you have a real asset because, as a manufacturing company, we employ everyone. We employ engineers, chemists, skilled laborers, unskilled laborers, business managers, and accountants. So virtually everybody has an opportunity to be employed at a company like Guy Chemical.

I am an S Corporation. I was paying a tax rate of 39.6 percent at the federal level. When you add on my state taxes and my local taxes, I was paying a tax rate of nearly 50 percent. So nearly \$.50 for every dollar I made in profit went back to the government in the form of taxes.

Then, in 2017, along came the Jobs Cuts and—the—I am sorry, the Tax Cuts and Jobs Act. And this enabled me to keep more money in my company, and I used that money wisely. We have invested it in new equipment. We have a new lab we built that is five times larger than our old lab. We have new mixing equipment. We have new production equipment. I have also invested in my employees in the form of a higher salary and bigger bonuses.

And I have some of these employees and their families—the children that you hear in the background have come with me today, as a member of one of my employee's families. Donnie Zeigler is a new employee. We added 29 new jobs and our—as a result of the

tax cuts. We saw unprecedented demand and our sales in 2018 were up approximately \$9 million. So Donnie was one of the beneficiaries of a new position at Guy Chemical. He is paying down his credit card debt that he incurred while looking for a job.

George Tomoiaga is an immigrant from Romania. He and his wife, Amber, got married this past summer. They were able to pay for a bigger wedding. They are paying down student debt, and they are now looking for a house to purchase because they are now more financially secure.

It is evident that the tax cuts Act not only had a big impact on Guy Chemical, but also on other businesses, and also on our employees. On behalf of Guy Chemical and the many other small businesses that have benefitted from the Tax Cuts and Jobs Act, I thank the committee for giving me the opportunity to speak today. Thank you.

[The prepared statement of Mr. Berkebile follows:]

Embargoed until 10am, 2/13/2019

**Written Testimony of Guy Berkebile
Before the U.S. House Ways and Means Committee,
Subcommittee on Select Revenue Measures
On the Impact of the Tax Cuts and Jobs Act
February 13, 2019**

Chairman Mike Thompson, Ranking Member Adrian Smith, and distinguished members of the Subcommittee, my name is Guy Berkebile. I'm the owner of Guy Chemical—a chemical manufacturer in Somerset County, Pennsylvania specializing in silicone products and packaging for the consumer and industrial markets. Thank you for inviting me to speak about the impact of the Tax Cuts and Jobs Act on my business and employees.

Founded in 1995, I took out a loan of \$70,000, used \$80,000 of my personal savings and mortgaged my home to start Guy Chemical—literally putting my family's livelihood and financial security at risk. And let me tell you, it was a rocky start.

I had no employees for eight months and operated the business at a financial loss for approximately 2 ½ years. Furthermore, I did not take a salary for five years—working a full time job on the side to provide for my family. In the end, I had to mortgage my home a total of seven times to keep Guy Chemical afloat.

But even though my entrance into entrepreneurialism was precarious at times, the outcome has been extraordinary.

Guy Chemical now provides employment for more than 160 people in rural Pennsylvania—employing a wide variety of workers ranging from unskilled laborers to production managers

and from chemists to engineers. It is businesses like Guy Chemical that are the bedrock of our community.

Then in 2017, came the passage of the Tax Cuts and Jobs Act—legislation that was a financial godsend for not only my business, but the dedicated people Guy Chemical employs. Not only did we experience a lower tax burden, but we received unprecedented demand for our products following the legislation’s passage. In fact, we saw a jump in gross revenue of roughly \$9 million.

I was able to wisely invest the financial gains from the tax cuts in a variety of ways.

On the business expansion front, Guy Chemical was able to build a new laboratory that was five-times larger than our previous one, invest in new chemical compounding equipment and purchase new packaging lines. I cannot stress enough how important the ability to immediately expense capital investment was in making these expansions and upgrades possible.

We were also able to pass down much of the financial savings to employees. More specifically, we were able to raise wages, expand bonuses by up to 50 percent, start a 401k retirement program and create 29 new jobs. These changes also instilled a sense of optimism among our staff, which has produced a less stressful and more enjoyable work environment.

All of my employees—some of whom are sitting behind me today—have a story to tell about how they used the extra money from the tax cuts. Below are several examples:

George Tomoiag is an immigrant from Romania. His increased salary and bonus from the tax cuts provided him with more money to spend on his wedding in June of last

year. George and his new wife now feel financially secure enough to start a family and are expecting their first child. The increase in his income is also allowing them to pay off their student loans at a faster rate and save money to purchase a house, which they hope will happen later this year.

Tammie Gerhart received a 30 percent increase in her bonus. She and her husband Bill have used the additional money for home repairs and they took their first week-long vacation since their honeymoon seven years ago.

Eric Lasure received a 26 percent increase in his bonus. He used the bonus money to purchase a gun safe and for a week-long family vacation to Vermont. This is his family's first week-long vacation since 2013.

Leigh Diest is our head mechanic and a Navy veteran. He and his wife, Sarah, are using his additional salary and bonus to help pay for childcare expenses for their two young daughters, Emersyn and Eliza. They also took their first family vacation in five years. Leigh says the tax cuts have kept him especially busy during the past year as it is his responsibility to install all the new equipment Guy Chemical has purchased with the help of the Tax Cuts and Jobs Act. Leigh has also just purchased a new house.

Rick Meyers is using his additional salary and bonus to pay medical bills for their daughter Anna. They also used the additional money to pay for home improvements and for a week-long vacation this past August.

Michelle Trulick received a gross pay increase of 27 percent. She is using the money to take a 25th wedding anniversary trip at the end of March. The additional money has also enabled her to put aside more earnings for retirement.

Donnie Zeigler was a new hire to Guy Chemical in 2018. He was hired for a new position made possible by the marked increase in business following the passage of the tax cuts bill. He has since received a promotion and an increase in salary. His new financial security has enabled him to pay down credit card debt (incurred while he was looking for a full time job), buy a new vehicle, and pay for childcare expenses for his children, Cecilia and Harrison. He and his wife Natalie were also able to provide a nice Christmas for their children and are taking a family beach vacation, both of which are directly related to the unexpected bonus he received towards the end of 2018.

It's clear the tax cuts have had a big impact on not only my business, but the broader economy—pushing wages up, unemployment down and economic growth through the roof. Extending measures in the Tax Cuts and Jobs Act past the scheduled expiration date and continuing to reduce restrictions on American businesses will ensure the economy remains on the upswing and millions of Americans continue to benefit.

On behalf of Guy Chemical and the many other small businesses that have benefited from the Tax Cuts and Jobs Act, I thank the committee for giving me the chance to speak today.

Thank you.



Chairman THOMPSON. Well, thank you, and congratulations on a successful small business. All of us who have small businesses know how tough it is to make it, and it sounds like you have done well. So congratulations.

Thank you to all the witnesses. Now we are going to proceed under the five-minute rule with questions for the witnesses. And I will begin by recognizing myself for five minutes.

Dr. Zandi, first thing I would like to talk with you about is the situation involving millions of Americans whose tax refunds are much smaller than usual this year. I am assuming you have read the same articles and seen the same reports that I have.

And I know that my Republican friends spent a lot of time saying that their tax law would give people bigger paychecks, but we are starting to see evidence now that the drive to show higher paychecks after passage of the tax law has led to a significant drop-off in the size of tax refunds, and so many middle and lower-income taxpayers depend on those. And many Americans, who are used to getting tax refunds, will instead owe taxes in April.

Can you briefly describe the withholding, what withholding is, and why it is done?

Mr. ZANDI. Yes. Taxpayers withhold from their income or set aside part of their income towards their tax liability.

Withholding is very important, because it avoids the problem of getting to April 15th with a huge tax bill for which many lower and middle-income Americans, would be a very severe hardship to pay. They couldn't do it, and there would be a lot of financial pain and suffering. So this is a way to effectively have taxpayers save along the way, so that when they get up to April 15th they don't have a tax bill that they can't manage. Because of withholding, in times past as you point out, many taxpayers enjoy a refund.

I believe the last year before this tax legislation took effect roughly 70 million taxpayers out of 160 million had tax refunds, and the average tax refund was a couple thousand dollars. So far this year—and it is still early days, as the tax refunding is just now kicking into gear—it does appear that the refunds are meaningfully smaller, somewhere between 5, and as much as 10 percent lower than last year. So that is \$150 to \$200. And some folks won't have any refunds at all this year. They won't get a refund.

And this is a big surprise to many. No one planned for it. And thus, you can hear angst everywhere across the country. And if this continues on as it has over the last few weeks over the next two months we are going to have a lot of people that are going to really struggle.

Chairman THOMPSON. Thank you. So it is—it helps them avoid a big lump sum payment. It is kind of a forced savings.

But I am also hearing from a lot of my constituents in the business community that it is also—acts as a bonus for people who then take that money and spend, and the multiplier effect ripples through the community and helps, and that ripple may not be there this year.

And to be clear, the Treasury Department has the authority to determine how withholding is calculated. And can a worker's take-home pay be manipulated through those withholding rules?

Mr. ZANDI. Yes. So, excellent point about the bonus. I mean people treat it like this is a one-time bonus. And if they don't get a refund, then retailers will feel it.

Chairman THOMPSON. Well, we have all been there.

Mr. ZANDI. Yes, we have all been there. Retailers count on that. If taxpayers don't get this refund, then the retail sector is—and actually, the retailing data is now coming in very weak. There may be other reasons going on, but this feels like it is one of the reasons that this is happening.

And yes, Treasury has a big part—the way they implement the tax law change has a—is—contributed significantly to this shortfall in refunding that we are experiencing right now. So in an effort to really juice things up this time last year—you know, because everyone got, you know, kind of a big tax cut—and to really juice things up, the way they set it up, now we are paying the price. On the other side of this, refund checks are a lot smaller. Or, again, people are not getting refunds at all.

So yes, the Treasury—the way they implemented it, this is a big contributing factor here.

Chairman THOMPSON. So the withholding manipulation has really done damage to about four-and-a-half million taxpayers who now find themselves owing the IRS.

Mr. ZANDI. Yes. So 70 million people got refunds, so this year it looks like it is going to come in around 65, 66 million. And then, of course, all the 65, 66 million who get refunds will be—many of them will be smaller than otherwise would be the case.

Chairman THOMPSON. So that is way out of the normal for this to happen.

Mr. ZANDI. Actually, in recent years, the refunding has increased year by year by year. Now, it has been—

Chairman THOMPSON. But the manipulation is what I am talking about.

Mr. ZANDI. Yes. Oh, that is—

Chairman THOMPSON. Out of the ordinary—

Mr. ZANDI. Never—I mean only—

Chairman THOMPSON. A callous move—

Mr. ZANDI. Exactly.

Chairman THOMPSON [continuing]. On the part of somebody. So thank you for that.

And one other thing, Dr. Zandi. President Trump and my Republican colleagues spent about \$2.3 trillion on deficit finance tax cut as their marquee accomplishment under the tax cut bill. And that money was borrowed. That was money that we didn't have. So it was a windfall for folks who were already wealthy, and it did little for the rest of the country. That is pretty much what the numbers look like today.

If you had the ability to right that big tax bill last year, would it have looked anything like this?

Mr. ZANDI. No. I mean this is deficit financed, as you point out. I mean the Congressional Budget Office, the non-partisan folks that—and the Joint Committee on Taxation that look at this—non-partisan, you know—clearly have—came out and said this is going to add significantly to budget deficits, and it has. And we are on

track to have a \$1 trillion budget deficit, if not this fiscal year, certainly next fiscal year.

And a lot goes to the deficits—and, you know, I am a fan of lower corporate tax rates. I thought the 35 percent top marginal rate was too high. And President Obama did propose to put it down to 28, and I think that was very reasonable. But it has to be paid for. We have to figure out a way to pay for it. Otherwise, the benefit of the lower corporate tax rate to businesses who invest, like Guy Chemical, that is offset by the fact that interest rates are all—are going to be higher because we have to borrow all this money going into the future.

So it has no net benefit to the economy, but we ended up with this much larger budget deficit and higher debt load. So if I were king for the day, I would have given—I would have gone down the path of trying to make our businesses more cost competitive and address those concerns that we had. But I would have not lowered it nearly as much, and I would pay for it through other tax revenue. And I certainly wouldn't have gone down the path of much lower tax rates for high-income households, both on income, capital gains, estate taxes, because that provides no long-term benefit, and adds significantly to the budget deficits.

And just a final point, tax revenue as a share of GDP today is as low as it has been in 50 years. And it is falling. You know, the idea that this tax cut was going to juice up growth and it was going to pay for itself and then some, absolutely not the case. Tax revenues are falling. And that is because of the tax cut.

Chairman THOMPSON. And much of the individual benefit that Mr. Berkebile mentioned goes away.

Mr. ZANDI. Yes. I mean absolutely. I mean somebody has got to pay for the—

Chairman THOMPSON. For those—

Mr. ZANDI. Yes, it is—

Chairman THOMPSON [continuing]. Corporate tax cuts that you talked about remain, and the other—

Mr. ZANDI. Yes, the individual tax cuts go away.

Chairman THOMPSON. Correct?

Mr. ZANDI. Yes.

Chairman THOMPSON. Thank you very much. I would now like to recognize Ranking Member Congressman Smith.

Mr. SMITH. I will reserve and come back.

Chairman THOMPSON. And I will recognize Mr. Rice from South Carolina.

Mr. RICE. Thank you, Mr. Chairman, and thank you for having this hearing on the effect of the middle class on the Tax Cuts and Jobs Act. I wanted to just kind of go through some statistics. I am sorry, you all. I am a CPA, and statistics are just exciting as hell to me.

[Laughter.]

Mr. RICE. So just a few things that have happened in the last two years since the President was elected, and since the Tax Cuts and Jobs Act became law.

Only two years ago we were being told by the media that we would never see sustained growth over two percent in GDP. Over the last six quarters, GDP has averaged over three percent—sur-

prise, surprise—double the last six quarters of the—under the Obama Administration. We have 157 million people employed in the country, the highest in history, 6.9 million available jobs. The unemployment rate is at a 20-year low. Since last March we have had each month more job openings than people unemployed. All-time lows in African-American unemployment, all-time lows in Hispanic unemployment. Unemployment for women is at a 65-year low. Unemployment for teenagers is at a 50-year low. My goodness. How can we not be just celebrating these figures?

It is harder to find blue-collar workers than white-collar workers for the first time in decades. Florence-Darlington Tech in my—a community college in my district, they tell me that they could place 1,000 diesel mechanics tomorrow. Horry Georgetown Technical College in my district has just started a free program, free tuition—it is not discounted, you don't have to get a loan, it is free—to—it is a six-week education in construction, welding, or electrical. And they not only pay the tuition, they also pay your bus fare to come. And they struggle to get people to show up.

Wages rose 3.2 percent in 2018, the highest in 12 years. Consumer spending over the holidays was the highest in six years. Small business confidence hit the highest—is the highest in 15 years. In the two years since the President took office, we have gone from 10 years of economic stagnation to a long-overdue economic boom.

The things—this is—these statistics are the proudest—the things that I am the proudest of.

I have the poorest county in a poor state, South Carolina, Marion County, South Carolina, poorest county in South Carolina is in my district. In January of 2017, when President Obama left office and President Trump took office, the unemployment rate in Marion County, South Carolina, which is 57 percent African-American, was 9.3 percent. Today 4.7 percent.

Dillon County, South Carolina—you know, think about that, 9.3 to 4.7. The unemployment rate was cut in half. My goodness, how can we not celebrate this incredible success? Dillon County, South Carolina, January 2017, 6.5 percent. Today it is 3.8 percent, 47 percent African-American.

Marlboro County, which is 51 percent African-American, when President Trump took office, 7.6 percent unemployment. Today 4.1 percent unemployment. These are staggering statistics. What an incredible success. What an opportunity for the middle class.

And, you know, I think their future is brighter now than it has been in decades. A growing economy lifts all boats.

But we can do more. You see, I think I understand why the middle class has struggled, really, since about 1990. It is because, you know, the last time we did tax reform was 1986. And I don't think that is coincidence. In those 30 years since then economies around the world have designed themselves to be competitive of us, and they have been successful in attracting our companies and our jobs away. But the Tax Cuts and Jobs Act stopped that flow. In fact, it is starting to reverse; over 300 manufacturing jobs created last year.

And we can do a lot more to make our economy competitive. If we can work on these trade agreements and make them fair to

America—30 years ago we could enter an unfair trade agreement. We were so far ahead of the rest of the world. But we can't do that anymore. And President Trump and this committee are working actively to make our trade agreements fair.

We need to work on merit-based immigration, like most companies—countries use their immigration system to make themselves more competitive.

And finally, we need to stop the endless flow of people who work for nothing, the illegal immigrants that come over here and work for nothing, because who does that affect? That overwhelmingly affects people on the lower end of the scale. And of course it depresses wages, and it—of course it holds our middle class down.

I could keep going, but the chairman is tapping. I yield back.

Chairman THOMPSON. Thank you. I recognize Mr. Doggett to inquire.

Mr. DOGGETT. Well, just picking up right there, most every objective economic study, whether it is from the U.S. Chamber of Commerce or independent economist, shows that if we move forward with comprehensive immigration reform, it would be a boon to our economy, and that even just doing the modest step of assuring the future of our DREAMers, these talented young people, most of whom have never known any country other than America, let them achieve their all, that that would be a growth incentive in Texas, in our southwestern states, and in many other parts of the country.

But I want to pick up with the statistics with you, Dr. Zandi. Because, as I recall, you provided us some pretty sound advice about how we try to dig out of the financial debacle that President Obama inherited. And isn't it correct that with the enactment of the stimulus, which was, unfortunately, along partisan lines, right up until the time that President Trump was sworn into office, we had steady economic growth, we had jobs, we had job growth, we had economic progress well underway?

Mr. ZANDI. Yes, we did. Just consider unemployment, unemployed, which peaked exactly at 10 percent in late 2009. President Obama became president January of 2009. Stimulus package was passed in February of 2009. The recession ended in June of 2009. We lost a million jobs in January of 2009, you remember back to that—

Mr. DOGGETT. Right.

Mr. ZANDI [continuing]. Fateful month. Unemployment peaked at 10 percent. When he left, the unemployment rate was down closer to five-and-a-half percent. And what we have seen since is a continuation on—

Mr. DOGGETT. Continuing the progress—

Mr. ZANDI [continuing]. That steady improvement.

And here is what I would say. If I go and borrow money and then spend the money I just borrowed for a brief period of time, it is all going to feel pretty good, right?

Mr. DOGGETT. It is a sugar high.

Mr. ZANDI. Absolutely. And of course, I have a bill to pay. And when the money is gone, what happens? The time good times are over.

So enjoy it while it lasts, because the economy is already slowing. Growth in Q4 is going to come in somewhere around two, two-and-a-half percent, which is exactly where it was before the tax cuts, and it is going to be lower than that in Q1 of this year. And we are not getting back to sustained growth of three percent—

Mr. DOGGETT. And—

Mr. ZANDI [continuing]. Under the current tax law.

Mr. DOGGETT. And—

Mr. ZANDI. And let me say one other thing. You are absolutely right about immigration reform. If you want strong, sustained economic growth. If you want three percent growth sustained in the long run, it will require immigration reform. We need more immigrants, not fewer immigrants.

Mr. DOGGETT. Thank you. And there really is, as near as you ever get, economic consensus that our growth rate is slowing and it is burdened by the huge amount of debt that you told us to avoid when we were considering this tax law last year, right?

Mr. ZANDI. Exactly. It was pretty obvious.

Mr. DOGGETT. Right.

Mr. ZANDI. And the CBO and the Joint Committee on Tax was telling you this, and we are getting exactly the scrip they provided.

Mr. DOGGETT. I am pleased that every amendment that we offered as Democrats trying to improve that bill was fully paid for.

Would your advice be to the committee that, out of concern for this huge amount of Republican debt, we ought not to be doing things that will add to the debt further with unpaid tax cuts?

Mr. ZANDI. Absolutely. I think we are losing that very important fiscal discipline. Every tax cut, in my view, every spending increase, has to be paid for. We have to figure out how to do that.

Mr. DOGGETT. And Dr. Boushey, you, like Dr. Zandi, mentioned the need for some improvements with child care, with infrastructure, with getting a competitive work force.

Dr. EDDINGER. Certainly our community colleges.

Isn't the—really, the primary need there for some direct expenditure to strengthen our community colleges, to meet our workforce training needs with effective programs, and not just more inefficient tax credits and tax cuts?

Ms. BOUSHEY. A hundred percent. I will be quick, so that we can hear from the community college expert, as well.

I mean I would say two things. I mean, first, you know, part of what the tax reform did, the tax cuts did, was starve the government of the ability to make these much-needed investments. And we are not seeing the investments that we need to be making in infrastructure, in early education, in education writ large, and health care. These are all things that are demonstrably going to improve our economy, moving forward, on a stable path. Not like the—as you just called it—sugar high we are on now. So I would 100 percent agree.

On the question of tax credits, certainly we do need to be making these investments and encouraging investments where businesses aren't making them.

Mr. DOGGETT. Let me just ask, with my time expiring, can any of you tell me how you spent the \$4,000 in average adjusted income

that President Trump and this crowd said you would get every year as a result of this tax cut? Anybody get their \$4,000?

Just another of the phony promises that were made for—

Chairman THOMPSON. The gentleman's time has expired.

Mr. DOGGETT [continuing]. A measure that does not work. Thank you.

Chairman THOMPSON. Mr. Schweikert.

Mr. SCHWEIKERT. Thank you, Mr. Chairman. Just for the fun of it, Mr. Doggett, many of us absolutely agree, immigration is a crucial part of future economic expansion. And if you will work with us on developing what the rest of the industrialized world has done, which is a talent-based system—because, as we can see from the literature—and I don't think any of you are part of the—but lots and lots of the robust literature says a talent-based system is where you get your maximum multiplier. In our current system it is often a second generation to third generation before you get the multipliers.

So we agree, we just have to actually make the designs work, because we have a demographic crisis coming at us. And if we don't start to deal with—I have been heartbroken with some of the, forgive me, some of the partisan math, because you all know it is more complicated. We need a multi-level approach. It has got to be immigration.

It has also got to be incentives for maximum economic expansion.

It has got to be incentives for workforce participation, radical adoption of technology and health care so we stop having this crazy debate of who gets to pay, but lowering the price.

And then we are going to have to have the most difficult discussion, and that is the redesign of our earned entitlements.

Doctor—and, forgive me, I want to—don't want to mispronounce your name—Eddinger.

Ms. EDDINGER. Eddinger.

Mr. SCHWEIKERT. Eddinger. You actually said many things that I think, A, we all agree on, but I find very optimistic, but there is a frustration here. For many of us, being from Arizona, we have seen some amazing data in the U6—if you get down to the U6 cross-steps, that individuals without a high school education, that we would have discussions in this room just a couple years ago that they were part of the permanent under-class in this society, are actually going to community colleges, getting those certificates in maybe welding, in maybe something else. And because of the impressive job creation out there, we are seeing some upward mobility of entire quartiles that the really smart people had written off in the previous decades.

And if we are going to have an intellectually honest—there needs to be sort of joy and optimism, but also a focus on these quartiles and the velocity of movement into higher quartiles.

What do you do in your system to make it affordable, to encourage someone to do those certificates? And what sorts of partnerships are you setting up with the employers that are so short of employees?

Ms. EDDINGER. So we always try to put the funds in the hands of—

Mr. SCHWEIKERT. No, no, no, you are fine. I am trying to get her to put a slide up.

Ms. EDDINGER. Oh. We always try to encourage folks to put the funding and put the dollars in the hands of the students, because they best know how housing, food, and all of the wrap-around support would work.

When students finish with us, they hop two quintiles in income. It is demonstrable. It is what you saw in——

Mr. SCHWEIKERT. Say that last part again. So when they finish and get their certificate, you are actually tracking that they are not going to the next, they are literally doubling up on——

Ms. EDDINGER. They literally double up.

Mr. SCHWEIKERT [continuing]. Their velocity.

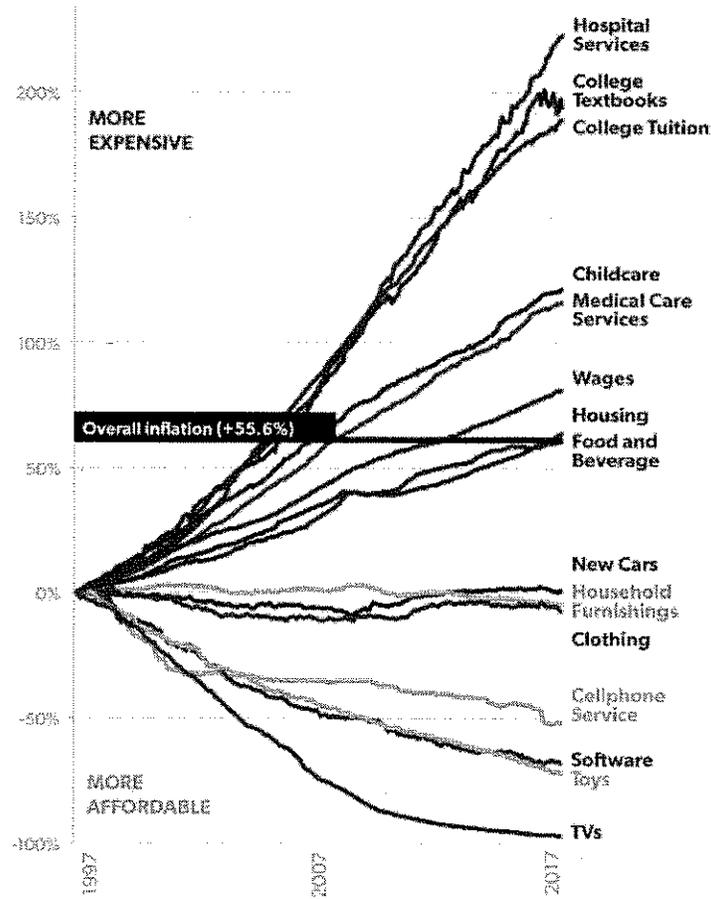
Ms. EDDINGER. And what we do with the employers that—we bring them to the table and say, “Help us co-educate our students. Do not just count on the state or the Federal Government funding everything. We our financial partner, and then tell us what the competencies are that we need in order to create those jobs.”

Mr. SCHWEIKERT. Mr. Chairman, considering this committee is about our middle class, and we all know there is sometimes constantly moving definitions of what is the middle class—is the middle class in California with a high-cost state, or Massachusetts, or Connecticut, different than Arizona? But I have a great concern that we are pricing out much of our middle classes as—Tirado? Tirado, that is actually—so elegantly said and so emotionally said is she is being priced out of the middle class.

[The slide follows:]

Price changes (Jan. 1997–Dec. 2017)

Selected US Consumer Goods and Services, and Wages



Source: BEA

Carpe Diem **AEI**

Mr. SCHWEIKERT. If you look at this slide—and I will be happy to pass it around, but this is easier than me standing there with one of those boards. If you actually take a look at the last—okay. But if you functionally look at the last 20 years, the areas that have exploded in cost are those areas that have—are our fault. It is this elected body that touches hospital services, college tuition, medical care. We have distorted those markets.

But take a look. If you see the blue lines, the other areas that have actually crashed in consumer purchasing power. They are those that have the lightest touch from this institution. We are going to have to sort of think through how do we reach out in health care and use technology, availability, and those things, instead of what you are seeing.

The very top of the chart is hospital services, which our reimbursement mechanisms have created absolute distortions.

The last thing I would just—Mr. Brown, for much of my life—I was a Realtor for a decade, I was a leader in—

Chairman THOMPSON. Your time has expired.

Mr. SCHWEIKERT. You spoke to doubling the deduction as being a difficulty. You owe her an apology, as she is trying to survive as a renter, needing that deduction.

Chairman THOMPSON. Okay, the gentleman's time has expired.

Mr. Larson.

Mr. LARSON. Thank you, Mr. Chairman. And let me start by commending the excellent witnesses that we have, especially Ms. Tirado and Mr. Berkebile, who I would also note is an Ironman. And based on your testimony, Ms. Tirado, you are an iron woman who deserves enormous credit.

Let me also commend Chairman Thompson and Mr. Neal. The difference, I think, that we are noticing this year is that we have returned to regular order.

Now, what do we mean by that? What we mean is that we are actually going to have hearings. We are actually going to have substantive discussion, where we can exchange ideas and views on both sides. Our colleagues on the other side have a lot of good ideas. It would have been great if we had public forums and hearings on the tax proposal that we are now dealing with. Because with everything, there is always unintended consequences.

The goal of Mr. Neal and Mr. Thompson is to make sure that, through expert witnesses, we have an opportunity to hear the rest of the story. And so I commend all of you for giving us the—your various points of view.

Chief among my concerns in a return to regular order is that this tax cut, as we hear in testimony, has fallen unevenly.

Not only unevenly, but if you are from the State of Connecticut and you have to deal with, say, the state and local tax you can no longer deduct, you find yourself in a situation where—750,000 people in my state itemize deductions. The average deduction is \$19,000. But without any public hearings or forums or anything, we concluded—we, meaning the body—that we would cap this—our colleagues on the other side—at \$10,000. The average in Connecticut is 19; 10,000 was the cap.

So now, when it comes to paying the fiddler this April, not only are people going to see an increase—and this is my question for

you, Dr. Zandi—a person who previously used to deduct 19,000 and now is capped at 10, are they in fact subsidizing the tax cuts and the corporate rate?

And as you pointed out, President Obama had a tax rate of 28 percent and 25 percent for manufacturers, I believe. However, there was never a hearing in the eight years that they were in control on any of Mr. Obama's proposals to reduce taxes. Only behind closed doors and without a hearing did we get the tax bill and, therefore, these uneven results that we are experiencing now.

Are citizens of Connecticut and, frankly, a number of states across this country, because of this tax bill, subsidizing the tax cuts of the very wealthy?

Mr. ZANDI. I think you are right. I think the tax legislation has raised tax liabilities for many people in the Northeast Corridor—so for Boston through Connecticut, New York, down through Philadelphia, Baltimore, and D.C. Parts of Florida, and on the West Coast, particularly around California. Around Chicago, as well. These are areas of the country where the SALT deduction was very important. And you take that away or reduce its value, it is a significant financial hit to those households. In many cases they are now doing their tax returns, and they are going to find that their tax liability is much higher which will force them to significant adjustments.

So you go look across the housing market and take a look at house prices in these different parts of the country, and they are now weak, going flat, and in some cases actually declining, as these markets adjust to the fact that, you know, these tax preferences that were in the code before are no longer there.

So it is a very significant adjustment, particularly to home owners in a place like Connecticut, you know—

Mr. LARSON. Mr. Brown, are you finding that in California also, the impact of the lack of the ability to deduct state and local taxes?

Mr. BROWN. Very much so. We have a huge supply and demand imbalance in California, and extremely high prices. We also have a very robust and large economy. And housing prices are very high.

So if people can't write off those taxes, it takes some of the incentive away to buy a house. We believe that buying a home is a way for people to enter the middle class. It is a way to climb the economic ladder. People that are struggling to buy that first house face a lot of barriers. They have health care costs, they have the competition factor in California, and they high prices. It is hard to get in.

So there has to be an economic benefit or incentive for somebody that is in that position. The economic benefit, or the incentive, was largely taken away for many in the Tax Cuts and Jobs Act.

Mr. LARSON. You bet.

Chairman THOMPSON. Thank you. Thank you very much. Because of the numbers on the committee, we are going to move to a two-to-one ratio, as has been done always in this committee. And I will recognize Ms. Sánchez.

Ms. SANCHEZ. Thank you, Mr. Chairman, and thank you to all of our witnesses for being here today. I am pleased that we are beginning the long-overdue process for tax—hearings on tax reform. Although I think, as Mr. Larson mentioned, it would have been

better if we had done those hearings prior to when the Republicans passed their tax bill, but here we are.

Republicans held the committee gavel for eight years, and in that time they used that time to focus on multi-national corporations, while middle class and aspiring middle class Americans often had to take second jobs to make ends meet. It is impossible in this hearing to address all of the missed opportunities that we could have had in the last tax bill. So I am going to focus on just a couple. And I want to start with Ms. Tirado.

I know that you are a D.C. native and you spent some time in Florida, but your story reminds me of so many stories that I hear from constituents in Southern California. And I really want to thank you for your testimony. But I wonder if that side of the dais has listened to your testimony, because clearly, all this rosy information about how the tax bill has helped everybody—it really hasn't helped you, has it?

Ms. TIRADO. Yes, I have been listening and I have already done my taxes. And I didn't—I saw some extra money from Maryland, they have some things for teachers, but not from the federal side. So all of the great things that they are talking about from the tax—

Ms. SANCHEZ. All these wonderful things, you know, unemployment is down, and wages are up—are you feeling that, personally?

Ms. TIRADO. No. And, you know, unemployment rates dropping isn't instantaneous. It didn't happen in the last ten years. That is a decade's worth of work. And I think that needs to be recognized, as well.

Ms. SANCHEZ. Thank you. And as you mentioned in your written testimony, you know, I think you have done far more than society asks of you. You have served your country in uniform, you teach, you volunteer in your community, all while trying to further your own education and trying to raise two children on your own, which I think is—the most amazing thing are single mothers in this world.

I would like to talk to you about something that hits close to home for me, too. I have four boys, three of them step-sons and one of my own. I want to talk about child care costs, because—

Ms. TIRADO. Okay.

Ms. Sánchez [continuing]. All the unemployment in the world isn't going to help working parents afford child care. You mentioned that child care costs were not only half of your take-home pay in Florida, but that a need for child care assistance was one of your—the factors in your decision to move back to D.C.

Ms. TIRADO. It was.

Ms. SANCHEZ. And I am sure, as an educator, you know how important early learning is.

Ms. TIRADO. Yes.

Ms. SANCHEZ. I want you to tell us that, as we look to maybe realign some of the benefits so that middle-class families really do get relief, what should we know about your attempts to access quality and affordable child care?

Ms. TIRADO. Well, in Florida, child care was provided to me by a church. You know, church is very important in my community. And my child care expenses were actually supposed to be \$1,200

a month, but I went to the pastor of the church with my situation, and he gave me that discount, so it would only be \$1,000 a month. And I took a second job to help me pay for it. And then, of course, the father of my children helped me out, as well.

But even with all of the help from my ex-husband, from the pastor of my church, I still had to take on a second and a third job. So I worked until 7:00 in the evening after teaching all day, and then I worked on Saturdays, as well, to keep up with child care.

When I look at my students, a lot of my students are late to school every day, because they have younger brothers and sisters, because their parents can't afford child care. They have to take their younger brothers and sisters to school first, and then come to school. Then they are late, they don't get there until second period or lunch time, and then we say they were absent from school for the whole day because of the rule that if you miss one class then you are absent for the whole day.

Then we tell them at the end of the year, "You have too many absences and you failed the entire school year and have to repeat the year," because their parents can't afford child care.

Ms. SANCHEZ. Yes, amen.

Ms. TIRADO. Those are the sort of things—

Ms. SANCHEZ. I wish we could, you know, blast that out over every television set and radio in the United States. You have had to get a second job, so the tax bill didn't help you climb out of, you know, the deficit of—your wages aren't being—aren't going up, and you have got student loan debt, and the cost of milk isn't the same, you know, from one week to the next.

Ms. TIRADO. No.

Ms. SANCHEZ. I mean all of those expenses go up. Interest rates are going up. When you hear, like, wow, GDP is great, and unemployment is low, you know, the reality is those are statistics, but those statistics reflect lower-paying jobs or jobs that don't provide the kind of benefits that you need in order to support your kids and make sure that they have health care.

I mean I really want to drive down that point, because you can hear statistics, but you hear stories like yours, and yours is not unique. How many people do you know that are similarly situated, where they are struggling to afford child care and basic necessities, and their wages aren't going up?

Chairman THOMPSON. The gentlewoman's time has expired.

Ms. TIRADO. Every single teacher I have ever worked with. All the teachers I have ever worked with have the same problem. All of them.

Ms. SANCHEZ. Thank you so much for your testimony.

Chairman THOMPSON. Thank you very much.

Ms. SANCHEZ. And I yield back.

Chairman THOMPSON. Mr. LaHood, you are recognized.

Mr. LAHOOD. Thank you, Mr. Chairman, and I want to thank the witnesses for being here today, for your valuable testimony.

And Ms. Tirado, thanks for sharing your story and for your service to our country in the military. I appreciate that very much.

My district that I represent in central and west central Illinois is kind of the heart of the middle class—middle-class, lower-middle-class folks. I am fortunate enough to represent about 710,000 peo-

ple, rural agricultural area, but with a lot of manufacturing. And I look at our economy today and it is the strongest economy we have had in 25 years.

And I look at small, medium-sized companies in my district. And in going back 10 years and looking at how devastated our manufacturing was, our job markets, and I look at the statistics today, I mean, the number-one issue that I hear in my district as I traveled around—and, Dr. Eddinger, you touched on it—we can't find enough workers. Seven million unfilled jobs. We don't have enough truck drivers, we don't have enough welders, we don't have enough nurses, we don't have enough mechanics, we don't have enough technicians.

But I will also tell you, as I look at companies in my district—for instance, Dot Foods based in Mt. Sterling, Illinois, they could hire tomorrow 70 new truck drivers, start out at \$68,000 a year—that is a head-of-household job in Mt. Sterling, Illinois for a middle class person—and don't have enough workers for that.

Keystone Steel and Wire in my district, in Bartonville, Illinois, they have a waiting list of 80 new people for welders, starting out at \$20 to \$25 an hour. We can't find them.

I look at Knapheide Manufacturing based in Quincy, Illinois. Again, they are looking for 100 new workers to come in. We have never seen this before.

And you look at the statistics, and Mr. Rice went over it. GDP has grown at over 3 percent, lowest unemployment in 50 years in all sectors, African-American community, Hispanic community, with women, with people with disabilities. Private-sector wages continue to go up.

Look at—the stock market is up 27 percent. And remember, that affects 529 plans for middle-class Americans, 401(k)s, all retirements, created 5.3 million new jobs in the last two years, 600,000 in manufacturing. Nobody ever thought we would bring back manufacturing in this country, and we have done it.

And so I look at their—it doesn't mean we don't have challenges. Clearly, we do. And a number of you have hit on those challenges. And we ought to be working on those right now. But when you look at the economy, I look at this as let's do no harm with the economy and keep it going, and let's focus on these other things.

And I think, Dr. Zandi, you hit on a couple of important points with infrastructure. Absolutely, we ought to work on infrastructure. You are going to find a lot of bipartisan support on working on infrastructure. You know, the President has talked about an infrastructure plan. We ought to be working on that.

Workforce development, career technical education, clearly those are bipartisan issues that we can legislate on and find a solution.

Immigration is another one, and health care has been touched on.

So those are all things we should be focused on. But the economy is going strong, we ought to keep it going. And it has helped middle-class folks. That is not just anecdotal evidence, that is real evidence.

I would also like to submit for the record, Mr. Chairman—this is a poll that Gallup just did last month. Here is the title: "Opti-

mism about Personal Finances Hits 16-Year High with the Middle Class." And so I would like to submit that for the record.

Chairman THOMPSON. Without objection.

[The information follows:]

THE HILL logo

Optimism about personal finances hits 16-year high: Gallup

BY MICHAEL BURKE - 02/11/19 09:27 AM EST

Optimism Americans have about their personal finances has reached its highest level in more than 16 years, according to a new Gallup poll.

The poll found that 69 percent of respondents said they expected to be better off financially at this time next year, while 16 percent said they expect to be doing worse. That was the highest recorded mark since 2002, according to the poll.

The 69 percent of respondents who said they expect to be doing better is 2 percentage points different from the all-time high of 71 percent who said the same in March 1998.

The poll also found that 50 percent of those polled said they are doing better financially now than they were a year ago. Twenty-six percent of respondents said they are doing worse now than they were a year ago, the poll found.

Along party lines, respondents who identified as Democrats were more likely than other groups to say they are doing worse financially than they were at this time a year ago. The poll found that 37 percent of Democratic respondents said they are worse off, while 32 percent said they are better off.

Other than Democrats, most other demographic groups were more likely to say they were better off financially now than a year ago, according to the poll.

The poll's results are based on telephone interviews with a random sample of 1,017 adults, conducted from Jan. 2-10. The poll has a margin of error of plus or minus 4 percentage points.



Mr. LAHOOD. And I would just say, you know, again, the title of this hearing is how are middle-class families faring in today's economy. In my district, they are faring pretty well.

And Mr. Berkebile, I want to ask you. Going back 10 years and looking at 2008, 2009, where we are at, and where we are at today, can you tell us how middle-class workers in your business are doing?

Mr. BERKEBILE. Yes, they are better off. This is why I brought these employees here. It is one thing for me to tell you a story about one of my employees. It is another to tell you the story with them here, so you could actually ask them for yourselves.

But our bonuses—we have always been fortunate enough that we have been able to pay a bonus for many years. We have increased our bonuses up to 50 percent. But—and we have increased salaries.

But regardless of whether I am voluntarily increasing wages, forget about that. The job market right now is so tight that I have to increase wages. I have no choice. And I don't hear these people talking about that. The job market is so tight right now we are having trouble finding workers in our factory. We had to increase these salaries in order to attract and retain them.

Mr. LAHOOD. Thank you. I yield back.

Chairman THOMPSON. Thank you. I recognize Ms. DelBene.

Ms. DELBENE. Thank you, Mr. Chairman. And thank you so much for holding today's hearing, because I think that this Congress needs to consider how our actions are lifting up the middle class. And today is an important step to getting back to doing that.

My colleagues on the other side of the aisle talk a lot about all that we need to do. They had the gavel for eight years, and they spent all this money, created this huge debt, and this is work that we should have been doing a long time ago, in terms of investing infrastructure and investing in human capital.

I want to focus on an issue that is particularly front of mind for many of my constituents, and that is affordable housing.

Every financial planner will tell you that people should spend no more than 30 percent of their after-tax income on housing. Unfortunately, over 235,000 people in my state of Washington, or 11 million nationwide, so roughly 1 out of 4, spent over 50 percent of their monthly income on rent, leaving too little for necessary expenses like transportation, or food, medical bills, or saving for retirement.

And in Washington State a minimum-wage worker has to work 78 hours a week in order to afford a modest one-bedroom apartment. Data from the NHP Foundation suggests that under-employed and strapped with debilitating debt Millennials aged 22 to 37 are renting at a greater number and for much longer than previous generations. This will have a variety of consequences, the most obvious of which is the longer someone puts off buying a home, the longer they delay their ability to build equity and pay down other debt.

Additionally, research shows that high rent burdens have priced out many workers from the most productive cities, resulting in a 13.5 percent foregone GDP growth, a loss of roughly \$1.95 trillion between 1964 and 2009.

Mr. Chairman, I ask unanimous consent to enter into the record a recent opinion piece by Mr. Richard Burns, the president and CEO of the NHP Foundation published in The Hill.

Chairman THOMPSON. Without objection.

[The information follows:]

THE HILL logo

It happened on 'Fifth Avenue' it can happen in your town

BY RICHARD F. BURNS, OPINION CONTRIBUTOR — 12/17/18 07:00 AM EST
THE VIEWS EXPRESSED BY CONTRIBUTORS ARE THEIR OWN AND NOT THE VIEW OF THE HILL

One of the perennial favorite holiday season movies is the classic post-World War II comedy, "It Happened on Fifth Avenue," about a multimillionaire developer, who is the film's "villain," and a loosely-knit group of homeless people who become the heroes. The group includes young war veterans and their families, a college student with no real job prospects, and an elderly hobo. They band together around a creative solution to thwart the evil land baron and convert a former Army barracks into inexpensive family housing that could benefit them all. Were these guys prescient, or what?

Today, the affordable housing industry is looking at a new wave of low- to middle-income residents whose diverse backgrounds resemble the folks in this classic American movie. Millennials and baby boomers alike are expected to join those already in need of affordable housing — the low-income families, veterans and senior citizens. It will take collaboration and ingenuity to construct housing solutions that meet the varying degrees of need for each population, much like in the film's fictional story line.

First, let's examine how we got here. The population of cost-burdened Americans is increasing at an exponential rate, and the face of affordable housing is changing. Today, underemployed and strapped with debilitating debt, millennials (those ages 22 to 37) are renting at a greater number and for much longer periods than previous generations. At the same time, baby boomers (ages 54 to 74) are being forced to confront a troubling reality: struggle to age in place, or leave their homes and communities for a more manageable cost of living.

Here are some of the sobering statistics:

- Recent data show that the United States produced 7.3 million fewer homes than needed to keep up with demand and population growth.
- Because of the recent tax reform legislation, it is projected that 235,000 new units of affordable housing will be cut over the next 10 years, costing the country 260,000 jobs.
- Nowhere in the United States can a full-time U.S. worker earning federal minimum wage of \$7.25 an hour afford to rent a modest two-bedroom apartment.
- According to University of Chicago research, about 1 in 10 young adults (ages 18 to 25) experience some form of homelessness in a year.
- Seventy percent of college students graduate with unpaid student loans.

- The median wage of 25- to 34-year-old Americans has been stagnant since the 1970s.

And here's what each group is telling us:

- Based on our own research, many baby boomers are financially underprepared for retirement and are reckoning with a need for affordable housing that they did not foresee. Although affordability is their first requirement, they also look for quality-of-life amenities such as low maintenance, one-story or elevator-served housing, and accommodations near health care facilities and their families.
- Many millennials, including recent college grads, earn less income than they expected and are saddled with tuition debt. It should come as no surprise that they find themselves in need of affordable housing. Data show their ideal affordable housing includes proximity to public transportation, for convenient access to employers and grocery stores, as well as internet connectivity.

Because these relatively new cohorts and existing affordable-housing residents have a wide range of needs, how can the industry create housing that will meet them all in the coming years?

We are optimistic that much like the scrappy heroes of "Fifth Avenue" it can be done by a disparate group with common goals. In this case, a cross-industry collaborative is needed, involving partners from health care, institutional investment, public policy, urban design, government agencies and social service organizations to create a solution. Congress also will have to address affordable housing funding needs since the private sector cannot do it alone.

We are seeing examples of health care companies entering the housing space. Kaiser Permanente recently pledged \$200 million toward affordable housing to aid those for whom medical insurance is out of reach. And tech giants Facebook and Google are planning workforce housing for many of their younger employees. Our own organization works to shape onsite resident services tailored to the needs of families and seniors.

With additional government resources, our industry will meet the challenges by leveraging our ability to acquire and preserve older properties, and utilize a wide range of funding sources to create new homes for renters across the nation.

But if you want to know how they did it in the movie, I suggest you check it out on Netflix.

Richard F. Burns is president, CEO and trustee of the nonprofit affordable housing organization, The NHP Foundation, with offices in New York, Washington and Chicago. He has more than 40 years of experience as a real estate investment professional.



Ms. DELBENE. Dr. Zandi, could you talk about the importance of affordable housing and the budget for a middle-class family?

Mr. ZANDI. It is the largest expense for most families, middle-class families. And, as you pointed out, 30 percent of income, that is of the threshold beyond which it is very difficult to manage, for any household. And many, many households are being forced into that position, because we have an affordable housing crisis.

By my estimate, we have a shortfall in new housing construction of about two million units. For context, in 2018 we put up 1.3 million homes. This shortage is becoming even more severe as we go along here. The gap between supply and demand is very large.

So I do think we need to focus on how to improve the availability of affordable rental and affordable home ownership, increase the supply. And actually, there is a number of very good proposals to expand out—funding through the Housing Trust Fund would be a good example. New market tax credits are another good example. But I think, if we don't focus on this, then middle-class families are going to fall increasingly behind. And it is a problem for the job market?

One of the reasons why we have labor shortages in many communities, particularly in cities, is because people can't afford to live anywhere close to where the jobs are. Like you know that if you live in California, here on the East Coast you are pushed way out, and there is no way to pay for the commute costs.

So if we want to address this shortage of workers, which is, I agree, severe and we need to address it, immigration is one way to do it, but this affordable housing crisis, we have to address it. Otherwise, we are not going to be able to create those jobs.

Ms. DELBENE. And if you live further out you have got greater transportation costs, and that impacts child care—

Mr. ZANDI. Child care costs—

Ms. DELBENE [continuing]. Also be there for your family.

Mr. ZANDI. The whole shooting match, right.

Ms. DELBENE. Absolutely. Since the burst of the housing bubble in 2007, 2008, how has that affected the rate of home ownership? And has the decline in home ownership between equitable—or been equitable through different income levels, Dr. Zandi?

Mr. ZANDI. Home ownership declined, it peaked in 2004 at 69 percent of households. We are now down to 64.5 percent. We are off bottom. You know, the economy has improved, unemployment has declined, so we have seen an improvement. But, you know, we are back to where we were 20, 25 years ago, in terms of home ownership.

And obviously, the lower your income level—I mean high-income households home ownership is very, very high, and it is a choice not to be a home owner. You move down into the middle income groups and lower income groups, then home ownership falls significantly. And it is well below 50 percent.

One of the other issues is, because of the affordable housing crisis and we haven't put in enough homes, house prices and rents have risen very rapidly for affordable rental, affordable home ownership. People can't afford it. And, given the tight mortgage credit standards, they have not been able to get a mortgage, either. So

all these things are conflating and keeping the home ownership rate down.

If we don't change something the home ownership rate is not going to rise. It is going to stay exactly where it is.

Ms. DELBENE. Thank you.

And I yield back, Mr. Chairman.

Chairman THOMPSON. Ms. Moore, you are recognized for five minutes to inquire.

Ms. MOORE. Thank you so much, Mr. Chairman. And let me join the entire group in welcoming our panelists and thanking them for their time here today.

I—my good friend and my good colleague, Mr. LaHood, waxed on about the health of the economy. He said it is growing faster than ever. GDP is great, unemployment is at an all-time low, African-Americans are doing well, Hispanics are doing well. Wages are rising at the fastest pace in 10 years, blah, blah, blah, 90 percent of all tax bearers over all income categories received a tax cut under the Tax Cuts and Jobs Act, and so on and so forth.

So there seems to be kind of a disconnect between the—these—this recitation of things and what testimony we have heard here today. In particular, Dr. Zandi, you talked about the—that there has been an expansion of our economy that—but—fill in the blank.

Mr. ZANDI. Well, I would say a couple things. One, that the current state of the economy is very much a function of deficit finance tax cuts that will provide a near term boost to the economy, but will fade away. It is already fading away. If we come back to this room a year from now, the data we are going to get is very different than it is currently. Growth certainly will not be three percent, it is going to be back exactly to where it was prior to all of this. And the evidence to that is already very strong.

Second, the benefits of the strong growth are accruing to folks in the upper part of the income distribution. Here is an amazing statistic. This is an amazing statistic to me. If I look at the 20 percent of the population that is in the middle of the income distribution, you know, 40 to 60 percentile, if you go back 20 years ago, they accounted for 15 percent of all the consumer spending. So 20 percent of the population, today they account for less than 10 percent of consumer spending.

If you consider those in the top quintile of the distribution, the top 20 percent, you go back 20 years ago they accounted for one-third of all spending. Today they account for nearly half of all consumer spending. And that is the bottom line, right? Consumer Spending.

And so the middle class is doing better than the last several years, because the economy has finally got back to full employment, a process that started well before this Administration, but it has to be put into this broader historical context. And obviously, in this context, the middle class has really struggled and continues to struggle.

Ms. MOORE. Well, and Dr. Zandi, thank you for that. And I just wanted to ask Dr. Boushey to lean into this, as well, because while wages have not necessarily grown, you said the GDP was less representative of how people were doing than other factors, that while there might have been a four percent—there might be four percent

growth. When you start subtracting it for the inflationary cost of child care, health care, housing costs, other things, that is a negative number. You even said that the average child care was \$1,230 a month.

So I guess I would like you to respond to the—you know, the notional assumption that people in the middle class are doing better.

Ms. BOUSHEY. Yes. Let me make two points. One, you know, it is the case that when the economy grows not everyone is experiencing it in the same way that it—that they were in decades past.

In the 1960s and 1970s, when the economy grew, the vast majority of people saw growth at about the average. And today, only those in the top 90 percent see growth that is at or above the average, you know, over the—looking over the past 20 to 30 years. So that is a real significant difference in whether or not a rising tide lifts all boats. I don't think we can say that any more. The data shows that when the economy grows, it is disproportionately at the top.

And I want to add to something that Dr. Zandi said about this statistic about what the middle class is consuming. There is some new research out that shows that—that actually gets to the slide that was up about consumer prices. Because so much of this consumption is happening at the top end of the income distribution, you are actually seeing that push producers to be supplying goods and services to the top, which is actually lowering inflation for rich people on the things that they buy. And at the other end you are seeing less investment and less productivity or changes in products at the middle and bottom, so that those of us who are not at the top are seeing actually higher inflation, because there is just less competition.

So there is the—some real serious economic implications of this divergence in spending that are affecting middle-class families in ways that we haven't talked about enough.

Chairman THOMPSON. Thank you very much—

Ms. MOORE. My time has expired. I sure had a lot of questions, though.

Chairman THOMPSON. Mr. Ferguson, you are recognized.

Mr. FERGUSON. Thank you, Mr. Chairman, and to all the witnesses, thank you for your time.

Ms. Tirado, thank you for your service to this country, your profession, and your community. We greatly appreciate that.

I know each of you come today with unique backgrounds and experiences and perspectives, just like we all do up here. And as I sit here and listen to a lot of the testimony today, I sit here in a little bit of bewilderment.

And Dr. Zandi, you know, one of the things is you were talking about—and one of the things I worry that you are missing as part of this conversation is the truth about what is happening on the ground in a district like mine.

Business after business, whether it is a small business, whether it is a large business, whether it is multi-national, every one of them tells me that the direct—the growth in their business model and the investment in their employees and the investment in their equipment, the investment in new technologies, is all a direct result of tax reform.

So I think to make statements that it doesn't impact the economy—and you said it had a no-net increase on the—no net effect on the economy—I think you are missing part of what is going on in my district.

The other thing that I would like to point out is that all of these CEOs and leaders of these companies are telling me that the investments that they have made in their people and the technology and the equipment are just now beginning to come to fruition. The systems are being brought up, the training is beginning to pay off. And they see increases in productivity down the road that they otherwise would not have seen.

Another thing I—when we talk about doing all of this, I get pretty excited about it, excited about talking about it, for this reason. I come from a rural district in Georgia that lost about 35,000 jobs in our area over—in the late—in the 1990s, early 2000s, with the loss of the textile industry there—even going back a little bit further. And one of the most important things to remember in all of this is that our economy, our communities, our friends and neighbors all need access to a job.

And so I went through living in the community and being a mayor of this community for a number of years, where there were more people moving on to government programs than moving into the job market, because of the lack of jobs. It wasn't until we revitalized our local economy, and then had the boost from the tax reform, that we saw more and more people move from poverty into the middle class, and now moving up through the middle class, and that is great for everybody in my community. And that is something that you simply cannot, with statistics and numbers, write off. It is real in my district.

Here is another thing. Somebody—reclaiming my time, but you mentioned something—we all mentioned something about—and I have heard it many times up here about workers. Okay? Could not be more excited about the bipartisan work that we did last year to re-authorize the Perkins CTE bill, really put good money into it, funded it well, bipartisan bill that came out of—talking about a guest worker program and real immigration reform. Our businesses tell us they need that. The limiting factor right now is they got so many people working that there are not enough new employees coming along. It is an issue that we have got to solve.

But here is another real issue. And you talked about investment in infrastructure. I hope that we will make significant investments in infrastructure, particularly broadband. And I hope that we make reforms in our education system to begin to train more and more people to actually make a living on the Internet.

And I hope that that gets distributed into rural America, because we have these booming urban centers, as people have indicated, and we think sometimes the only way that we can get someone to a job is to put them—or for them to have to buy a car, get on a bus, and get there. What if we connect them to those jobs remotely? Don't you think that would be a fantastic improvement to deal with the poverty and the lack of hope that exists in rural America?

I think we have a remarkable opportunity to continue this wonderful economy. I would have a very hard time going back to my district and saying we believe that we need to take back and take

a step backwards in tax reform, because I think that it has a negative impact on my district. Every single CEO, real estate agent, small business, everyone is saying this is having a positive impact on their bottom line.

So I don't mean to stand up here and preach, but please connect to the districts, and not just the papers out there. Thank you.

And, Mr. Chairman, I yield back.

Chairman THOMPSON. I thank the gentleman and I recognize Mr. Boyle for five minutes.

Mr. BOYLE. Thank you, Mr. Chairman. In many ways I think that Chairman Thompson's opening remarks set the stage and almost verbatim—when I speak about this topic I like to say that it is the best of times, it is the worst of times, that in terms of the traditional indicators, economic growth, stock market, how much it has grown from what President Obama inherited in January 2009 on approximately 100 months, straight months of job growth, by those measures people should be enormously happy.

And yet the reality for most Americans is they have not had real wage growth in a generation. The indicator that you used, Dr. Zandi, of median household income, is completely flat. Moreover, if you compare where we are today versus 30 years ago, about 30 years ago, when you compared the top 1 percent and everyone else, there were about equal shares of wealth. Today it is a two-to-one gap, and the two-to-one gap is the top one percent versus everywhere else.

So I don't begrudge the top one percent anything. I am very proud, as a Pennsylvanian, particularly, about your success and the success of others. What I begrudge is the fact that Ms. Tirado and so many of my district in Philadelphia have not benefitted from those gains, and that we just passed a massive tax cut last Congress in which 83 percent of the benefit went to the top 1 percent.

George W. Bush's tax cuts in 2001 and 2003, while I wasn't in Congress at the time, was in graduate school, but—which will get me to my next topic of student loans—but back in those tax cuts, 27 percent of the benefit went to the top 1 percent. Tax cuts that were just passed in the Republican Congress, 83 percent went to the wealthiest 1 percent.

So given that, it really is the best of times and the worst of times.

Now, let me shift, because there is so many different aspects of this. I do want to talk specifically about student loans. Proud to be the first member of my family to go to college. I consider myself very fortunate. Graduated almost 20 years ago from undergraduate, and still own about \$40,000 of student loan debt to pay off. And again, I consider myself very lucky. I am very fortunate.

However, what concerns me, knowing that we are at likely the tail end of this economic growth cycle, if you could speak, Dr. Zandi or anyone else, about the number of defaults that we are seeing in a growing economy, and recognizing we have almost \$1.5 trillion of student debt out there.

And then, if we could, address what we expect will happen when the next recession inevitably occurs.

Ms. EDDINGER. So the student debt issue is directly tied to the tuition and fees that the students are asked to pay. When you went to school 20 years ago, we probably have quadrupled the number of dollars that is needed for students to get through school.

At the same time, the defunding of public higher education has played a role. So the—10 years ago students were paying 30 percent, and my state appropriations paying 70. Ten years hence, that formula has flipped.

Mr. BOYLE. Yes.

Ms. EDDINGER. So in some ways, the public universities are forced, because of our revenue streams, to raise student fees. And the students have nowhere else to go, because Pell has—even though had a small number of increases, has been flat.

Mr. BOYLE. Let me just reclaim my time, just because I only have about 50 seconds. I want to make two points on this.

One, as Ms. Tirado eloquently showed, this is a problem for individuals who are repaying student loans and trying to make ends meet. I want to make the larger point, though, that even if you are not in college today, even if you are not in repayment, this is a threat to our economy.

And perhaps, Dr. Zandi, if you could speak to that, with an overhang of \$1.5 trillion, what we expect to happen when the next recession inevitably occurs.

Mr. ZANDI. Yes, that is a very serious issue. \$1.5 trillion is—just to put it in a context, that is more than—that is twice as much as credit card debt outstanding. That is more than auto debt outstanding, which is \$1.2 trillion. This is the single largest debt after mortgage debt, the single largest liability of households. And a lot of it, obviously, is owed by Millennials. And Millennials are clearly struggling to manage through. They have negative saving rates. They are unable to accumulate wealth.

The median age of a first-time home buyer is rising because they can't afford to get in, they can't start families. So this is very corrosive on the economy.

And you are right, in the next economic downturn the defaults on this are going to be very significant. And because of the \$1.5 trillion, approximately \$1.3 trillion is backed by the Federal Government, this is going to be a very serious taxpayer problem. We are going to have very large losses that are going to be covered by us, as taxpayers.

So it is a pernicious issue for this Millennial generation that is making their way up.

Here is one other really important point that goes to entrepreneurship—

Chairman THOMPSON. The gentleman's time has expired, so if you—

Mr. ZANDI. It is a great point.

Chairman THOMPSON. If you have more information, if you could get it to us, I will make sure everybody gets it. Thank you very much.

Mr. BOYLE. Thank you.

Chairman THOMPSON. Mr. Arrington.

Mr. ARRINGTON. Thank you, Mr. Chairman and panelists. The notion that the Tax Cuts and Jobs Act and the benefits accrued to

the wealthy is just patently false. Over 56 percent of the benefits from the Tax Cuts and Jobs Act go to families and workers making below \$200,000. The majority of the share of taxes paid by millionaires increased from 19.3 percent to 19.8 percent.

Here is what is just startling to me, as an American, that when America is doing well and when something has worked—and clearly, lowering taxes and lowering the regulatory burden has worked to stimulate this economy the way it—and the sustainable stimulation of this economy—that is, we have provided incentives for folks like Mr. Berkebile to actually invest and expand and support his workers with bonuses and higher wages and offer more job opportunities.

And to the gentelady's point who is not here, but she says these are just stats, and data, and yada, yada, yada. These are real people. This is real money in the pockets of hard-working Americans. These are real jobs, seven million surplus jobs. More people are going to work every day.

I was at the State of the Union and the President said five million people are not dependent on food stamps because they have got a job, and nobody clapped on one side of the aisle. That, to me, is disheartening, as an American. Things are better and things are looking up.

And while I respect you all, and I appreciate your information, I respect my colleagues on—along the spectrum—I put my faith and trust in the American people. And when 69 percent of them say that they believe that next year at this time they will be better off, I believe them. That is real confidence.

And you know, this whole bit of the sugar high, Mr. Berkebile, are you surprised that you have done what you have contributed to your employees, whether it is the 401(k) or helped them with higher wages or bonuses—are you concerned that you have been doing that under the context of a sugar high, and that you may come down from that sugar high, realizing that things aren't as rosy as you anticipated?

Mr. BERKEBILE. No. What I fear is that the—these incentives that we have been given by the Federal Government are going to end, that they are going to say that my—that the money that I earn at my company is better spent in Washington than—that they know how to spend it better than I know how to spend it on my own employees and how to grow my own company.

Mr. ARRINGTON. How big of a burden is the cost of health care in your small business, just a scale of 1 to 10, 10 being the most costly?

Mr. BERKEBILE. Ten.

Mr. ARRINGTON. And burdensome.

Mr. BERKEBILE. Ten.

Mr. ARRINGTON. Ten?

Mr. BERKEBILE. Yes.

Mr. ARRINGTON. It is a 10.

And Dr. Collins, you talked about the people—the number of uninsured folks. Do you realize that after the implementation of the—quote—Affordable Care Act that premiums doubled from 28,000 [sic] to 6,000 across the board, across the nation? Are you aware

that premiums and deductibles went up significantly after the—quote—Affordable Care Act?

Ms. COLLINS. Well, actually, right after the Affordable Care Act there was a flattening in growth in premiums among—across the board.

Mr. ARRINGTON. It is indisputable, and most of my colleagues even on the other side of the aisle would say costs have gone up significantly since the advent of the—quote—Affordable Care Act.

And in fact, are you aware also that there were millions of people, 10-plus million people, who paid the fine, paid a fine because they didn't want, need, or could afford the Obamacare and the mandate from our government that you should—that you must buy from that exchange, that government-created health care program? Are you aware that millions paid a fine, rather than to purchase health care on the exchange?

Ms. COLLINS. Actually, about 20 million people got health insurance.

Mr. ARRINGTON. Are you aware that millions paid a fine? Are you aware of that? Is that—

Ms. COLLINS. Some people did—

Mr. ARRINGTON. Millions of people—

Ms. COLLINS [continuing]. Pay the fine.

Mr. ARRINGTON [continuing]. Paid a fine.

Ms. COLLINS. Right, but—

Mr. ARRINGTON. So we didn't solve health care with big-government solutions. We are not going to solve our problems with green new deals, \$50 trillion over 10—are you aware, Dr. Zandi, as you were concerned about the debt and deficit, are you aware that under Obama that the debt doubled from about 10 trillion to 20 trillion? And is that something you were concerned about at that time?

Mr. ZANDI. I was, yes.

Mr. ARRINGTON. Are you as concerned about that as you are—

Mr. ZANDI. I am more concerned about it now, though, because we are at a full employment economy that is growing strongly and we still have a budget deficit that is rising very rapidly. It is in this economy where the budget deficit should be falling, not rising.

Mr. ARRINGTON. I—

Mr. ZANDI. That is what really concerns me.

Mr. ARRINGTON. I appreciate the input.

Chairman THOMPSON. The gentleman's time has expired, thank you.

Mr. Suozzi, you are recognized for five minutes.

Mr. SUOZZI. Thank you, Mr. Chairman, and thank you for having this hearing and returning us to regular order. We appreciate it very much.

If there was ever a time in American history when corporations, employers, successful individuals could be sharing their good fortune voluntarily with their employees, as Mr. Berkebile has suggested that he has, it would be now. This would be the time to do it. The stock market is going up dramatically. It is not just the past couple years. The stock market is 12 times higher today than it was in the 1880s. The GDP is six times higher in America than it

was in the 1980s. So the stock market is going up, GDP is going up.

But I think I have heard from the testimony—is it correct, Dr. Zandi, to say that the middle class is shrinking in America?

Mr. ZANDI. Yes, by many measures, in terms of the share of the wealth they hold, in terms of the share of the income they hold, and, most telling, the share of the spending that actually occurs.

Mr. SUOZZI. So, despite this enormous growth in our stock market, enormous growth in the GDP of America over the past 30 years, 40 years, the middle class is shrinking. There is a serious problem that exists in our country. It is not a Democratic or Republican or Obama or Trump issue. The middle class is shrinking in America.

I grew up in a family, my father was born in Italy. I am the first-generation American. The American Dream is a big thing in our family, the American Dream. The American Dream for us is if you are willing to work hard, you make enough money, and with that money you could have a place to live, you can educate your children, you can have health insurance, and you can retire one day without being scared.

And as we heard from Ms. Tirado, she wants the American Dream. She is doing her part. She went to school, she was in the military, she works hard every day. There are so many hard-working people in this country that are trying their very best and giving it their full effort that are not making it. It is just not happening in our country.

The minimum wage in Pennsylvania is the federal minimum wage, it is \$7.35 an hour, \$.25 an hour. If you work 40 hours a week and you work 50 weeks a year you make \$14,500 a year. You can't make it. There are so many people trying.

So we saw shareholders are doing well. We saw a chart earlier. Consumers, arguably, are doing well. Now I want to come to the health insurance or housing costs. But when it comes to buying a car or maybe some clothing, the prices have been relatively modest.

So shareholders, consumers, but what about workers? The workers are left out of the whole equation. They are not sharing in the good fortune of what is happening in the economy. They are not making it in America.

So I am going to—I am just going to—you know, the measurement of how well you are doing in a country is not just how many people get off of food stamps. It is how many people are able to have a house, how many people are able to educate their children, how many people can retire without being scared. And that is not happening.

So let me just ask this question. I want to focus specifically on the SALT deduction, because it is a very big issue in my district.

The country is different from place to place. There is 105 million full-time jobs in America. Of the 105 million full-time jobs, 59 million people make less than \$50,000 a year; 86 million make less than \$75,000 a year. It is different in my friend Congressman Arrington's district than it is in my district. It is different from place to place in the country.

Of the 50 highest SALT deduction districts in America, 49 of them are in California, New York, and New Jersey. In fact, all of

my colleagues on the Republican side of this subcommittee had SALT deductions less than \$10,000, whereas 6 out of—7 out of the 9 on this side of the aisle had SALT deductions well above \$10,000. So it is different from place to place.

Let me ask you, Mr. Brown. Is the capping of the SALT deduction encouraging home ownership in America?

Mr. BROWN. No, it is not. If anything, it has taken some of the incentive away. And, you know, capping of the SALT deduction has really hurt California home buyers and people looking to get into the market.

If you look at home prices in the area where I am, in the San Francisco Bay Area, and the other major employment centers, you see that the price of housing is extremely high. I think the median price of a house in California is about \$588,000. The median price in the area or county where I am is about \$950,000. The median price in San Francisco is around \$1.6 million, as of December 2018.

People who are buying these houses are not rich. These people that are buying these houses are struggling, in a very hot economy. California has the fifth-largest economy in the world.

Mr. SUOZZI. So it is just very different from place to place—

Mr. BROWN. Very different.

Mr. SUOZZI [continuing]. Throughout our country.

Mr. BROWN. There is huge geographical differences.

Mr. SUOZZI. We have to recognize the middle class is shrinking.

Chairman THOMPSON. The gentleman's time has expired.

Because Mr. Suozzi brought up the fact that—or made the statement that people buying cars are in good shape, I would like to ask unanimous consent to submit for the record this article that reads a record seven million Americans are three months behind on their car payment, and indicates that it is a red flag for our economy.

[The information follows:]

The Washington Post logo
Democracy Dies in Darkness

Economy

A record 7 million Americans are 3 months behind on their car payments, a red flag for the economy



Evening commuters in Alexandria, VA. (Matt McClain/The Washington Post)

By **Heather Long**

February 12

A record 7 million Americans are 90 days or more behind on their auto loan payments, the Federal Reserve Bank of New York reported Tuesday, even more than during the wake of the financial crisis.

Economists warn that this is a red flag. Despite the strong economy and low unemployment rate, many Americans are struggling to pay their bills.

“The substantial and growing number of distressed borrowers suggests that not all Americans have benefited from the strong labor market,” economists at the New York Fed wrote in a blog post.

A car loan is typically the first payment people make because a vehicle is critical to getting to work, and someone can live in a car if all else fails. When car loan delinquencies rise, it is usually a sign of significant duress among low-income and working-class Americans.

“Your car loan is your No. 1 priority in terms of payment,” said Michael Taiano, a senior director at Fitch Ratings. “If you don’t have a car, you can’t get back and forth to work in a lot of areas of the country. A car is usually a higher-priority payment than a home mortgage or rent.”

People who are three months or more behind on their car payments often lose their vehicle, making it even more difficult to get to work, the doctor’s office or other critical places.

The New York Fed said that there were over a million more “troubled borrowers” at the end of 2018 than there were in 2010, when unemployment hit 10 percent and the auto loan delinquency rate peaked. Today, unemployment is 4 percent and job openings are at an all-time high, yet a significant number of people cannot pay their car loan.

Most of the people who are behind on their bills have low credit scores and are under age 30, suggesting young people are having a difficult time paying for their cars and their student loans at the same time.

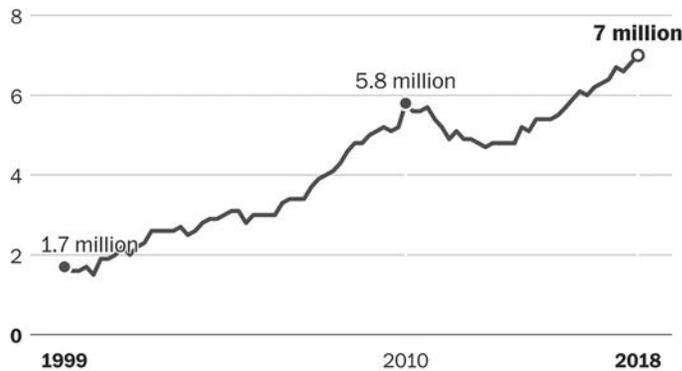
Auto loans surged in the past several years as car sales skyrocketed, hitting a record high in 2016 of 17.5 million vehicles sold in the United States. Overall, many borrowers have strong credit scores and repay their loans on time, but defaults have been high among “subprime” borrowers with credit scores under 620 on an 800-point scale.

The share of auto loan borrowers who were three months behind on their payments peaked at 5.3 percent in late 2010. The share is slightly lower now – 4.5 percent – because the total number of borrowers has risen so much in the past several years. Still, economists are concerned because the number of people impacted is far greater now and the rate has been climbing steadily since 2016 even as more people found employment.

Experts warn Americans to be careful where they get their auto loan. Traditional banks and credit unions have much smaller default rates than “auto finance” companies such as the “buy here, pay here” places on some car lots.

Americans who are 90 days+ past due on their auto loan

(Number in millions)



Source: NY Federal Reserve

HEATHER LONG/THE WASHINGTON POST

Fewer than 1 percent of auto loans issued by credit unions are 90 days or more late, compared with 6.5 percent of loans issued by auto finance companies.

"The No. 1 piece of advice I have is to not get your financing from a car dealership," said Christopher Peterson, a law professor at the University of Utah and former special adviser to the Consumer Financial Protection Bureau. "Shop separately for the vehicle and the financing. Go to a credit union or community bank to get a low-cost loan."

Rates can vary substantially depending on a borrower's credit score and where they obtain a loan. A "prime" borrower with a credit score in the range of 661 to 780 can get an auto loan rate of about 4.5 to 6 percent, according to NerdWallet. In contrast, a subprime borrower is typically looking at rates between 14.5 and 20 percent.

After the financial crisis, the government placed heavy restrictions on mortgages to make it harder to take out a home loan unless someone could clearly afford to make the monthly payments. But experts warn that there are far fewer restrictions on auto loans, meaning a consumer has to be savvy about what they are doing when they take out a loan.

"Predatory lending practices and a lack of real transportation options leave many households trapped in debt with few ways out," said Faye Park, president of the U.S. Public Interest Research Group, which advocates for consumer protections.

Repossessing a car is also a quick process thanks to technology and the laws in many states. Some cars are installed with devices that prevent the car from turning on if someone misses a payment and it has become easier to geo-locate a car to tow it away.

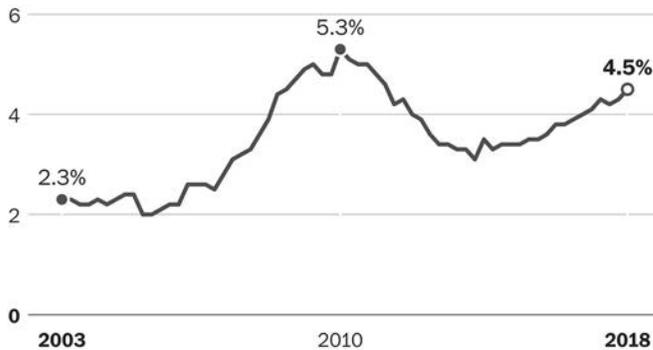
“It’s a lot easier to repossess a vehicle than to foreclose on a home,” Taiano said.

He noted that non-prime and subprime auto loans increased from 28 percent of the market in 2009 to 39 percent in 2015, a reminder of how aggressively lenders went after borrowers who were on the margin of being able to pay. More lenders are giving people six or seven years to repay now vs. four or five years in the past, according to Experian, another tactic to try to make loans look affordable that might not otherwise be.

While defaults on auto loans are a red flag, they are unlikely to take down the entire financial system as mortgages did in the lead-up to the 2008-2009 financial crisis. The total auto loan market is just over \$1 trillion, far smaller than the \$9 trillion home mortgage market.

The amount of money people borrow to buy a car is also much smaller — typically under \$35,000 — vs. a home loan, where people often borrow several hundred thousand dollars.

Share of the total auto loan balance that is 90+ days delinquent



Source: NY Federal Reserve

HEATHER LONG/THE WASHINGTON POST

This article was updated to clarify that the highest credit score is 850.

Heather Long is an economics correspondent. Before joining The Washington Post, she was a senior economics reporter at CNN and a columnist and deputy editor at the Patriot-News in Harrisburg, Pa. She also worked at an investment firm in London.



Chairman THOMPSON. And I recognize Mr. Beyer.

Mr. BEYER. Mr. Chairman, thank you very much, and thank all of you for being with us.

Mr. Chairman, I represent the seventh wealthiest district in the country. When I was visiting my bank two weeks ago I talked to the—the bank manager brought me into his office, and I said, “How are you doing?”

And he said, “I am exhausted.”

I said, “Why?”

He said, “Because I have two children at home and a wife. And to support them I am the bank manager 40 hours a week and then I drive Uber at night and on the weekends, and I am working at 7–11 about 16 hours a week.” So he was doing three jobs just to get by in Northern Virginia.

So Dr. Boushey, I was thrilled, with many Americans, to see the 304,000 jobs last month, the 4 percent. But I also read that the Bureau of Labor Statistics said that of the 10 jobs with the greatest job growth, 5 of them have a net income less than \$30,000. And underneath the job growth is this hollowing out of the middle class, with people doing really well at the top, and an awful lot of people at the bottom just not doing well at all.

Is this your understanding of how this job market is working, also?

Ms. BOUSHEY. Certainly. And it is my understanding of how the economy has been going, unfortunately, for quite some time. But that—the—while the Tax Cuts and Jobs Act has created this stimulus in the short term, it has not led to the broad-based gains that we would like to see up and down the wage distribution.

And in fact, some of the evidence shows that some of the gains that we have seen at the bottom are actually, in fact, due to new policies at state and local levels to raise the minimum wage that went into effect earlier this year and last year that have increased wages at the bottom. But we haven’t seen the kind of bump-up in wage gains that we should have, given the level of stimulus that went out into the economy.

Mr. BEYER. Thank you very much.

Mr. Berkebile, I was very pleased to see what you had done, you know, raised wages, expand bonuses, start a 401(k), create 29 new jobs. I have been part of a family business for 45 years, too. But you are not seeing that in the economy. There have been very, very few businesses like Guy Petroleum, or—that have done that. And you see this in the statistics. People are getting raises of 1.5 percent, 0 percent, 2 percent.

Where did you get this incredibly generous work ethic, culture ethic, that you bring your employees down to do this? And how come other businesses aren’t doing it?

Mr. BERKEBILE. You know, I think it is more of a country ethic that we have. You know, a small-town ethic. But being a manufacturer, I see what is happening in the economy. And then these people over here try to measure what I did after I have done it.

So whenever I buy paper, I can tell when I am buying paper from international paper and it is going up in price and our lead times get longer, I can tell if the economy is expanding or whether it is

contracting. When I buy commodity chemicals from Dow Chemical—

Mr. BEYER. But do you recognize there is a difference between the GDP and how it affects individual families?

Mr. BERKEBILE. But—

Mr. BEYER. Individual workers.

Mr. BERKEBILE. Well, but I can tell what is happening across the country, because I do business across the country and the entire world.

Mr. BEYER. Yes, that still doesn't take away that connection, but let's move on. I am—I was hoping to understand where your values came from, because I admire them. I just wish there were more of them.

Mr. BERKEBILE. Well, my grandparents were Mennonite, so maybe that is where they came from.

Mr. BEYER. Okay, that is great.

Director Boushey, Rosa DeLauro has this amazing bill called the Schedules That Work Act, which talks about trying to direct predictable work schedules, because there are so many people, especially the people that Ms. Tirado is teaching right now, that are going to be limited to 20 hours here or 10 hours there, they don't find out until the night before what time they are working. How do you see this affecting overall health of the middle class and the lower middle class?

Ms. BOUSHEY. I think that the Schedules That Work Act is one really very important pillar of what we need to do to improve employment for people in middle-class jobs. So we have a Fair Labor Standards Act that doesn't ensure that people have schedules that are posted well enough in advance so that they can both get to school and deal with their child care, or deal with their other care needs. And this bill would allow employees to have the right to know what their schedule is, so they can have a predictable schedule, which is really important.

So many workers, especially retail workers, low-wage workers, don't know their schedule more than a couple days in advance. And when you think about the broader economic implications of that, you can think about how that might affect an individual, but then how that might affect the child care facility that is trying to make sure that they have enough kids each week so that they can balance their books, but if the people that are bringing their children there don't know their schedules, it makes it all very difficult for everyone to have sort of a sound economics, both for the child care facility, as well as for that family.

So this kind of scheduling issue is something that is not currently in the Fair Labor Standards Act and that is part of what we need to think about for a 21st century economy.

Chairman THOMPSON. Thank you very much.

Mr. BEYER. Mr. Chair, I yield—

Chairman THOMPSON. Are there other Members of the Committee that wish to inquire?

Mr. Pascrell, do you wish to inquire?

Mr. PASCRELL. Thank you, Mr. Chairman.

Chairman THOMPSON. Hold on one second.

[Pause.]

Chairman THOMPSON. Go ahead, you may proceed.

Mr. PASCARELL. As so many of our great witnesses pointed out in the narratives which they have presented to us, which I have read, the American Dream is slipping away. Today it is less likely than at any point in the last 70 years that a child will be better off than their parents were. That is startling to me, anyway.

Tax policy has a lot to do with it. The Trump tax cuts were a missed opportunity to reform our tax policy. We did not have tax reform. Senator Bradley and Congressman Kemp, Democrat and Republican, knew what they were doing in 1983, 1984, and 1985. That was real reform. We have a more simple way of doing the taxes now? You got to be kidding me. That is not the calls that I am getting.

So I think it is a missed opportunity, plus the fact—and I think we cannot forget this—the new tax law spent \$2.3 trillion. The new law did nothing to provide opportunities for middle-class families and those who aspire to it.

It was two Democrats eight years ago that projected and offered the legislation to cut the corporate tax from—down to 25 percent: Charlie Rangel and myself. We knew it had to happen, also. But instead, the tax law of December of 2017 entrenched wealth for the already wealthy. It cuts taxes further on stock holders and business owners, and concentrated wealth further in the hands—all data show that—all by robbing the U.S. Treasury of needed resources to invest in tools for working families to keep a roof over their heads, to put food on the table, and get an education for the children.

I agree, too many colleges and vocational and technical schools are two new engines for the 21st century. I think those engines are critical. What are we doing about it, besides the STEM programs, which are excellent?

Yet we had a choice back in December of 2017. We could have taken this opportunity to create a fair system for everyone to rise and fall by their own merits. Instead they chose to stack the deck.

And let me—you know, Dr. Zandi, I have been wanting to ask a question of you for a few years. We wrote some papers and talked about what is the difference between taxing assets and taxing income. Because, as you know, that has been turned upside down in the past 35, 40 years. We used to tax assets that people had at a much higher level, and we taxed income lower. Now it is reversed. You know what I am talking about?

Mr. ZANDI. Sure.

Mr. PASCARELL. And would you respond to that issue?

Mr. ZANDI. I think that is the case. The changes in the Tax Code, particularly the—one year ago, a year ago, significantly reduced taxation of individuals' assets, you know, the capital gains, state tax. And that has been a trend that has been ongoing.

Mr. PASCARELL. So it makes it easier to protect your assets than you do to your income. And who does that hurt most of all? The middle class. That is what we are here to talk about today. Is that an overreach on my part?

Mr. ZANDI. No, I don't—that is just patently true. I mean who has the assets, right? It is not the middle class. I mean the average—the median net worth of someone in the middle of the dis-

tribution is 100K. The median net worth of somebody in the top 20 percent is 500K. So it is very clear that is the case.

Mr. PASCARELL. So we have, I think, entrenched wealth. Here is a question that I have, Mr. Brown, as the—from the National Association of Realtors.

We talked about the state and local tax deduction. The oldest deduction on the books, Mr. Brown, goes back to the Civil War, before we had the code. And there was a very specific reason why that was a very big issue during the Civil War, to help the states pay their bills so that the Federal Government couldn't take anything for whoever they were protecting at that particular time, and whatever side you were on.

I introduced a bill this week to restore the state and local tax deduction, while restoring the top individual income tax rate that was cut from 39 percent to 37.5 percent. Let's face it, the Republican Party—and I have many friends on the other side, most of my bills are bipartisan—but what they finally decided on was the tax cuts on the top by robbing states, middle class of their SALT deduction.

Chairman THOMPSON. The gentleman's time has expired.

Mr. PASCARELL. Can I just finish my question?

Chairman THOMPSON. Go ahead.

Mr. PASCARELL. Thank you.

Chairman THOMPSON. Make it quick, please.

Mr. PASCARELL. Mr. Brown, how do the SALT cap and tax law impact the housing market in California and elsewhere?

Chairman THOMPSON. Mr. Brown, we will take that, your answer, in writing and I will share it with the rest of the committee members.

Mr. PASCARELL. Thank you, Mr. Chairman.

Chairman THOMPSON. I recognize the distinguished ranking member for his close.

Mr. SMITH. Thank you. Thank you, Mr. Chairman. And again, thank you to our witnesses. I think much of this discussion is valuable.

I think it is very interesting to note—and if we could have the Schweikert chart back up on the screen here, and I will get to that in a moment.

[Chart.]

Mr. SMITH. But we have heard from Mr.—Dr. Zandi that our country needed a corporate tax cut, and that we had numbers prior to the current administration that I hear Dr. Zandi say positive things about. And we have seen the numbers further improve over the last two years. And we can argue about who gets the credit or who gets the blame, whatever. We can save that for another time.

But here we are in a situation where we have a very capable witness here, telling us that she is not experiencing some of the middle class benefits, perhaps. But when you look at this chart, I think we need to ask ourselves the question which part of the chart do we feel is driving our daily lives more, and our financial situations?

I mean we have Ms. Tirado, who cannot deduct her rent directly. We have Mr. Brown, who was saying that folks purchasing an almost \$600,000 house feel left out. And so when we went through tax reform, in formulating tax reform, I think—especially when you look at the results being so positive—that we weren't going to

just—even though there was agreement that we needed to be more non-partisan—or, I should say, bipartisan agreement, that we needed to be more competitive in the world economy by reducing the corporate tax rate, not for a moment did you think we—I didn't think we would do that and just leave individuals behind. So that is why we doubled the child tax credit, that is why we doubled the standard deduction and have spread the benefits out across the spectrum. So that is why I think it is so important.

And I think that, over time, you will see more folks really celebrate what the doubling of the child tax credit had done, for example, what the various other benefits through tax reform, whether it is Mr. Berkebile bringing his employees here today who have benefitted directly, that is incredible. And I hope that we can get to the point where Ms. Tirado can feel more benefits through a growing economy. And I think she is sacrificing a great deal with her current situation, and I hope that we can pursue policies that can bring her to a better situation.

So Mr. Berkebile, can you elaborate further on—obviously, you need employees. I mean the most common concern across my district—and I think other districts, as well—is the need for more employees. I stated that in my opening comments. Can you elaborate more on the competitive position that you need to find yourself in to keep and attract employees?

Mr. BERKEBILE. Yes, we are seeing—my professional staff that I have is pretty much consistent. What we are seeing in our—with our factory workers, you know, some of our skilled staff, is wages are being driven up across the board. So now they are looking at, you know, “I have opportunities outside of Guy Chemical, you know, where can I go?”

So this is what is driving up the wages, you know, that I was talking about at Guy Chemical, that we need to drive up—we need to pay our production workers more money in order to retain them. And we are also looking now at work environment. What else can we do, you know, with our work environment to retain these workers?

Mr. SMITH. So as you look at resources available and you try to strike that balance of keeping a vibrant business, you know, obviously, your personnel situation is vital. That is what I hear from employers, like I said, all across my district. Do you feel that, you know, moving forward—if these benefits don't continue, what might happen?

Mr. BERKEBILE. We are going to downsize. And the expansion that we have experienced will slow down or reverse.

The—one of the biggest boons to my company that came out of the tax cuts is the depreciation of assets. This has made it so much more affordable for me to go out and buy a piece of equipment when I can expense it in the same year that I purchased it.

Mr. SMITH. Okay, thank you.

Thank you, Mr. Chairman.

Chairman THOMPSON. Thank you, Mr. Smith. And thank you to all the witnesses for your testimony today. And I want everyone to be advised that members will have two weeks to submit written questions to be answered later in writing. Those questions and your answers will be made part of the formal hearing.

I want to thank all the members for being here.

And along the lines of what Mr. Smith was talking about in regard to what we are seeing as a result of passing the last tax bill, I think it is important that, as we are today, we are getting back to regular order. A lot of the problems that we talked about today were unforeseen consequences based on passing policy without the benefit of regular order, without the benefit of hearings, without the benefit of hearing from the experts in the field. And it is my intention to continue on with the regular order, having hearings, hearing from experts, and you are a very important part of that, and I thank you again for being here.

And with that, the hearing is adjourned.

[Whereupon, at 12:22 p.m., the hearing was adjourned.]

[Questions for the Record follow:]

1 *Mr. Pascrell. Mr. Brown, how do the SALT cap and tax
2 law impact the housing market in California and elsewhere?

3 *Chairman Thompson. Mr. Brown, we will take that, your
4 answer, in writing and I will share it with the rest of the
5 committee members.

6 *Mr. Brown. By placing a \$10,000 limit on the state and
7 local tax deduction, the new tax law directly increases the
8 after-tax cost of purchasing and owning a home, at least for
9 those whose SALT payments are high enough to be limited,
10 which is a pretty significant portion of people in many parts
11 of California, as well as other high-housing-cost markets.
12 Under the prior law, those who buy or own a home were able to
13 claim a deduction for all state and local taxes they paid,
14 including property taxes, so long as they itemized their
15 deductions. This deduction, of course, lowered their tax
16 liability and thus decreased the cost of owning the home.

17 Under the new tax law, however, many in higher-cost
18 areas such as much of California are going to find their SALT
19 deduction limited, often drastically so. This increases the
20 cost of buying or owning a home, compared with renting one,
21 because the tax incentive of owning has gone down. In
22 markets like the one where I live, which already has many big
23 barriers to home ownership, this tax change just makes
24 purchasing that first home that much harder for many people.

25 But there is also another indirect negative effect to
26 home ownership that was created by the new tax law, and this
27 one is not limited just to the higher-cost areas or even

28 those areas where typical SALT payments exceed \$10,000 per
29 year. This one has to do with the interaction between the
30 higher standard deduction and the SALT deduction cap.

31 The higher levels of the standard deduction, which was
32 nearly doubled in the 2017 tax act, makes it much more
33 difficult for tax filers to itemize. And itemizing the
34 mortgage interest and property tax deductions is what
35 delivers the traditional tax incentive to buying and owning a
36 home. So, for millions of people throughout the nation, who
37 will no longer have itemized deductions in excess of the
38 standard deduction, the tax incentive effect has now
39 disappeared.

40 The SALT cap greatly contributes to this. To the extent
41 the state and local tax deduction is limited by the \$10,000
42 cap, any SALT payments in excess of the cap will no longer
43 count toward bringing the total of itemized deductions higher
44 than the standard deduction.

45 Thus, the SALT cap works to limit the tax benefits of
46 buying and owning a home in two ways - first by directly
47 reducing the otherwise available deduction if the SALT
48 payments exceed the cap. And second by often reducing the
49 total amount of itemized deductions below the standard
50 deduction.

51 The good news is that raising the cap would work to just
52 the opposite effect and could help restore the tax incentives

53 both directly and indirectly.

54

55



[Submission for the Record follows:]

Comments for the Record
United States House of Representatives
Committee on Ways and Means
Subcommittee on Select Revenue Measures
How Middle Class Families are Faring in Today's Economy

Wednesday, February 13, 2019, 10:00 AM

By Michael G. Bindner

Center for Fiscal Equity

Thank you for the opportunity to submit comments to the subcommittee. We look forward to working with the new Congress. In these remarks, we will both explain why the Middle Class is not faring so well, but also how it can fare better. As usual, we will preface our comments with our comprehensive four-part approach, which will aid members' familiarity with its points, inform new committee members and provide context for our comments. We will follow this with a further exploration of who is and is not in the middle class and how we can make life better for it.

- A Value Added Tax (VAT) to fund domestic military spending and domestic discretionary spending with a rate between 10% and 13%, which makes sure every American pays something. Carbon taxes are included in this category.
- Personal income surtaxes on joint and widowed filers with net annual incomes of \$100,000 and single filers earning \$50,000 per year to fund net interest payments, debt retirement and overseas and strategic military spending and other international spending, with graduated rates.
- Employee contributions to Old Age and Survivors Insurance (OASI) with a lower income cap, which allows for lower payment levels to wealthier retirees without making bend points more progressive.
- A VAT-like Net Business Receipts Tax (NBRT), which is essentially a subtraction VAT with additional tax expenditures for family support, health care and the private delivery of governmental services, to fund entitlement spending and replace income tax filing for most people (including people who file without paying), the corporate income tax, business tax filing through individual income taxes and the employer contribution to OASI, all payroll taxes for hospital insurance, disability insurance, unemployment insurance and survivors under age 60.

The term Middle Class has become a catch all. While it can be defined in term terms of percentiles, it is much more complicate than that. Formerly, economics defined each class into three subclasses (upper middle and lower). The lower class is now called the poor and the working poor, who have no illusions about their poverty.

The upper class is simply called the wealthy. They are limited to the top 2% of incomes or the notorious one-percent as designated by Occupy Wall Street. The very rich, which I have called the Donor Class, usually hit at about the 0.1% of income.

The upper middle class are people who are fairly well off and can be called comfortable, although they have fears about adequate retirement savings brought on by the loss of defined benefit pensions. As an aside, this change should be investigated by this Committee and the Financial Services Committee to determine whether the shift was manufactured by the investment industry in order to earn larger commissions. This industry is likely a major driver in seeking new tax advantaged savings instruments, which are good for the business of milking commissions out of clients, which keeps them in the upper middle class as well.

Every time a new savings opportunity emerges, those who use it feel that they must take full advantage to avoid poverty in retirement. Of course, the biggest danger for these savers is the lack of good instruments available to them, which has them seek higher reward investments with more risk, like tech stock and mortgage backed securities, as well as buying "too much house" because of lower interest rates which sometimes do not stay low.

The upper middle class would be well served with less savings opportunities and renewed radicalism in bringing back pension rights. This would make them feel more secure in retirement planning, although this would not be good for the financial services industry, from brokerage to insurance.

Ending the need to compulsively save would also be good for the Treasury, both to collect more in what is now avoided in tax advantaged accounts and to end subsidies like the mortgage interest deduction. This will also end demand for continued tax benefits that the upper middle class really don't need to live comfortably. Such a development would likely hurt K Street, who play off the insecurities of the financial services industry in fear that tax reform will kill the goose that laid the golden egg.

The insecurities of the upper middle also drives donations to campaign and political action committees and campaign fundraisers who would otherwise have to work for a living. Let the takeaway from last November be that enough is enough. Tax reform would kill that golden goose, but it is time for that goose to be served on a platter.

For purposes of our tax reform plan, upper middle class would be those who make over \$50,000 a year (before tax benefits) or families who make twice that. The upper class would be those who get to what is now considered the top marginal tax rate, while the really wealthy are those who Senators Warren Markey and Harris and Representative Ocasio-Cortez would force into even higher tax brackets, although I would put in more interim brackets between \$400,000 and \$10,000,000. Pity the upper middle class.

We have made these remarks to delineate those who need less help and pay more tax, not only regardless of their ability to give to campaign committees, but because they are able to do so. The real middle class is radicalizing, as last November demonstrates, and not just because they feel that the President of the United States needs to be arrested (and that those who do not talk about that are guilty of abetting his conduct – and yes, that means the Majority).

The wealthy are also worthy of mention because of how their historically low marginal tax rates lead to lower wages for the working class and the entry levels of the professional class (who have now found a reason to vote). The dirty little secret of the 1981 tax cuts, the 1986 tax reform and the 2001, 2003, 2010 and now the 2017 tax cuts is their ability to control wage inflation.

Much as we used to love to give credit to or blame Paul Volcker for breaking inflation, the real cause was the micro-economic incentives which go with decreases in the marginal rate paid by CEOs and investors (the big dollar donor class). When rates were higher, especially before the Kennedy/Johnson rate cuts, America had labor peace and CEOs and management worked for reasonable salaries. The latter had no desire to cut wages or break unions, because if they did so, all of those savings, which would be paid to them in bonuses, would go the Internal Revenue Service. Lower tax rates changed that.

Lower tax rates also made money available to chase the same supply of investment instruments, which bid up their price, and caused the invention of a whole range of new products which would be built up and sold by the emerging financial class, who would profit-take and watch what they created go bust and start yet another modern recession, especially the Great Recession just experienced. Only higher tax rates or increased deficit spending control such asset inflation (and the consumption cycles associated with them – which Marx thought was the driver of the boom bust cycle – Marx had a failure of imagination).

The *Tax and Job Cuts Act* (not a typo) was a classic piece of Austrian Economics, where booms are encouraged, busts happen with no bail outs and the strong companies and best workers keep jobs and devil take the hindmost. It is economic Darwinism at its most obvious, but there is a safety valve. When tax cuts pass, Congress loses all fiscal discipline, the *Budget Control Act* baseline discipline is (as it should be) suspended and deficits grow. Taxpayers don't mind because bond purchasers are sure to pick up the slack, which they will as long as we run trade deficits, unless the President's economic naivete ruins that for us.

Modern economics has become infected with the idea that higher tax rates and lower public spending hurt the economy. By definition, this is not case. The exact opposite is true. To refresh our memories of what is in the U.S. Code and most basic economics textbooks, Gross Domestic Product equals equal government purchases, consumption from government employee, contractor, transfer recipient and second order private sector spending, which leads to private sector investment, and exports net of imports (which creates a source of funds for debt finance).

Sadly, there are witnesses coming before the Subcommittee, especially but not only those requested by the majority, who quarrel with this definition. Don't invite these people to testify, it only spreads untruths.

Anything that is not part of GDP is considered "savings" or in reality, is asset inflation. If you want to end poverty, give poor people and retirees more money and the economy will grow. Increase government expenditure (even bombers) and the economy will grow, including for the now notorious upper middle class. Now that I have set the stage after three pages, let us discuss how our tax reform plan will do so.

Our value added tax won't do so, because it does increase consumer prices unless the transition to it increases net wages by the same percentage as the new Goods and Services Tax. The tax should be very broad, because it will be a substitute for income tax collection now taken by the lower tiers of the income tax (even as paid by the wealthy).

Tying the VAT to government spending, especially on a regional basis (which would require a constitutional amendment to repeal the single rate requirement for excise taxes), because this would lead to less spending on whatever is taxed, which we propose to be domestic spending for military and civil government. While this will provide a decrease in funds for the middle class Making the link between discretionary spending and taxes makes for a more deliberative process that may see demands for higher spending and taxes. That would be up for the voters to decide, especially if regional caucuses to make such decisions were created, although that is a step too far for now.

As a new development to our plan, carbon taxes (CVAT), if enacted, would fund environmental enforcement, research and remediation (but not income redistribution, see below). As a sin tax, it will discourage use of greenhouse gases but will also be the goose that lays the golden egg for Green New Deal spending.

Both the VAT and CVAT would be zero rated at the border. Not doing so would be an unconstitutional consumption tax. Burying these taxes currently in the income tax likely violates this provision, which is an essential reason to break them out separately. The Net Business Receipts Tax supports workers rather than customers and taxpayers, so it will not be zero rated at the border. Doing so would be an incentive to short change both public and employer support of worker needs.

We have already made clear the reasons for a higher income and inheritance surtax. Taxing all cash or in-kind distributions from estates, including sale of estate assets and their distribution as cash taxes heirs on the same rules as workers. The dead have never ever paid taxes. If you can't take it with you, it cannot be tax free. Since there are no U-Haul attachments to hearses, we can be fairly certain of that.

The VAT, CVAT and the Net Business Receipts Tax/Subtraction Value Added Tax (NBRT or SVAT - which can be used interchangeably) are balanced budget taxes, meaning that they must either be increased or spending lowered (or the reverse) to keep these funds in balance. We mention this because such balance allows the Surtax to eventually end the current practice of rolling net interest on the debt to new borrowing.

The surtax will also be used to fund deployment of troops and because such spending is usually debt financed. This will also be a disincentive to war (which is one of the President's priorities - even a broken clock is correct twice a day - and I am sure he will not consider me a nice person, which I regard as a badge of honor).

Most importantly, the Surtax will pay down the debt itself, starting with paying back the Social Security Trust Fund. It can only be paid back with income taxes. Consumption taxes or additional retirement taxes is a disservice to those of us who subsidized spending due to tax cuts on the wealthy. The wealthy must pay this back.

At the risk of repeating ourselves yet again, we remind the Committee that in the future we face a crisis in net interest on the debt, both from increased rates and growing principle. This growth will only be feasible until either China or the European Union develop tradable debt instruments backed by income taxation.

This is the secret to the ability of the United States to be the world's bond issuer. It is why a trade deficit is not necessarily a bad thing, although the President does not seem to realize this. Indeed, exporting the debt is the essential feature of neo-liberalism, as is the belief that saving more for retirement with tax assisted accounts while shifting jobs overseas can have their slavery pay for our retirements. At some point overseas workers will rebel, so we need incentives to pay down the debt.

The national debt is possible because of progressive income taxation. The liability for repayment, therefore, is a function of that tax. For every dollar you pay in taxes, you owe \$13 in debt. People who pay nothing owe nothing. People who pay tens of thousands of dollars a year owe hundreds of thousands.

The answer is not making the poor pay more or giving them less benefits, either only slows the economy. Rich people must pay more and do it faster. Most workers cannot reliably save, or even eat. Don't look to them to ever pay off the debt. Your children and grandchildren and those of your donors are the ones on the hook unless their parents step up and pay more. How's that for incentive to raise taxes?

The Old Age and Survivors Insurance payment is only included if a tie between retirement income and wages is necessary to preserve broad based support for the program. There should be a floor, however, because most of the heavy lifting to support retirees will come from the NBRT, with these contributions to FICA credited on an equal dollar basis, rather than as a tie to wage levels. Doing so makes contributions less regressive, both because they tax all value added and because there is no upper limit to their collection. This ends the need for the Earned Income Tax Credit. Lowering the ceiling on the Employee contribution reduces what must be paid out in benefits to those who are in the upper middle class and above.

Other than limiting what the wealthy can take from workers in economic rent, the engine of redistribution will be the NBRT. For those who are new to our comments, the NBRT is collected from employers but is not visible on purchase receipts, making it an SVAT.

It is designed to redistribute income within companies rather than having the government do it through more overt subsidies. The child tax credit will be paid out, as it is now, through wages, but doing so will not require any tax filing, save to verify that what is reported to the government matches what is distributed to workers. Setting it to \$1000 per child per month makes it adequate to provide what the Department of Agriculture estimates to be the actual cost of raising a child. None other than Milton Friedman suggested a negative income tax and both Republican and Democratic presidents have enacted and expanded the Child Tax Credit.

This can be called a Pro-Life measure, not because it elects Republicans, but because it distributes enough money to families, including single mothers, to end the need to resort to abortion, or even contraception, for economic means. It is part of what Catholic Social Teaching calls a fair wage.

The fair wage is the essence of the Seamless Garment of Life as discussed by Cardinal Bernardin. The Center urges the National Right to Life Committee to make adoption of these recommendations a scored life issue. Failure to do so proves the point of NARAL-

Pro-Choice America that abortion restrictions would be all about controlling sexuality. If the Minority wishes to prove NARAL wrong they can adopt these recommendations.

The most important factor in moving people out of poverty is an adequate wage for work. Ideally, this should come from

The market cannot provide a fair wage for families., as there will always be more desperate employees who can be taken advantage of to force wages lower for everyone else. A minimum wage protects those employers who would do the right thing by their employees if not for their competitors.

A \$15 per hour minimum wage is currently being demanded by a significant share of the voters. Perhaps it is time to listen. If the marginal productive product of these employees is more than this rate, job losses will not occur – of course, the estimates of this product can be easily manipulated by opponents who believe that managers provide much more productivity than people who actually work, so such estimates should be examined critically. Internally, people usually have the correct number, but are loath to share it if doing so hurts their political point. A higher minimum wage puts the burden on employers and ultimately customers for fair base wages, rather than subsidies to low wage employers.

In some industries there are plenty of low wage workers who are not as productive as the wage is high (although this makes one wonder whether such industries are worth supporting in the economy). For these employees, paid education should be available – and by pay we mean tuition and wages.

Workers that are less than literate at a tenth grade level deserve full remedial education, with pay at minimum wage levels. This can be paid for in a variety of ways under our model. The usual model is for state governments to provide this education – and in our model the educational institution will also provide case management and stipends and would be funded by the NBRT/Subtraction VAT. There are other options as well.

Employers could provide remedial education and payroll as an offset of their NBRT obligations. They could also contribute to a third party provider, such as Catholic Charities and their related education systems, again offsetting their NBRT with the contribution (a full credit for both tuition and stipends).

Other workers need vocational training. This should be provided through employers. Training costs would be NBRT deductible, but not creditable, because ideally new workers should pay back the employer with a service requirement in much the same way that military academy students are required to serve some period in uniform, with a student loan program to fund those new workers for whom the employment situation does not work out.

Training stipends would not be repayable nor would they be creditable or deductible, as allowing tax advantages for such wages at this level would invite no end of mischief in deducting or crediting the value added of mostly productive employees who are also receiving training. In this case, preventing the gaming of the training stipend will keep the NBRT lower than it otherwise would be.

Some employees require college educations to advance. The first two years of college would be grouped with the last two years of high school and would be provided by the

state (including parochial high school and college), by employers directly or through a third party provider or through contributions to a public or private school.

Students would receive a stipend and both tuition and stipend would be fully creditable against the NBRT. Labor provided as a supplement to the employer would be fully taxed as other value added. After the second of school, employees would be paid for the remainder of college and graduate school along the same lines as vocational training. This is good for both the working class and those with the ability, but not the means, to enter the professional class, especially those who are overlooked because of family earning history or the color of their skin.

Working and low lever professional class workers demand lower salaries because of the uncertainty of unemployment. Paying for education at all levels ends this uncertainty, leading to demands for higher wages over and above the statutory minimum. People are poor as much from fear of losing what they have as from their skills and education deficits. The paid training programs here stop that uncertainty.

Aside from child supplements and education, the NBRT would cover health care, with offsets for purchasing third party insurance for workers and retirees or providing direct care for them with internal medical staff and even facilities. The NBRT will also consolidate taxation to any new Public Option and all of Medicare and, Medicaid, Veterans Health Care and the Affordable Care Act.

Covering retirement will also be part of the NBRT Employee-ownership is the ultimate protection for worker wages. Our proposal for expanding it involves diverting an every-increasing portion of the employer-contribution to the Old Age and Survivors fund to a combination of employer voting stock and an insurance fund holding the stock of all similar companies.

At some point, these companies will be run democratically, including CEO pay, and workers will be safe from predatory management practices. This is only possible if the Majority quits using fighting it as a partisan cudgel and embraces it to empower the professional and working classes. It is in our power to make low wage work and family poverty a thing of the past. Indeed, doing so is the primary reason the Center for Fiscal Equity was created. We are not proposing hand-outs but a hand up with adequate rewards for taking it.

Thank you for the opportunity to address the committee. We are, of course, available for direct testimony or to answer questions by members and staff.

Contact Sheet

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Subcommittee on Select Revenue Measures
How Middle Class Families are Faring in Today's Economy
Wednesday, February 13, 2019, 10:00 AM

All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears:

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