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STRENGTHENING OUR FISCAL TOOLKIT: POLICY OPTIONS TO IMPROVE ECONOMIC RESILIENCY

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTEENTH CONGRESS

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STRENGTHENING OUR FISCAL TOOLKIT: POLICY OPTIONS TO IMPROVE ECONOMIC RESILIENCY

WEDNESDAY, OCTOBER 16, 2019

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

The Committee met, pursuant to notice, at 10:00 a.m., in Room 210, Cannon House Office Building, Hon. John A. Yarmuth, [Chairman of the Committee] presiding.

Present: Representatives Yarmuth, Moulton, Sires, Peters, Scott, Jackson Lee, Jayapal, Schakowsky, Horsford; Womack, Johnson, Hern, Meuser, Crenshaw, and Smith.

Chairman YARMUTH. The hearing will come to order.

Good morning and welcome to the Budget Committee's hearing on "Strengthening our Fiscal Toolkit: Policy Options to Improve Economic Resiliency."

I want to welcome our witnesses here with us today. This morning we will be hearing from:

Dr. Doug Elmendorf, Dean of the Harvard Kennedy School, and of course, former Director of the Congressional Budget Office. We have two of those here today.

Dr. Olugbenga Ajilore, the Senior Economist at the Center for American Progress.

Mr. John Hicks, Executive Director at the National Association of State Budget Officers.

And Dr. Douglas Holtz-Eakin, President of the American Action Forum, and again, a former CBO Director.

We look forward to your testimony.

I will now yield myself five minutes for my opening statement.

Over the last 10 years, our nation has experienced the longest uninterrupted period of economic expansion in U.S. history. However, we cannot afford to take it for granted.

We know that business cycles are real, and eventually periods of economic expansion come to an end. Of course, no one hopes for a downturn, and no one can know when one will hit, how long it will last, or which sectors or families will be impacted the most.

As Members of Congress, it is a responsibility of ours to make sure the federal government is ready to respond to a crisis before we are in one.

Today, our expert witnesses will discuss policies that we can implement now to ensure a more secure future for our nation and our families tomorrow.

As we all know, recessions damage our nation's fiscal health, put stress on local and state budgets, and, most importantly, are also costly and painful for American families.

When the Great Recession hit, Americans across the country, regardless of background, education, career, or state of residence, felt its effects. Many families faced bankruptcies. Others were forced to make tough choices as they watched their savings shrink, their debt grow, and their opportunities diminish.

In 2009, Congress passed the American Recovery and Reinvestment Act, increasing government investment, cutting taxes for working families and small businesses, and preventing bigger unemployment spikes.

While the Recovery Act was critical, we could have and should have done more to prevent families from being left behind. The impact of the Great Recession is still being felt in communities across our country.

The bottom 50 percent of households have only just now, more than a decade later, recovered the wealth they had in 2007. Millennials, many of whom graduated college only to enter into the worst job market in a generation, have been saddled with high student loan debt, lower earnings and less wealth than generations before them, and they face increased barriers to economic opportunity.

We see the legacy of the Great Recession in rising economic inequality and families still struggling to regain their footing.

The American people expect and deserve a government that can utilize every tool needed to stabilize our economy and to soften the impact of recessions on our families. Our current economic automatic stabilizers, revenues that fall and spending that grows when the economy falters, are vital. They provide timely and targeted support during economic downturns and turn on and off when needed.

When the economy is weak, working families rely even more on programs like Medicaid, SNAP, and unemployment insurance to help them meet their basic human needs. At the same time, payroll taxes and income tax withholding adjust to reflect what families are earning. And they are temporary. When the economy gains strength, fewer people rely on these programs, so spending falls.

But the automatic stabilizers in current law can only do so much. Waiting for Congress to act to provide additional help in a time of crisis slows down response time, making it harder to target relief when and where it is needed most.

It is time for us to consider new approaches. This is particularly important because when the next economic downturn comes, whenever that may be, it may not be as severe as the Great Recession. It may be more challenging to overcome.

Interest rates today are significantly lower than they were before the last downturn. So we will not be able to rely on the Federal Reserve to play as large a role.

While the world is moving at 100 miles per hour, Congress, at its optimum efficiency, moves at about 10 miles per hour. That is why it is crucial that we start the process of strengthening these programs now, before we hit a downturn.

Families and communities should receive the support they need when they need it, not months later after the damage is done.

Unfortunately, the Trump Administration is pursuing policies that will put more families in jeopardy when we face the next economic downturn. Changes to critical programs, such as implementing untested work requirements, making it harder to access SNAP benefits, and proposing changes to how the federal government measures poverty in a way that could cut or eliminate vital assistance for millions in need, will make programs less responsive to a slowing economy. If we want to minimize the damage caused by recessions, Congress must focus on strengthening the key programs families will rely on most.

While we cannot predict when or if a recession might hit or how severe its impacts will be, it is our responsibility to ensure our government has all the tools it needs to respond when necessary. We cannot afford to leave our nation and our families unprotected.

I look forward to hearing testimony from our witnesses on what Congress can do to best secure our fiscal future.

I now yield five minutes to the gentleman from Arkansas and the Ranking Member.

[The prepared statement of Chairman Yarmuth follows:]

Chairman John Yarmuth
Strengthening Our Fiscal Toolkit: Policy Options to Improve Economic Resiliency
Opening Statement
October 16, 2019

Over the last ten years, our nation has experienced the longest uninterrupted period of economic expansion in U.S. history. However, we can't afford to take it for granted. We know that business cycles are real, and eventually periods of economic expansion come to an end. Of course, no one hopes for a downturn, and no one can know when one will hit, how long it will last, or which sectors or families will be impacted the most. As Members of Congress, it is a responsibility of ours to make sure the federal government is ready to respond to a crisis before we are in one.

Today, our expert witnesses will discuss policies that we can implement now, to ensure a more secure future for our nation and our families tomorrow.

As we all know, recessions damage our nation's fiscal health, put stress on local and state budgets, and, most importantly, are also costly and painful for American families.

When the Great Recession hit, Americans across the country – regardless of background, education, career, or state of residence – felt its effects. Many families faced bankruptcies. Others were forced to make tough choices as they watched their savings shrink, their debt grow, and their opportunities diminish. In 2009, Congress passed the American Recovery and Reinvestment Act, increasing government investment, cutting taxes for working families and small businesses, and preventing bigger unemployment spikes.

While the Recovery Act was critical, we could have and should have done more to prevent families from being left behind. The impact of the Great Recession is still being felt in communities across our country: the bottom 50 percent of households have only just now, more than a decade later, recovered the wealth they had in 2007. Millennials – many of whom graduated college only to enter into the worst job market in a generation – have been saddled with high student loan debt, lower earnings and less wealth than generations before them, and increased barriers to economic opportunity. We see the legacy of the Great Recession in rising economic inequality and families still struggling to regain their footing.

The American people expect and deserve a government that can utilize every tool to stabilize our economy and soften the impact of recessions on our families. Our current automatic stabilizers – revenues that fall and spending that grows when the economy falters – are vital. They provide timely and targeted support during economic downturns and turn on and off as needed. When the economy is weak, working families rely even more on programs like Medicaid, SNAP, and Unemployment Insurance to help them meet their basic human needs. At the same time, payroll taxes and income tax withholding adjust to reflect what families are earning. And they are temporary: when the economy gains strength, fewer people rely on these programs, so spending falls.

But the automatic stabilizers in current law can only do so much. Waiting for Congress to act to provide additional help in a time of crisis slows down response time, making it harder to target relief when and where it is needed most. It is time for us to consider new approaches. This is particularly important because while the next economic downturn – whenever it comes – may not be as severe as the Great Recession, it may be more challenging to overcome. Interest rates today are significantly lower than they were before the last downturn, so we won't be able to rely on the Federal Reserve to play as large a role.

While the world is moving at 100 miles per hour, Congress, at its optimum efficiency, moves at about 10 miles per hour. That is why it is crucial that we start the process of strengthening these programs now, before we hit a downturn. Families and communities should receive the support they need when they need it, not months later after the damage is done.

Unfortunately, the Trump Administration is pursuing policies that will put more families in jeopardy when we face the next economic downturn. Changes to critical programs such as implementing untested work requirements, making it harder to access SNAP benefits, and proposing changes to how the federal government measures poverty in a way that could cut or eliminate vital assistance for millions in need will make programs less responsive to a slowing economy. If we want to minimize the damage caused by recessions, Congress must focus on strengthening the key programs families will rely on most.

While we can't predict when or if a recession might hit or how severe its impacts will be, it is our responsibility to ensure our government has all the tools it needs to respond when necessary. We cannot afford to leave our nation – and our families – unprotected. I look forward to hearing testimony from our witnesses on what Congress can do to best secure our fiscal future.

Mr. WOMACK. Thank you, Mr. Chairman, for holding this hearing.

And my thanks to the gentlemen seated before us, our witnesses on the panel today. I look forward to your questions or to your answers to our questions.

Whether some would like to admit it or not, there has been a resurgence of economic confidence within our country. Years of stagnation have been replaced with job and wage growth, as well as a prosperous American economy.

The pro-growth policies our Republican majority enacted last Congress, including historic tax relief, unlocked extraordinary promise and opportunity for hardworking Americans. In fact, earlier this month, we saw a jobs report indicating the lowest unemployment rate our nation has seen in a half century: 3.5 percent.

Since November 2016, employers have created nearly 6.5 million new jobs across all sectors. Wages are also rising and showing sustainable, organic growth. The median average income increased by 3.4 percent in 2018, according to the latest data from the Census Bureau.

This historic forward momentum certainly does not mean that we should ignore the possibility of an economic downturn. Rather, I believe it means we should be focused on policies that ensure continued economic strength.

We should encourage an environment that supports America's job creators and allows workers to pursue greater opportunities.

There are a number of actions Congress can take to guard against a recession and to help maintain our current economic growth. First and foremost, the House should take up and pass the USMCA. This important trade deal will provide much needed support for our nation's farmers and manufacturers, and it will modernize our policies to reflect the realities of a 21st century global economy.

Secondly, we must protect the 2017 Tax Cuts and Jobs Act, which has benefitted American families. This point was reiterated earlier this year as the CBO testified before our Committee. The statement was clear. Repealing these important reforms would reverse the gains made and put nearly a million American jobs at risk.

Those jobs represent real families who could lose their livelihoods if these tax cuts were eliminated.

Third, we must continue to reduce burdensome regulatory barriers to economic growth. Redundant federal regulations and permitting requirements unnecessarily extend the timelines of major projects and add massive compliance costs to development budgets.

One of our witnesses today will detail the enormous cost of complying with burdensome regulations imposed by the Obama Administration, $890 billion according to the agencies themselves. The relief from these mandates over the last two years has been an important component of the confidence we have seen in the economy among job creators.

Lastly, this Congress has a responsibility to reduce the cost of living for America's middle class. Over the past few decades families have seen their largest price increases in some of the most heavily regulated and subsidized sectors of the economy, including health care, higher education, and housing.

Free market policies could help lower these costs in these industries by increasing competition and enhancing consumer choice.

As Ranking Member of this Committee, I am skeptical of proposals to create more automatic stabilizers beyond those that exist in current law. By creating more of these mechanisms, we would reduce oversight by elected officials at a time when our nation and our budget need the exact opposite.

The root cause of our ever-growing debt is runaway mandatory spending, which currently accounts for about 70 percent of all federal spending. We should be working to bring more of those expenditures back under our oversight, which is, in my opinion, where they belong.

A final reason to be suspicious of proposals to create new automatic stabilizers is that these programs are not likely to be deficit neutral. I will be curious to see if offsets will be suggested today for any new increases in mandatory spending.

Our focus should be on preventing a future crisis instead of just trying to react to one. We should implement policies that will help avoid a recession in the first place and reduce our long-term debt burden over time in a very responsible way.

So, again, I thank you, Mr. Chairman, for the opportunity to have this hearing today, and I look forward to the witnesses, and I yield back my time.

[The prepared statement of Steve Womack follows:]

HOUSE BUDGET REPUBLICANS | BUDGET

Rep. Steve Womack
Ranking Member

Ranking Member Steve Womack (R-AR) Opening Remarks at Hearing Entitled: Strengthening Our Fiscal Toolkit: Policy Options to Improve Economic Resiliency

As Prepared For Delivery:

Thank you, Mr. Chairman, for holding this hearing.

Whether some would like to admit it or not, there has been a resurgence of economic confidence within our country. Years of stagnation have been replaced with job and wage growth, as well as a prosperous American economy.

The pro-growth policies our Republican majority enacted last Congress, including historic tax relief, unlocked extraordinary promise and opportunity for hardworking Americans. In fact, earlier this month, we saw a jobs report indicating the lowest unemployment rate our nation has seen in half a century: 3.5 percent.

Since November 2016, employers have created nearly 6.5 million new jobs across all sectors. Wages are also rising and showing sustainable, organic growth. The median average income increased by 3.4 percent in 2018 according to the latest data from the Census Bureau.

This historic forward momentum certainly does not mean that we should ignore the possibility of an economic downturn. Rather, I believe it means we should be focused on policies that ensure continued economic strength. We should encourage an environment that supports America's job creators and allows workers to pursue greater opportunities.

There are a number of actions Congress can take to guard against a recession – and to help maintain our current economic growth. First and foremost, the House must take up and pass the USMCA. This important trade deal will provide much-needed support to our nation's farmers and manufacturers, and it will modernize our policies to reflect the realities of the 21st century global economy.

Secondly, we must protect the 2017 Tax Cuts and Jobs Act, which has benefitted American families. This point was reiterated earlier this year as the CBO testified before our committee. The statement was clear: repealing these important reforms would reverse the gains made and put nearly one million American jobs at risk. Those jobs represent real families who could lose their livelihoods if these tax cuts were eliminated.

Third, we must continue to reduce burdensome regulatory barriers to economic growth. Redundant federal regulations and permitting requirements unnecessarily extend the timelines of major projects and add massive compliance costs to development budgets. One of our witnesses today will detail the enormous cost of complying with burdensome regulations imposed by the Obama Administration – $890 billion – according to the agencies themselves. The relief from these mandates over the last two years has been an important component of the confidence we have seen in the economy among job creators.

Lastly, this Congress has a responsibility to reduce the cost of living for America's middle-class. Over the past few decades, families have seen their largest price increases in some of the most heavily regulated and subsidized sectors of the economy, including health care, higher education, and housing. Free-market policies could help lower costs in these industries by increasing competition and enhancing consumer choice.

As Ranking Member of the Budget Committee, I am skeptical of proposals to create more automatic stabilizers beyond those that exist in current law. By creating more of these mechanisms, we would reduce oversight by elected officials at a time when our nation, and our budget, need the exact opposite. The root cause of our ever-growing debt is runaway mandatory spending – which currently accounts for 70 percent of all federal spending. We should be working to bring more of those expenditures back under our oversight which is where they belong.

A final reason to be suspicious of proposals to create new automatic stabilizers is that the programs are not likely to be deficit neutral. I'll be curious to see if offsets will be suggested today for the new increases in mandatory spending.

Our focus should be on preventing a future crisis instead of reacting to it. We should implement policies that will help avoid a recession in the first place – and reduce our long-term debt burden over time and in a responsible way.

Thank you, Mr. Chairman, and with that I yield back the balance of my time.

Chairman YARMUTH. I thank the Ranking Member for his opening statement.

In the interest of time, if any other members have opening statements, you may submit those statements in writing for the record.

I once again want to thank our witnesses for being here this morning. The Committee has received your written statements, and they will be made part of the formal hearing record. You will each have five minutes to give your oral remarks.

Dr. Elmendorf, you may begin when you are ready.

STATEMENT OF DOUGLAS ELMENDORF, PH.D., DEAN, HARVARD KENNEDY SCHOOL; OLUGBENGA AJILORE, PH.D., SENIOR ECONOMIST, CENTER FOR AMERICAN PROGRESS; JOHN HICKS, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF STATE BUDGET OFFICERS; AND DOUGLAS HOLTZ–EAKIN, PH.D., PRESIDENT, AMERICAN ACTION FORUM

STATEMENT OF DOUGLAS ELMENDORF, PH.D.

Dr. ELMENDORF. Thank you, Mr. Chairman, Ranking Member Womack, and Members of the Committee.

It is wonderful to be back in a place where I spent so many good hours as Director of the Congressional Budget Office and to be looking up at portraits of the two chairmen whom I served.

Thank you for inviting me to testify today.

I do not think a recession is imminent for the U.S. economy, but clearly, the economy has slowed a great deal over the past year, and economic forecasters surveyed by the Wall Street Journal now see the probability of a recession over the next 12 months at about one-third compared with about one-fifth a year ago.

Predicting recessions is quite difficult, and we should not count on economists to correctly anticipate the timing of the next one. But as you said, Mr. Chairman, we know there will be a next one, and we should be ready for it. And I am pleased that the Committee has convened this hearing.

I want to make three points about using fiscal policy to fight the next recession. First, vigorous use of countercyclical tax and spending policies will be crucially important for limiting the severity of the next recession.

When the economy goes into recession, the Federal Reserve will presumably cut the federal funds rate to near zero, as it did in the last recession, but because interest rates are so low already, the Fed will have less room to cut than it did before.

The Fed will try to compensate through quantitative easing and forward guidance. On balance though, I expect the Federal Reserve will be able to provide less stimulus than it has in past recessions. That will leave more for a fiscal policy to do.

Suppose that when the economy goes into the next recession Congress and the President agree to a collection of tax cuts and spending increases twice as large as the 2009 Recovery Act. Such fiscal stimulus would make the recession less deep and less lengthy than it would otherwise be.

Fewer people would lose their jobs, and those who did lose their jobs would find new jobs more quickly.

My second point is that notwithstanding the historically large amount of federal debt outstanding, the government has plenty of budget capacity to use fiscal stimulus vigorously. The legislation I just described would have a direct budgetary impact of about $1.7 trillion.

But higher GDP means higher taxable incomes. So the federal government would recoup some of the direct cost, leaving a net cost of around $1.1 trillion.

That figure is very large by almost any standard, but it represents only about one year's worth of federal borrowing at our current pace. Holding off debt by a year would not be worth the lost national output and suffering that would come from a deeper or longer recession.

Indeed, the Tax Act of 2017 is generating a larger budgetary cost and smaller increase in national income than the fiscal stimulus I just described. If your goal is to raise national income at a low budgetary cost, fiscal stimulus would be a more effective route to do that than the tax law.

Moreover, the income gains from fiscal stimulus would be more widely shared across the income distribution than the income gains from the tax law, a consideration that I think should be central to your thinking.

To be clear, federal debt cannot increase indefinitely relative to the size of the economy, and you or your successors will ultimately raise taxes and cut benefits and services.

But market interest rates on federal debt are now at historically low levels and have been trending down for decades. Federal borrowing is thus less costly, less risky, and less harmful to the economy in the long run than most economists have expected. The urgency of putting federal debt on a sustainable path is, therefore, greatly lessened.

My third point is that effective fiscal stimulus requires that spending increases and tax cuts be targeted appropriately. Effective stimulus requires that government spending increases occur quickly, which is easier for certain payments to people and state governments than for projects to build new infrastructure.

Effective stimulus also requires that tax cuts be spent quickly by the recipients, which is much more likely for cuts aimed at lower- and middle-income households than higher income households.

Moreover, both spending increases and tax cuts would have larger and more beneficial effects if they were focused on part of the country that have especially high unemployment in the next recession.

In addition, because recessions are difficult to predict and the legislative process often works slowly, as the Chairman noted, it would be valuable to build more anti-recessionary policy into law today with a trigger for activation.

In sum, the federal government can and should undertake vigorous fiscal stimulus to counteract the next recession and such stimulus can and should be built into law before the recession arrives.

Thank you very much.

[The prepared statement of Douglas Elmendorf follows:]

Using Fiscal Policy to Fight the Next Recession
Testimony to the House Budget Committee on October 16, 2019
Douglas W. Elmendorf
Dean and Don K. Price Professor of Public Policy, Harvard Kennedy School

Thank you, Chairman Yarmuth, Ranking Member Womack, and Members of the Committee. I am delighted to be back here, where I spent so many good hours when I was director of the Congressional Budget Office. Of course, today I am not speaking for CBO, or for my current employer, but only for myself.

I do not think a recession is imminent in the U.S. economy. But clearly the economy has slowed a great deal over the past year, and economic forecasters surveyed by the *Wall Street Journal* now see the probability of a recession over the next 12 months at about one-third, up from less than one-fifth a year ago. Unfortunately, predicting recessions is quite difficult, and we should not count on economists to correctly anticipate the timing of the next one. However, we know that there will be a next one, and we should be ready for it. So, I commend the Committee for convening this hearing.

I want to make three points about using fiscal policy to fight the next recession.

First, vigorous use of countercyclical tax and spending policies will be crucially important for limiting the severity of the next recession.

When the economy goes into recession, the Federal Reserve will presumably cut the federal funds rate to near zero, as it did in the last recession. However, because market interest rates are so low already, the Fed will have less room to cut than it had in previous recessions. The Fed will try to compensate through quantitative easing and forward guidance. On balance, though, I expect that the Federal Reserve will be able to provide less monetary stimulus than in past downturns.

That will leave more for fiscal policy to do. Suppose that, when the economy next goes into recession, Congress and the president agree on a collection of government spending increases and tax cuts twice as large as the 2009 Recovery Act. Such fiscal stimulus would make the recession less deep and less lengthy than it would otherwise be. Fewer people would lose their jobs, and people who did lose jobs would find new jobs more quickly. Fewer families would be evicted from their homes or be unable to pay their medical bills.

My second point is that, notwithstanding the historically large amount of federal debt outstanding, the government has plenty of budget capacity to use fiscal stimulus vigorously.

The legislation I just described would have a direct budgetary impact of about $1.7 trillion. Based on a large amount of economic research over the past decade, a reasonable estimate is that—with the federal funds rate near zero—this legislation would increase GDP over the following few years by roughly 1½ times as much.[1] Higher GDP means higher taxable incomes, so the federal government would recoup some of the direct cost, leaving a net budgetary cost of about $1.1 trillion.[2]

That figure is very large by almost any standard, but it represents only about one year's worth of federal borrowing at our current pace. There is little reason to think that financial-market participants would find this fundamentally different from the path we are already on today. Nor would holding off debt by a year be worth the lost national output and additional human suffering of a deeper or longer recession.

Indeed, the Tax Cuts and Jobs Act of 2017 is generating a larger budgetary cost and a smaller increase in national income than the future stimulus I have described.[3] If your goal is to raise national income at a low budgetary cost, fiscal stimulus in a recession would be more effective than the tax law. Moreover, the income gains from fiscal stimulus would be more widely shared than the income gains from the tax law, a consideration that should be central to your thinking.

To be clear, federal debt cannot increase indefinitely relative to the size of the economy, and you or your successors ultimately will raise taxes and cut benefits and services. But market interest rates on federal debt are now at historically low levels and have been trending down for decades. Federal borrowing is thus less costly, creates less risk, and does less harm to the economy in the long run than most economists have expected. Therefore, the urgency of putting federal debt on a sustainable path is greatly reduced.[4]

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[1] For summaries of this body of research, see Valerie Ramey, "Ten Years after the Financial Crisis: What Have We Learned from the Renaissance in Fiscal Research?," *Journal of Economic Perspectives*, 2019; Gabriel Chodorow-Reich, "Geographic Cross-Sectional Fiscal Spending Multipliers: What Have We Learned?," *American Economic Journal: Economic Policy*, 2019; and Congressional Budget Office, *How CBO Analyzes the Effects of Changes in Federal Fiscal Policies on the Economy*, 2014.

[2] For further discussion, see my op-ed in the *Washington Post* in September 2019, "Yes, We Still Have the Fiscal Capacity to Deal with a Recession," which is also available on my Harvard Kennedy School web page.

[3] See Congressional Budget Office, "The Effects of the 2017 Tax Act on CBO's Economic and Budget Projections," Appendix B in the *Budget and Economic Outlook, 2018 to 2028*.

[4] For further discussion, see my remarks at Brookings in April 2019, "Should We Reduce Federal Budget Deficits Now?," which are available on my Harvard Kennedy School web page. For analysis underlying those remarks, see my paper with Louise Sheiner, "Federal Budget Policy with an Aging Population and Persistently Low Interest Rates," published in the *Journal of Economic Perspectives* in July 2017 and available in working paper form on the Brookings web page.

My third point is that effective fiscal stimulus requires that spending increases and tax cuts be targeted appropriately.

Effective stimulus requires that government spending increases occur quickly, which is easier for certain payments to people and state governments than for projects to build new infrastructure. Effective stimulus also requires that tax cuts be spent quickly by the recipients, which is much more likely for cuts aimed at lower- and middle-income households than higher-income households. Moreover, both spending increases and tax cuts would have larger and more beneficial effects if they were focused on parts of the country that have especially high unemployment.[5]

In addition, because recessions are difficult to predict and the legislative process often works slowly, it would be valuable to build more anti-recessionary policy into law today, with a trigger for activation. For example, the law could say that, if the unemployment rate rises by ½ percentage point or more over a six-month period—as it has in previous recessions—then payroll taxes will be cut and Medicaid payments to states increased until the unemployment rate declines significantly.

In sum, the federal government can and should undertake vigorous fiscal stimulus to counteract the next recession, and such stimulus can and should be built into law before the recession arrives. Thank you.

[5] For further discussion, see my forthcoming paper with Karen Dynan, "National Fiscal Policies to Reduce Cyclical Volatility in U.S. States."

Chairman YARMUTH. Thank you, Dr. Elmendorf.

And I now recognize Dr. Ajilore for five minutes.

STATEMENT OF OLUGBENGA AJILORE, PH.D.

Dr. AJILORE. Thank you, Chairman Yarmuth, Ranking Member Womack, and Members of the Committee, for inviting me to testify on the steps that the federal government should undertake to ensure the U.S. economy is prepared in the event of recession.

It is an honor and privilege to contribute to this Committee's work.

The United States is currently experiencing one of the longest periods of economic expansion in its history. However, the expansion has not reached all households, and many continue to struggle with long unemployment spells.

At the same time, economic growth appears to be slowing, and there are warning signs that a recession is possible in the near future.

While downturns are difficult to predict, policy makers have a responsibility both to assess whether the country is prepared for the next recession and to implement approaches to protect America from the worst outcomes.

The standard tools for combatting recession may prove less effective in the future, in part, because the Fed has less room to cut interest rates, and discretionary fiscal policy, while still potentially effective, relies on politicians' willingness to use it the right way, which is not always the case.

A case in point, during the Great Recession, Congress engaged in austerity measures, reducing spending well before the economy fully recovered.

Automatic stabilizers are a tool that can help mitigate the effects of recession. Enabled once the economy hits a downturn, these stabilizers, such as expansion of unemployment insurance, are effective in helping steady the economy.

During the Great Recession, unemployment insurance kept more than 5 million people out of poverty and prevented 1.4 million foreclosures. Unemployment insurance closed more than 18 percent of the shortfall in GDP in the aftermath of the Great Recession.

Unfortunately, since the last recession, states have reduced these UI benefits, thereby diminishing their positive effects.

It is crucial that Congress update existing automatic stabilizers using both academic studies of previous efforts and policy professionals' experience in implementation gleaned from the Great Recession.

Several guidelines should be implemented in existing policies to create an instant response that would bolster the United States' economic stability without the need for legislative action in a potentially gridlocked Congress. These principles should underlie almost any automatic stabilization policy.

First, ensure that policy makers can increase and extend the benefits of automatic programs and that they are not tightened before all demographic groups and regions have recovered.

Two, when appropriate, tie the triggers to activate automatic stabilizers to economic indicators, such as unemployment and GDP.

Third, make federal fiscal release to states substantial, automatic, and prolonged so that states do not engage in austerity measures before the economy has recovered.

And then, finally, require strong maintenance of effort provisions during downturns so that states do not use the federal funds simply just to replace their own.

There are three programs that can be updated to either make them stronger automatic stabilizers or make to work better as an automatic stabilizer.

First, the unemployment insurance system is a crucial automatic stabilizer that provides a soft landing for individuals who face layoffs or experience joblessness. Due to the severity of the Great Recession, states depleted their reserves and, therefore, had to borrow from the federal government to cover UI benefits.

In response to the funding issues, many states have decreased UI payouts to dramatic and historically unprecedented reductions. These include reductions in the number of weeks of available benefits, stricter eligibility requirements, and new disqualifications.

To reverse these trends, there are several steps that can be taken to make UI a strong and more effective automatic stabilizer.

First, the federal tax base can be increased from its current level of $7,000 to $18,000, which is the level the base would have been had it matched inflation.

Second, in response to several states reducing the maximum benefit duration level, the federal government should incentivize states to maintain the maximum benefit duration of 26 weeks.

Second, the Supplemental Nutrition Assistance Program, SNAP, provides a crucial role in reducing economic hardship and providing food assistance for low income citizens. In 2018, SNAP provided food assistance to one out of eight Americans, including the elderly, disabled, and children.

SNAP can be made more effective as an automatic stabilizer by removing the work requirements and by increasing benefits by 15 percent during a downturn. These provisions have the benefit of expanding eligibility for the program, which in turn improves the stimulus effect of spending by SNAP recipients.

Third, one issue for states during a downturn is that almost all face balanced budget rules. This becomes difficult during a downturn because spending rises while revenues fall.

Thus, states must make decisions about which programs to cut, which inevitably falls on programs like SNAP, Medicaid, and CHIP.

In previous recessions, to ameliorate these issues, the federal government has provided funds to supplement these programs. This policy can be turned into an automatic stabilizer by linking federal disbursement to rising unemployment rates.

This policy has the benefit of maintaining spending on the programs that are crucial for those affected by downturns while easing the burden on the states.

In conclusion, everyone is asking when the next recession will be coming. I believe this is the wrong question to ask. The right question to ask is: are we ready?

We are not ready because the tools at our disposal are less effective than they were during the Great Recession. We can rectify this by strengthening automatic stabilizers like unemployment insurance, SNAP, and Medicaid, especially since they take effect once the economy hits a downturn.

But the time to update these programs is now. We cannot wait.

[The prepared statement of Olugbenga Ajilore follows:]

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STRENGTHENING OUR FISCAL TOOLKIT: POLICY OPTIONS TO IMPROVE ECONOMIC RESILIENCY

Committee on the Budget

U.S. House of Representatives

Testimony by Olugbenga Ajilore, Ph.D.

Senior Economist

Center for American Progress

October 16, 2019

Thank you Chairman Yarmuth, Ranking Member Womack, and Members of the Committee for inviting me to testify on the steps the federal government can undertake to ensure the United States economy is prepared in the event of a recession. It's an honor and a privilege to contribute to this committee's work.

The United States is currently experiencing one of the longest periods of economic expansion in its history.[1] However, the expansion has not reached all households and many continue to struggle with long-term unemployment.[2] At the same time, economic growth appears to be slowing, and there are warning signs that a recession is possible in the near future. While downturns are difficult to predict, policymakers have a responsibility both to assess whether the country is prepared for the next recession and to implement approaches to protect Americans from the worst outcomes.

Fortunately, the U.S. government has a variety of tools available to help pull the national economy out of a recession. These tools generally fit into two categories. First, there is monetary policy, which is conducted by the Federal Reserve Board, the independent central bank responsible for setting interest rates, among other things. Second, there is fiscal policy, which is conducted by the executive and legislative branches of the U.S. government. However, these tools may prove less effective in the next recession, in part because the Fed has less room to cut interest rates, its traditional tool to tackle

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downturns.[3] And discretionary fiscal policy, while still potentially effective, relies on politicians' willingness to use it in the right way, which has not always been the case. For example, during the Great Recession, Congress engaged in austerity measures, reducing spending well before the economy fully recovered.[4] This is not to say the Fed cannot be effective in the next recession, but it will likely have to do so through unconventional policies, the effects of which are harder to predict, and which are more likely to have unintended consequences because we have less experience with these tools.

Automatic stabilizers are another, well-understood and highly effective tool that can help mitigate the effects of a recession. Automatic stabilizers inject funds into the economy in the event of a downturn either through transfer payments or tax reductions. While a form of fiscal policy, they are automatic because they do not require action by Congress. They play a vital macroeconomic role by boosting aggregate demand when it lags, helping make downturns short and less severe than they otherwise would be. Enabled once the economy hits a downturn, these stabilizers—such as the expansion of unemployment insurance (UI)—are effective in helping steady the economy.[5] For example, UI kept more than 5 million people out of poverty during the Great Recession and prevented 1.4 million foreclosures, all while boosting demand for business as they struggled to survive.[6] Unfortunately, since the latest recession, states have reduced these benefits, thereby diminishing their positive and protective effects.[7]

How automatic stabilizers should work

It is crucial that Congress update existing automatic stabilizers using both academic studies of previous efforts and policy professionals' experience in implementation gleaned during the Great Recession. Several guidelines should be implemented in existing policies to create an instant response that would bolster the United States' economic stability without the need for legislative action in a potentially gridlocked Congress. These principles should underlie almost any automatic stabilization policy:

1. Ensure that policymakers can increase and extend the benefits of automatic programs and that they are not tightened before all demographic groups and regions have recovered.

2. When appropriate, tie the triggers to activate automatic stabilizers to economic indicators such as unemployment, GDP, and business cycle indices.

3. Make federal fiscal relief to states substantial, automatic, and prolonged so that states do not engage in austerity measures—policies that contract the economy by

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cutting government programs and/or raising taxes—before the economy has recovered.

4. Require strong maintenance of effort (MOE) provisions during downturns so that states do not use federal funds to simply replace their own.

Unemployment Insurance Since the Great Recession

The UI system is a crucial automatic stabilizer that provides a soft landing for individuals who face layoffs or experience joblessness. UI is one of the most crucial tools in helping the economy recover from the deepest economic recessions since the Great Depression. In periods of high unemployment, the federal government has provided more assistance through the Emergency Unemployment Compensation (EUC) program and even more in high-unemployment states through the Extended Benefits (EB) program, though these programs are not automatic and expired in 2013.[8]

Not only did UI help prevent poverty for some individuals and kept many people in their homes, UI provided a large economic stimulus when it was greatly needed. UI closed more than 18% of the shortfall in GDP in the aftermath of the Great Recession.[9] This is because individuals who were on layoff were able to continue pumping money into the economy from receipt of UI benefits. This added boost also led to job creation. Economist Wayne Vroman found in 2010, that unemployment benefits increased employment by an average of 1.6 million jobs, 900,000 from regular unemployment benefits and 700,000 from the EUC and EB programs.[10]

Due to the severity of the Great Recession, many states ended up depleted their reserves and had to borrow from the federal government to cover UI benefits. In response to the funding issues, many states have decreased UI payouts through dramatic and historically unprecedented reductions. These include reductions in the number of weeks of available benefits, cuts to wage replacement rates, stricter eligibility requirements, direct benefit cuts that reduce how much of workers' prior wages UI can replace, and new disqualifications. These cuts occurred instead of increasing the revenue from employer taxes to replenish the state programs' trust funds.[11]

Despite the urgent need to prepare the UI system for the next recession, state policymakers continue to undermine it. For example, many states have switched to an online system that disenfranchises individuals who have limited or low-quality access to broadband service, like rural communities. Also, as recently as May 2019, a Republican-sponsored bill was passed in Alabama that reduced the duration of unemployment

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benefits below the current 26-week limit.[2] In addition to Alabama, Arkansas, Florida, Georgia, Idaho, Kansas, Michigan, Missouri, North Carolina, and South Carolina reduced their benefit duration to below 26 weeks. Reducing the maximum duration below this threshold is particularly counterproductive when the stabilizing effect of these benefits is needed most.

Steps to Shoring Up Unemployment Insurance

Unemployment Insurance is financed by a combination of federal taxes under the Federal Unemployment Tax Act (FUTA) and state taxes under each state's State Unemployment Tax Act (SUTA). Employers pay an effective net tax rate of 0.6% on the first $7,000 of each employee's earnings (no more than $42 per worker per year). State tax paid by employers is on at least the first $7,000 of the employee's earnings and the tax rate is based off experience rating, which is determining by the firm's past UI behavior. If a firm has high number of layoffs, that means that firm is drawing upon the state's trust funds and therefore leads to higher taxes for that firm.

In the aftermath of the Great Recession, state trust funds have taken a significant hit. 36 of the 53 states and territories ended up borrowing money from the Treasury to cover their UI obligations because they depleted their trust fund.[12] To strengthen the fiscal toolkit prior to the next recession, there are several steps that should be taken to make state UI trust funds solvent.

- Currently, 16 states index the taxable base to inflation so that this base naturally increases over time. The remaining states should follow suit so that their base automatically increases. The 16 states that indexed their taxable base to inflation had fewer solvency issues. During the Great Recession, only six of the sixteen states that index their base needed Treasury loans, while 29 of the 35 that do not index their base needed Treasury loans.[13]

- At the federal level, the tax base should be increased from its current level of $7,000 (which was last raised in 1983) to something significantly higher. In 2014, there were proposals to increase in the federal tax base from $7,000 to $15,000, but the federal government should be much bolder – simply adjusting the existing base to account for inflation would call for increasing the base to just over $18,000. Since states tie their own taxable base to the federal level, this would have the effect of increasing the state tax base and improving solvency.

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In addition to improving trust fund solvency, all states should maintain a maximum benefit duration of 26 weeks. As stated previously, several states since the Great Recession have reduced the maximum benefit duration to fewer than 26 weeks.

Economists Gabriel Chodorow-Reich and John Coglianese outline several further steps that would make the UI program much stronger and a much more effective automatic stabilizer. They argue that policymakers should expand eligibility, reform the EB program by making it fully federally financed and by creating new triggers and increase the weekly benefit amount from $25 to $50.[14]

Other Automatic Stabilizers

Strengthening UI is an important, concrete step for getting the economy ready for a recession and providing the platform for helping the American workers and our economy bounce back. However, there are other steps Congress should take beyond UI to strengthen the economy. This includes helping those who are ineligible for UI, easing the burden on states by supplementing spending on various programs during a recession, and expanding SNAP during downturns while eliminating work requirements that threaten the macroeconomic stabilization purpose of UI.

There are many people who are not eligible for UI but who would benefit from a program that would increase their attachment to the labor force. These are individuals who have a limited work history, or they were independent contractors are therefore did not pay into the UI system. A Jobseekers' Allowance, that provides a stipend of roughly $170 for at least 13 weeks is one promising approach to reaching these workers. The target population would be new labor market entrants, re-entrants, UI exhaustees, self-employed workers, and intermittent workers with limited resources.

One issue for states during a downturn is that almost all face balanced budget rules. This becomes especially problematic during a downturn because spending rises, while revenues fall. Thus, states must make decisions about which programs to cut, which inevitably falls on programs like SNAP, Medicaid, and education programs. The federal government can provide assistance in this case by having them provide federal funds to help states maintain the existing levels of spending for specific programs like Medicaid and the Children's Health Insurance Program (CHIP). The federal government has done this during the past two recessions. This policy can be turned into an automatic stabilizer by linking federal disbursement to rising state unemployment rates. Economists Matthew Fiedler, Jason Furman, and Wilson Powell III develop a proposal where the federal share of expenditures for Medicaid and CHIP would automatically increase when a state's

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unemployment rate hits a certain threshold.[15] This policy has the benefit of maintaining spending on the programs that are crucial for those affected by downturns while easing the burden on states. Legislators concerned about states free riding on the federal government could condition federal assistance on states reforming balanced budget rules to be less harmful during recessions.

The Supplemental Nutrition Assistance Program (SNAP), formerly the Food Stamp program, provides a crucial role in reducing economic hardship and providing food assistance for low-income citizens. In 2018, SNAP provided food assistance to one out of eight Americans, including the elderly, disabled, and children.[16] It not only helps individuals out, but it is an effective automatic stabilizer that boosts the economy during a downturn. Individuals who receive benefits during periods of unemployment or underemployment immediately spend this money which provides a rapid fiscal stimulus to the economy. Economists Hilary Hoynes and Diane Whitmore Schanzenbach argue that SNAP could be strengthened as an automatic stabilizer by removing work requirements and by increasing benefits by 15% during downturns.[17] These provisions have the benefit of expanding eligibility for the program which in turn improves the stimulus effect of spending by SNAP recipients.

Conclusion

Everyone is asking when the next recession will be coming. I believe that this is the wrong question to ask. The right question to ask is, "Are We Ready?" We are not ready because the tools at our disposal are less effective than they were during the Great Recession.[18] We can rectify this by strengthening automatic stabilizers like Unemployment Insurance, SNAP, and Medicaid especially since they will commence once the economy enters a downturn. But the time update them is now, we cannot wait.

Thank you again for the opportunity to address this Committee.

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Chairman YARMUTH. Thank you for your testimony, Doctor.
I now recognize Mr. Hicks for five minutes.

STATEMENT OF JOHN HICKS

Mr. HICKS. Chairman Yarmuth, Ranking Member Womack, and Members of the Committee, thank you for inviting me today.

My association's membership consists of the states' and territories' executive branch budget offices, and I am here today to talk about their perspectives of federal fiscal response during past recessions.

States have balance budget requirements. State revenues are pro-cyclical with the economy. Over 80 percent of our revenues come from taxing income and consumption. These two factors cause states to cut spending and sometimes raise revenues during recessions, both of which can worsen the impact of declining economic conditions.

In fiscal year 2008, prior to the Recovery Act, 20 states had revenue shortfalls, and most cut spending to balance that year. State general fund revenues declined by 11 percent in fiscal years 2009 and 2010. Almost one-third of the states had revenue declines in excess of 15 percent.

States received federal fiscal relief in the last two recessions. In both the 2003 legislation and the Recovery Act, Congress highlighted the intent to provide fiscal relief to prevent more significant spending cuts and tax increases.

The 2003 Act provided $20 billion to states for fiscal years 2003 and 2004. States received a flexible grant of $10 billion and an increase in the federal Medicaid matching rate that resulted in a little over $10 billion.

The 2009 Recovery Act had two primary state fiscal relief funding streams, an increase in the federal share of the Medicaid program and the state fiscal stabilization fund to relieve fiscal burdens on states and local educational agencies. They combined to provide about $148 billion, with Medicaid being $99 billion of that and covered portions of four state fiscal years.

The scope of the relief provided by the Recovery Act was significant. The two relief programs covered 8.7 percent of state general fund spending in fiscal year 2010 and 7.4 percent in fiscal year 2011.

The level of state spending cuts and tax increases that were mitigated by the federal relief was substantial. Even with this relief, states still had to impose multiple years of spending cuts, drew down most of their rainy-day fund reserves, and took both temporary and permanent actions to raise revenues.

Without this relief, elementary and secondary education, higher education, and Medicaid would have incurred substantial spending cuts just so states could balance their budgets.

After most of the federal relief expired in fiscal year 2011, states faced a fiscal cliff. The economic recovery was inching forward slowly. State funding for Medicaid had to go up 20 percent, and further spending cuts were made with higher education cuts of almost 10 percent.

The last recession had lingering effects on state budgets. At the end of fiscal year 2018, half of the states are not spending at their fiscal year 2008 level when adjusted for inflation, and only about one-third of the 183,000 fewer state employees have been added back to the workforce.

So what worked in the Recovery Act? It greatly helped to alleviate state fiscal troubles. Without the Recovery Act, state budget cuts, and tax increases would have been more substantial.

The Recovery Act delivered the largest amount of federal relief to State governments through the Medicaid program. This served the dual purposes of targeting spending to the largest health safety net program when enrollments were increasing and the Act's intent of freeing up state dollars that prevented more severe budget cuts in other parts of state government.

The timing of the start of the two main federal relief programs aligned fairly well with the most difficult state budget years of the recession. The majority of the Recovery Act funds were delivered to states through preexisting federal grant programs. This facilitated the speed of spending the funds.

The Recovery Act flowed the stabilization fund through the governors of each state. This ensured that the entire state budget was taken into consideration when arraying the funds across multiple fiscal years.

Federal-state communication during the implementation of the Recovery Act went well. The communication and cooperation among the administration, the GAO, and the states was well executed through multiple layers of participants.

So what recommendations do budget officers have? The expiration of federal fiscal relief to states in the last recession did not match up with the lag in improvement in state revenues.

The timing of the expiration of federal aid during recessionary periods could be improved by targeting based on specific economic or fiscal metrics rather than a fixed date.

The Recovery Act included other goals for states which made it difficult to navigate. The new focus on counting jobs within the accountability provisions directed an important responsibility onto grant recipients rather than to a centralized entity with the capabilities to ensure uniformity of measurements.

And a process for sustained institutional contact among federal, state, and local government partners is warranted. One action that would advance this idea is the proposed legislation by Representative Connolly, H.R. 3883, “Restore the Partnership Act,” which proposes to establish the Commission on Intergovernmental Relations of the United States.

Mr. Chairman, I appreciate the opportunity to speak. Examining and considering the lessons learned ahead of the next economic downturn is a wise undertaking.

[The prepared statement of John Hicks follows:]

Testimony Of

John Hicks
Executive Director, National Association of State Budget Officers (NASBO)

Before The Committee on the Budget
House of Representatives

On

"Strengthening Our Fiscal Toolkit: Policy Options to Improve Economic Resiliency"

October 16, 2019

10:00 a.m.

Chairman Yarmuth, Ranking Member Womack, and Members of the Budget Committee, thank you for inviting me to discuss the topic of strengthening the nation's fiscal toolkit. My name is John Hicks. I am the Executive Director of the National Association of State Budget Officers (NASBO). For almost 75 years, NASBO has been the professional membership organization for state budget and finance officers. As chief financial advisors to our nation's governors, NASBO members are influential decision makers in state government. They guide their states in analysis of budget options and formation of sound public policy.

I am here today to talk about the state budget officers' perspective on the federal fiscal response to states during recessions. As this Committee considers policy options on improving economic resiliency, an understanding of the recent past is warranted to inform preparations for the next economic downturn.

In my testimony, I will focus on the lessons that state budget officers learned from past two recessions, with particular emphasis on the severity of the great recession, the federal fiscal relief provided through the American Recovery and Reinvestment Act of 2009 (Recovery Act) and considerations for any future federal fiscal relief efforts during economic downturns. A number of the lessons learned are sourced from a 2013 NASBO publication, *State Budgeting and Lessons Learned from the Economic Downturn, Analysis and Commentary from State Budget Officers.*

Federal Fiscal Relief to States – the Predicate

Forty-nine states have a balanced budget requirement, while the final state balances its budget in practice without a formal requirement.[1] When state revenues fall short, spending cuts are the first and most prominent action taken. Other actions that states take to balance their budgets and address budget shortfalls include the transfer of other available resources to the general fund, tapping their rainy day fund reserves, and raising revenues, the latter most typically when fiscal conditions deteriorate for a multi-year period. The general fund is the part of the state budget where most tax revenues are collected and spent. Revenues in the general fund are comprised mainly of taxes on income and consumption. The personal income tax, the sales tax and the corporate income tax comprise over 80 percent of state general fund revenues. This structure is pro-cyclical; as economic conditions improve or worsen state general fund revenues react in alignment with those changing conditions. In other words, during an economic slowdown, state revenue collections often decline sharply.

These two factors, the balanced budget requirement and the pro-cyclical nature of state revenue structures cause states to cut spending and sometimes raise revenues when revenues weaken or decline, both which can worsen the impact of declining economic conditions.

The State Government Fiscal Condition – Fiscal Years 2008 through Fiscal Years 2012

As the United States unemployment rate began rising in 2008, state general fund revenues began to show weakness. Twenty states had revenue shortfalls by the end of fiscal 2008 (46 states' fiscal years end on June 30th) and 13 states had to make mid-year spending cuts to balance their budget.

Conditions worsened substantially during fiscal years 2009 and 2010. State general fund revenues declined for two consecutive years for the first time since World War II. The depth of the revenue declines was the deepest seen over that period. Over those two years, nominal state general fund revenues dropped about 11 percent (median). Almost one-third of states had two-year revenue declines in excess of 15 percent. The fiscal 2009 state budgets were acted on during the 2007 legislative session for 20 biennial budget states and in the 2008 legislative sessions for the other 30 states. The uncertain economic conditions at that time, especially during the 2008 legislative sessions, was evident in the revenue forecasts for fiscal year 2009, which turned out to be much too optimistic. Forty-one states made mid-year budget cuts in fiscal year 2009 and the same number finished the year with revenue shortfalls compared to their original, budgeted estimates.

The weakening of state fiscal conditions was also reflected by $256 billion in combined budget gaps between fiscal year 2009 and fiscal year 2011. Of this $256 billion, states solved $73.1 billion in budget gaps during fiscal 2009 and $111.8 billion prior to the enactment of their fiscal 2010 budgets to bring them into balance with drastically declining revenues. To help close these gaps, 43 states cut their enacted fiscal 2009 budgets by $31.3 billion and 36 states cut their fiscal 2010 expenditures by $55.7 billion. Additionally, 27 states enacted tax and fee increases of $23.9 billion for fiscal 2010. In contrast, tax and fee increases in fiscal 2009 were $1.5 billion along with $6.6 billion in additional revenue increases.[2]

Federal Fiscal Relief to States in the Last Two Recessions

State budgets have received federal fiscal relief in the last two recessions. Both the Jobs and Growth Tax Relief Reconciliation Act of 2003 and the Recovery Act of 2009 highlighted the legislative intent of stabilizing state and local government fiscal conditions, providing fiscal relief to states and to prevent or mitigate more significant spending cuts and tax increases.

The Jobs Growth and Tax Relief Reconciliation Act of 2003 was enacted by Congress in May of 2003. It provided approximately $20 billion to states for fiscal years 2003 and 2004. States received a flexible grant of $10 billion and an increase in each state's federal Medicaid matching rate that resulted in a little over $10 billion. States had to agree to maintain their Medicaid eligibility levels as a requirement for receipt of the funds. The flexible grant had to be used for purposes authorized by state appropriations. Both funding streams were used by states to limit the depth of spending cuts. During this recessionary period, fiscal year 2003 was the trough for general fund spending, declining by almost 1 percent (median). States contended with budget shortfalls in fiscal year 2002 without federal fiscal relief. Thirty-seven states made mid-year budget cuts totaling about $25 billion in that year. Most states enacted their fiscal year 2003 budgets before the passage of the Jobs and Growth Tax Relief Reconciliation Act in May 2003. The first half of the flexible grant to states was made available in July 2003, just prior to timing of closing the fiscal year's accounts. The second half was released a few months later during fiscal year 2004. The timing of the Medicaid assistance was similar. Total Medicaid spending in the states rose 12.8 percent in fiscal year 2002, 9.8 percent in fiscal year 2003, and 5.5 percent in fiscal year 2004. While federal fiscal relief primarily addressed state budget shortfalls in fiscal year 2004 with some late-year relief in fiscal year 2003, the budget shortfalls that states faced in fiscal years 2003 and 2004 exceeded the $20 billion in fiscal relief.

There were two primary state fiscal relief funding streams in the Recovery Act that were targeted to stabilize state budgets and to help address the increase in enrollment in the Medicaid program brought on by the recession. One was called the State Fiscal Stabilization Fund (SFSF). Its purpose was to relieve fiscal burdens on states and local educational agencies that have experienced a precipitous decline in financial resources. The allocation formula to states included 61 percent based on their relative population of individuals aged 5 through 24 and 39 percent on the basis of their relative total population. The second federal fiscal relief program was an increase in the federal share of the Medicaid program. Each state received a 6.25 percent increase in the federal share and a second element raised the federal share based on a state's level of unemployment. The SFSF provided $48.6 billion to states, the enhanced Medicaid federal share resulted in $99.3 billion, and the combined value was $147.9 billion. The time periods covered by these two programs included a part of fiscal year 2009, all of 2010 and 2011, and a part of 2012.

The scope of the federal fiscal relief provided by the Recovery Act was significant and provided a major level of assistance to state budgets. The two federal fiscal relief programs from the Recovery Act reflected:

- An average of 2.4% of General Fund spending in FY 2009
- An average of 8.7% of General Fund spending in FY 2010
- An average of 7.4% of General Fund spending in FY 2011
- An average of 1.2% of General Fund spending in FY 2012[3]

The level of state spending cuts and tax and revenue increases that were mitigated by the federal relief was substantial. Even with this relief, states still had to impose multiple years of spending cuts, drew down the bulk of their rainy day fund reserves, and took both temporary and permanent actions to raise revenues. The lingering effects of the great recession on state budgets lasted much longer than the official end of the recession, not unlike the slow decrease in the national unemployment rate.

Without this fiscal relief, elementary and secondary education, higher education and Medicaid would have incurred substantial spending reductions just so states could balance their budgets.

In addition, states had to agree to a set of maintenance of effort requirements with both the SFSF and the Medicaid programs. Elementary and secondary education and higher education funding by the states had to be maintained at their fiscal year 2006 levels through fiscal year 2011. Medicaid eligibility had to be maintained, as it had with the 2003 federal relief.

The Recovery Act provided fiscal relief quickly after its swift passage in February 2009. The funding for the SFSF program and the increased federal Medicaid share was initially made available to states early enough for states to incorporate into their mid-year budget balancing actions, as well as their preparations for the fiscal year 2010 budgets. Forty-one states had revenue shortfalls in fiscal year 2009 and the same number made mid-year spending cuts to balance. The beginning of the federal relief was closely aligned with the worst state fiscal conditions during that time.

State budget officers were significantly involved in implementing key elements of the Recovery Act a decade ago. The Recovery Act provided authority to each state's governor for the SFSF program. This ensured that the entire state budget was taken into consideration when arraying the SFSF funds across multiple fiscal years. That appropriately helped to achieve the primary purpose of the SFSF program and ensured that the fiscal relief mitigated serious spending cuts in states' education programs.

In addition to the two main federal relief programs, the Recovery Act provided funding in excess of $100 billion through 58 existing federal grant programs that are administered by states. Another $40 billion was made available through 89 competitive programs.[4] These funds did not provide budgetary relief to states but played a critical role in implementing the purposes of the Recovery Act. The urgency to spend money quickly to intended targets and with a degree of accountability and transparency previously unmatched reflected the importance of the federal-state relationship in addressing the great recession's impacts and the extraordinary efforts of state agencies, local governments, the many subrecipients, and the federal departments that governed these many programs.

Rainy Day Funds and Other Reserves – Use during Recessions

States have varying forms of rainy day fund reserves. The primary purpose is to be one tool to address revenue shortfalls during the fiscal year and in extreme cases, forecasted revenue shortages in the development of a new budget. Entering fiscal year 2002, 43 states had a balance in their rainy day fund reserves, representing 4.6 percent (median) of state general fund spending. The following year those balances were down to 2.0 percent of state general fund spending and 18 states had exhausted their rainy day funds. Entering fiscal year 2008, 45 states had a balance in their rainy day fund reserves. These balances represented about 4.9 percent of state general fund spending. That measure dropped to 1.9 percent by the end of fiscal year 2011 and 17 states had exhausted their balances. In fiscal year 2008, 12 states drew on their rainy day funds, in fiscal years 2009 26 states used their rainy day fund, and in fiscal year 2010 23 states drew down on their rainy day fund.

States used their rainy day funds, as well as federal fiscal relief provided during the last two recessions, as bridges to mitigate deeper spending cuts and tax and revenue increases. Rainy day funds are but one piece of a budget balancing plan that states use to manage budget shortfalls. Recognizing that both rainy day reserves and federal fiscal relief funds are one-time, non-recurring sources, they occur most often after spending cuts and other available resources are applied. No state sizes their rainy day fund so that these reserves alone are enough to make up for revenue declines in a recession.

Contending with the Expiration of Recovery Act Funds

Fiscal year 2012's budget was the first that states put together after the expiration of the two primary federal relief funding streams. The economic recovery was inching forward slowly. The unemployment rate remained above eight percent. Most states' nominal general fund revenues had not yet returned to fiscal year 2008 levels. Total state general fund spending in fiscal year 2012 was 2.5 percent less than in fiscal year 2008. Rainy day fund reserves had dropped to 2.8 percent of general fund spending. The most prominent budget actions taken across the country were adding funding to Medicaid to compensate for the return to the regular federal share, a 20 percent increase over fiscal year 2011, and spending cuts throughout state government with the largest reduction occurring in higher education, nearly 10 percent (Medicaid is the second largest general fund spending item in state budgets and higher education ranks third).

The slower economic recovery from the great recession compared to past recessions continues to have lingering effects on state budgets. As of the end of fiscal year 2018, about half the states still are not spending at their fiscal year 2008 level when adjusted for inflation, and fewer states when also adjusted for population growth. The number of state employees, excluding education, dropped by 183,500 workers during the great recession, 6.5 percent lower than the August 2008 peak. Only 63,900, or about one-third, has been added back to state government's workforce as of September 2019. Over half of states had unexpected revenue shortfalls as recently as fiscal years 2016 and 2017. In the last two years, the fiscal condition of states has improved. However, there are many state government programs that have not recovered their pre-recession level of state funding, as the highest priority areas of state spending have been the recipients of the marginal improvements over the last seven years.

Lessons Learned and What are States Doing to Get Prepared?

NASBO conducted a debriefing project that culminated in a 2013 NASBO publication, *State Budgeting and Lessons Learned from the Economic Downturn, Analysis and Commentary from State Budget Officers.* In addition, the NASBO special issue topic for the 2019-20 year has again focused on preparing for the next recession, state government fiscal resiliency and has convened two panel sessions at NASBO meetings. The lessons learned and recommendations below stem from that work.

The Recovery Act - What Worked?

-The Recovery Act greatly helped to alleviate state fiscal troubles. Without the Recovery Act, state budget cuts and tax increases would have been more substantial.

-The timing of the start of the two main federal relief programs aligned well with the most difficult state budget years of the recession.

-The majority of the Recovery Act funds were delivered to states through pre-existing federal grant programs and payment systems. This facilitated the speed of spending the funds and avoided roadblocks of uncertainty that new programs and rules create.

-The Recovery Act flowed the two main streams of fiscal relief through the governor of each state.

-The Recovery Act delivered the largest amount of federal relief to state governments through the Medicaid program. This decision served the dual purposes of targeting additional federal funds to the largest health safety net program when enrollments were increasing and the Act's intent of providing fungible dollars that prevented more severe budget cuts in other parts of state government.

-The flexibility of the State Fiscal Stabilization Fund and the options for meeting the maintenance of effort requirements allowed states to comply with the purposes in the Recovery Act and aided states ability to spend the allocated funds from this program. Providing states with the discretion on how much of the SFSF funds to use across multiple fiscal years achieved the goal of targeting the funds to education programs when they were most needed. It also acknowledged the different state legislative and appropriation cycles that states must adhere to.

-Federal-state communication was one superlative highlighted at NASBO's recent panel on this topic. The level and scope of communication, cooperation and transparency among the federal Administration, the Government Accountability Office and the states was well executed. Frequent calls with governors and additional layers of continuous contacts with state budget officers, federal agencies, the National Governor's Association and the National Association of State Budget Officers created an effective problem identification and resolution process. A lot of thought went into the implementation of the Recovery Act which was unique and necessary to make it work.

-Ray Sheppach, the former Executive Director of the National Governors Association, and one of the panelists at NASBO's Fall 2019 meeting, on lessons learned: "First, the top elected officials at the federal and state level must come together to set a cooperative and positive tone. Second, effective leadership requires constant communication, so that everyone is fully informed to ensure everyone has ownership in the mission...and lastly, build in the accountability system up-front before errors are made as opposed to after the fact."

-During the Recovery Act implementation the Government Accountability Office got out in front of their oversight mission and targeted issues early, allowing for timely troubleshooting and resulted in resolution instead of after-the-fact enforcement.

What Recommendations Do State Budget Officers Have?

-The Recovery Act had multiple policy objectives, including economic stimulus, job creation, and state and local budget stabilization. This resulted in somewhat conflicting goals. Competing or adjunct objectives within the assistance package made it difficult to navigate in some cases. One example was the SFSF requirements related to improving elementary and secondary education through a set of reform principles that states had to certify to receive the funds with a long trail of non-fiscal reporting by thousands of school districts.

-The new focus on counting jobs retained and created within the accountability provisions of the Recovery Act directed an important responsibility onto grant recipients whose skill sets and capabilities did not align that responsibility. This effort took a tremendous amount of administrative time when the scale of implementing the Recovery Act's additional and new funding already required extra effort. The tracking of job counts is better suited to a centralized entity that has the analytic capabilities to ensure uniformity of measurement across all states and all Recovery Act programs.

-The federal government successfully provided additional state aid quickly; however, state tax revenues lagged improvements in the economy and spending pressures persisted long after the economy had turned around. The timing of the expiration of federal aid during recessionary periods can be improved by targeting aid based on specific metrics rather than a fixed date or the broad measures of the end of an economic cycle. The majority of flexible Recovery Act dollars expired at the end of fiscal year 2011. The aftermath of state spending cuts once the SFSF and enhanced Medicaid funding expired raises strong considerations for avoiding fiscal cliffs when economic conditions and revenues have not recovered sufficiently. The timing of federal aid could be determined by triggers set by state revenue trends or economic indicators rather than the business cycle.

-States would be interested in temporary suspension or reduction of federal maintenance of effort requirements in times of fiscal crisis, or prolonged decline to increase state budget flexibility.

-Some studies of federal fiscal relief have mentioned the "moral hazard" of the federal government assisting states during economic downturns under the assumption that states will rely on that future assistance rather than make necessary preparations to ready themselves. While the last two recessions included fiscal relief to states, which recognized the size of the state and local governments sector in the economy, the evidence shows that in the last two recessions states began taking budget balancing actions prior to the passage of federal relief. The growth in rainy day fund reserves is additional evidence that states are making their own preparations.

-A greater level of sustained, institutional contact among federal, state and local government partners is warranted. The Recovery Act implementation served as a good example of effective communication. One recent example that would advance this idea is the proposed legislation by

Representative Connelly, HR 3883, Restore the Partnership Act, which proposes to establish the Commission on Intergovernmental Relations of the United States.

What are States Doing to Prepare for the Next Recession?

Currently, no state revenue forecast for fiscal years 2020 or 2021 includes an assumption of a recession. States are closely examining any warning signs of an economic downturn even when the unemployment rate is at a historically low rate. States have learned lessons from the past two recessions and continue to make improvements to their budget processes and practices as a result.

-The last recession challenged states' assumptions regarding the right amount of rainy day fund balances to hold in reserves. Rainy day fund reserve actions have been one of the most active areas of change in state budget processes. The median rainy day fund balance entering fiscal year 2011 was 1.6 percent of state general fund spending from a previous high of 4.8 percent just prior to the last recession. Most states have increased the size of their rainy day funds since the last recession. Despite the slow recovery from the recession, states have raised the level of their rainy day fund balances to an estimated 7.5 percent at the end of fiscal year 2019. A number of states have raised the maximum allowable balances of their rainy day fund. More states are examining the historical trends of revenue volatility and using that data to inform the appropriate size of their rainy day fund balances. A few states are directing revenue surpluses from their most volatile revenue sources, such as non-withholding personal income tax receipts, and higher than average corporate income and severance taxes, to their rainy day funds instead of budgeting those resources. There are eight states with less than 3 percent in reserve currently. There were 15 states with less than 3 percent in fiscal year 2008.

-Restoring structural balance to state budgets has been a priority for many states in recent years after recovering from the recession. Matching recurring expenses with recurring revenues has always been an important fiscal principle. Governors and state legislatures have shown a heightened emphasis on ensuring structural budget balance which reduces risk in advance of an economic downturn. Another process that states have taken which contributes to structural budget balance is long-term forecasting for periods beyond the immediate annual or biennial budgets.

-More states have begun a series of stress tests of their budgets under various economic downturn scenarios. The primary goal is to evaluate revenue impacts, but some also include out-year spending forecasts of programs where demand rises during recessionary periods in addition to demographicly impacted projections.

-States have exhibited a pattern of conservative fiscal behavior when warning signs of economic downturns appear. A number of governors are establishing expectations within their government of minimal spending growth in their fiscal year 2021 budget planning.

-In the last two fiscal years, some states have rolled back budgetary actions that were taken to make it through the great recession. These efforts not only put some "tools" back in the toolkit, they also support a structurally balanced budget. Pension reforms have been ongoing in most every state with most aimed at lowering the longer-term risk to state budgets.

Summation

State governments played an important role in the last recession through the Recovery Act. The federal fiscal relief built on some of the lessons learned from the 2003 response to the 2001 recession. The Recovery Act provided another case to evaluate and improve future actions. There were successes with past federal relief to states and there are areas that warrant adjustment and improvement. Examining and considering the lessons learned ahead of the next economic downturn is a wise undertaking and will serve our federalism structure well.

[1] Vermont is the only state without a balanced budget requirement but follows a balanced budget rule in practice.

[2] NASBO Fiscal Survey of States, December 2009.

[3] NASBO calculations using federal Recovery Act spending data and NASBO's *State Expenditure Report*.

[4] *State Policy Reports*, Volume 37, Issue 17, September 2019, Federal Funds Information for States.

[5] *How Leaders Can Navigate Recession, From One Who's Been There*, October 4, 2019, UVA Today.

Chairman YARMUTH. Thank you for your testimony.

Dr. Holtz-Eakin, I recognize you for five minutes. Welcome.

STATEMENT OF DOUGLAS HOLTZ–EAKIN, PH.D.

Dr. HOLTZ-EAKIN. Thank you, Chairman Yarmuth and Ranking Member Womack and Members of the Committee, for the privilege of coming here today to discuss economic resiliency.

As has been noted, the U.S. economy has already demonstrated considerable resiliency, and there is not an imminent recession. I think it is important to recognize that we have essentially a two-part economy. One part, the household sector, is quite strong and has been growing at an average rate of about 2.7 percent year over year pretty steadily since 2016.

It is bolstered by a very strong labor market with unemployment at historic lows, 3.5 percent.

Rising wages, including the wages of the least skilled and least well off, and that is the good news part of the story.

You often hear a lot of the bad news part of the story, which is a weak housing market. It has been that way for two years now.

Diminished business fixed investment, which is a concern, and the obvious problems in the global economy and the U.S. trade sector which are a real headwind for the U.S. economy.

But with 70 percent of the economy growing at above 2.5 percent, it is hard to imagine getting into negative territory. So a recession really is not imminent.

Having said that, I think the best way to think about maintaining and expanding the economic resiliency is to think hard about what we can do to raise the trend rate of economic growth. There is a lot of attention on the cycle, but how fast you grow on average is actually really important.

Bad things happen all the time in economics. Fukushimas and other natural disasters happen. There are strikes as there is in the auto sector right now. You get a Boeing Max 737 shutdown, and those are negative shocks to the economy.

If you are drifting along at 1 percent or a half of a percent and not growing very rapidly, those negative shocks can quickly put you into negative territory. That scares people, and it snowballs, and you end up with a greater probability of recession.

If you are growing at 2, 2 and a half percent, those same events do not drive you into negative territory, and the economy is more likely to survive without the necessity of some sort of response to a recession.

So I think the Congress should now do the things they can to bolster the trend rate of economic growth, and the Chairman mentioned some of the ones that I would single out in my testimony.

Certainly trade has been an important part of generating productivity and economic growth in the United States. The USMCA is something that the congress could do right now to solidify the long-term trend rate of growth.

Tax reform is unfinished business in my view. Yes, there was a bill passed in 2017, but there are a lot of opportunities still to make the tax code permanently better, not to have provisions that sunset, which were never, in my view, good economic policy; to do some base broadening and improve the investment and innovation incentives. Those are things that the Congress could do now, put in place a stronger foundation.

The Chairman mentioned the importance of the regulatory reforms that we have seen in recent years, and I really think this is one of the least well understood aspects of what has gone on in the past couple of years.

We keep track of every regulation issued by the federal government. During the eight years the Obama Administration issued a major regulation at the average rate of 1.1 per day for eight years, a total self-reported cost for the private sector to comply of $890 billion.

Since the Trump Administration entered, the net regulatory burden has been cut by about $10 billion. So we have stopped the expansion in the regulatory state. That could be made statutory, not leave it to the executive branch.

Find a way to put budgets on the agencies in the same way we put budgets on taxpayer dollars and minimize the burden on the economy.

And I think there are other things like immigration reform and, certainly for this Committee, putting the debt on a sustainable trajectory that would improve the long-term outlook in beneficial ways.

Having said that, there will be a recession. I think we all acknowledge that, and the logic of automatic stabilizers is impeccable. I have no reason to worry about that.

What I am concerned about is how do you operationalize the notion of bigger and better automatic stabilizers. I have not seen a case yet on why these ones are too small, and so how big the stabilizer should be, I think, is an open quantitative question, and how we make that decision is going to be hard.

I worry, as the Ranking Member did, about expanding mandatory spending. This is the key budgetary problem, and these would be big expansions of mandatory spending.

And I worry about doubling up. I think it is almost impossible for an elected Member of Congress in the face of recession to go back to a town hall and say, "Hey, our predecessors took care of this. Do not worry about it. It will happen automatically."

So we will get both automatic stabilizers and discretionary countercyclical policy. That might be overdoing it, and so I am not convinced we need to do this.

So I thank you for the chance to be here today. I look forward to answering your questions.

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

Testimony on
Strengthening Our Fiscal Toolkit: Policy Options to Improve Economic Resiliency

Douglas Holtz-Eakin, President[*]
American Action Forum

October 16, 2019

[*]The views expressed here are my own and do not represent the position of the American Action Forum. I am indebted to my colleague Gordon Gray for many valuable conversations.

Chairman Yarmuth, Ranking Member Womack, and Members of the Committee thank you for the privilege of appearing today to discuss the important issue of economic resiliency. In this short testimony I hope to convey three main points:

- The U.S. economy already displays considerable resiliency; despite significant headwinds there is no imminent recession and growth continues at a solid pace.

- The best way to improve economic resiliency is the fortify the long-run, trend rate of economic growth. Negative shocks are an economic fact of life; the faster the economy is growing the less like that it falls into negative territory.

- While the logic of automatic stabilizers is impeccable, there are good reasons to be cautious about a dramatic expansion of federal mandatory spending and reasons to be skeptical about the political economy of their effectiveness.

Let me discuss these in turn.

The Near-Term Economic Outlook

The near-term outlook is for solid but slowing growth; and far from an imminent recession. Measured as growth from the same quarter one year ago, growth in real gross domestic product (GDP) accelerated steadily from its recent low of 1.3 percent in the 2nd quarter of 2016 to 3.2 percent in the 2nd quarter of 2018. Since that time, growth has slowed appreciably reaching 2.3 percent in the 2nd quarter of this year. Moreover, both the Atlanta Fed's GDPNow and the New York Fed's Nowcast estimate of 3rd quarter growth rate translates to year-over-year growth of 2.0 percent.

Importantly, personal consumption expenditures (PCE, or household spending) is 70 percent of economic activity and it has remained rock solid. From the 2nd quarter 2016 to the 2nd quarter 2018, it averaged year-over-year growth of 2.7 percent. Over the more recent period it has averaged 2.9 percent. That is a rock-solid foundation for GDP growth that is slower, but a long way from negative territory.

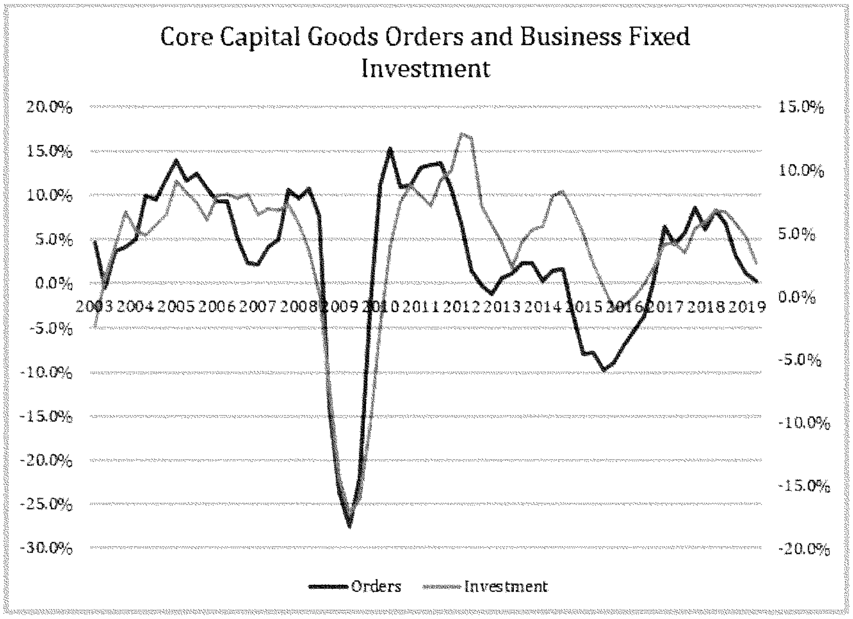
One often gets a much more negative picture of the state of the economy. One source of this is the commentary regarding the monthly Bureau of Labor Statistics (BLS) release of the employment report. Most of the attention is typically focused on the unemployment rate (currently a very low 3.5 percent) and the number of new jobs created. Unfortunately, these figures present a very narrow — and potentially misleading — snapshot of economic health. As the expansion has continued, the capacity of the economy to draw new workers into the labor force and out of unemployment become steadily more limited. As a result, the potential for "new jobs" gets steadily more limited as well. It is not a sign of any failure that the average number of new jobs has fallen from 223,000 per month in 2018 to 161,000 thus far in 2019. (Note: These data have not been adjusted for the so-called benchmark revision. The BLS has already signaled that the total jobs in the economy will be revised down by about a half-million, but the pattern is what matters.)

A more significant piece of data is the growth of average hourly earnings — especially for production and non-supervisory workers (i.e. blue-collar labor). The year-over-year growth has moved up from 2.3 percent in 2017 to averaging 3.4 percent thus far this year. Strong wage growth is a reflection of the restoration of productivity growth in the U.S. economy (productivity was up at an annual rate of 2.3 percent in the 2nd quarter). It is also the foundation of growth in incomes; labor income is jobs times average hours times wages, and average hours worked have not fluctuated significantly.

Similarly, there is an excessive focus on manufacturing. The news that the ISM Manufacturing Index fell into contraction territory has fed recession fears. But there are over 151 million employees in the United States, and under 13 million are in manufacturing. Put differently, for every worker in manufacturing there are nearly 11 more elsewhere in the economy.

In addition to manufacturing, there are other weak parts of the economic outlook: housing, farming, and trade. Housing has struggled for the duration of the Trump Administration. The farm economy was in bad shape and the retaliation to Trump's trade policies have turned bad to dreadful. Trade flows are down sharply in direct response to the tariffs and the generalized decline in global trade.

Perhaps the most important issue for the outlook is the future path of of business fixed investment (BFI). In particular, the decline in BFI is the mirror image of the ramp-up that occurred from 2016 to the fall of 2018, which drove the topline growth rate above 3 percent. As shown below, orders for non-defense capital goods excluding transportation are a good barometer of the business-investment environment. The data displayed are the growth rates from the same quarter one year earlier for orders (red line, left axis) and BFI (green line, right axis). The sharp upswing in both to roughly 7 percent in the fall of 2018 was the heart of the Trump-era boom; the subsequent decline to close to zero year-over-year growth is the source of the current weakness.



Improving Resiliency and Reducing the Probability of Recession

The single most important objective should be to raise the long-term trend rate of economic growth. This has direct implications for the pace at with standards of living increase, but also reduce the probability of a recession.

The reality is that negative shocks are part of economic life, whether they are natural disasters, commodity price shocks, droughts, global financial pressures or any of a myriad of other economic headwinds that arise. If the economy is growing slowly, say 1.0 to 1.5 percent, these shocks raise the specter of an actual downturn. The concomitant reductions in consumer and business confidence may snowball into a recession. If the economy is growing more rapidly, say 2.5 to 3.0 percent, a recession is far less likely.

Are there ways to achieve this objective? Yes. While the U.S. faces a slowdown stemming from the demographic shift, pro-growth policies that augment the core rate of productivity can generate a higher trend growth rate.

Trade Policy

Trade is an important driver of productivity and economic growth in the United States and globally. Trade creates jobs, increases GDP, and opens markets to American producers and consumers.

The current trade policy outlook is challenging. The United States is the most robust trading partner in the world, with combined trade volume in 2017 of goods and services valued at over $5.2 trillion. Among nations, the United States was the second-largest exporter of goods and the largest exporter of commercial services as of 2017. Trade is vital to the United States, the largest economy in the world, and the trade policy landscape is unsettled.

Congress has an opportunity to contribute to improving the trade outlook by considering the United States-Mexico-Canada Agreement (USMCA). The USMCA modernizes the existing North American Free Trade Agreement (NAFTA) by adding protections for intellectual property and updating rules on digital trade. The agreement also updates prevailing trade rules related to the agriculture, manufacturing, and automotive industries. While the economic implications for the USMCA should not be overstated, demonstrating the capacity to ratify trade agreements would send a meaningful signal to global trading partners and remove some policy uncertainty from the economic horizon.

Tax Reform

Prior to the enactment of the TCJA, the U.S. tax code was broadly viewed as broken and in need of repair, and for good reason. A sound reform of the U.S. tax code was an essential element of a pro-growth strategy, and this reform promises to support substantially increased long run economic growth.[1]

The TCJA addressed some of the most glaring flaws in the business tax code. It lowered the corporation income tax rate to a more globally competitive 21 percent, enhanced incentives to investment in equipment, addressed some of the disparate tax treatment between debt and equity, and refashioned the nation's international tax regime. Primarily for these reasons, the TCJA will enhance the nation's growth prospects.

The TCJA was an important first step in improving the U.S. tax code but should not be viewed as the final word in U.S. tax reform. Several features of the bill will need to be revisited and improved. Specifically, the temporary provisions should be made permanent. These include business and individual provisions, and expensing of qualified equipment should top the list of provisions that should be made permanent.

Making these changes permanent, however, should be done in a revenue neutral way. According to the President's Budget, just making the individual and estate tax provisions of the TCJA permanent would cost $541.6 billion over the next decade.[2] It would be fiscally imprudent to layer this additional deficit effect on top of existing budget challenges.

Congress should also continue the *reform* effort of tax reform and continue to flatten distortions in the tax code. The tax preference for debt over equity, for instance, persists in the tax code and should be revisited.

Continued Regulatory Reform

Perhaps the most striking policy departure from the previous administration has been in the area of regulatory reform. The Obama Administration finalized a costly regulation at the average rate of 1.1 per day, and the cost of complying with those regulations cumulated to $890 billion - according to the agencies themselves that issued the regulations. That cost is an average stealth tax increase of over $110 billion a year.

Enter the Trump Administration which, by executive order, imposed regulatory budgets on the agencies. If the rules finalized by the agency-imposed costs greater than the allotted budget, the agency had to find offsetting reductions by eliminating other regulations. This approach was popularized as the "one in, two out" approach to regulations. How did it work out? From his inauguration to the end of fiscal 2017, the total burden rose by only $5 billion — a far cry of the $1000+ billion annual burdens for the 8 years prior. Fiscal 2018 was even more dramatic, with the regulatory burden actually falling by $6 billion.

As detailed by Dan Bosch and Dan Goldbeck the Trump Administration established a goal of $17.9 billion in total savings (across all executive agencies) for its regulatory budget. Although the final results are not yet fully in, Bosch and Goldbeck project that the administration will miss its target, but still cut the regulatory budget by $8.6 billion in fiscal 2019.

While this constitutes remarkable progress in halting the growth of the regulatory state it could easily be reversed under another administration. There remains a need for structural regulatory reform to check the growth of the regulatory state in the future. For example, the Regulatory Accountability Act (RAA) is one example of how Congress can impose structural checks on future burdensome regulations. Among other provisions, the Act defines a "high-impact" rule as a measure that would impose annual costs of $1 billion and require an advanced notice of proposed rulemaking for any high-impact rule. It would also require a public hearing before adoption and for agencies to adopt rules on the basis of the best evidence and the least cost to the economy. This is one of several potential legislative efforts that could improve checks on regulatory growth.

Immigration Reform

Immigration reform can raise both population and labor force growth, and thus can raise GDP growth. In addition, immigrants inject entrepreneurialism into the U.S. economy.[3] New entrepreneurial vigor embodied in new capital and consumer goods promises a higher standard of living. Without this policy effort, low U.S. birth rates will result in a decline in the population and overall economy. An economically based immigration reform would raise the pace of economic growth substantially, raise GDP per capita, and reduce the cumulative federal deficit.

Entitlement Reform and a Sustainable Debt Trajectory
One of the biggest policy problems facing the United States is that spending rises above any reasonable metric of taxation for the indefinite future. A mini-industry is devoted to producing alternative numerical estimates of this mismatch, but the diagnosis of the basic problem is not complicated. The diagnosis leads as well to the prescription for action. Over the long-term, the budget problem is primarily a spending problem and correcting it requires reductions in the growth of the largest mandatory spending programs – namely, Social Security and federal health programs.

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

For this reason, an immediate reform and improvement in the outlook for entitlement spending would send a valuable signal to credit markets and improve the economic outlook. Alternatively, businesses, entrepreneurs and investors perceive the future deficits as an implicit promise of higher taxes, higher interest rates, or both. For any employer contemplating locating in the United States or expanding existing facilities and payrolls, rudimentary business planning reveals this to be an extremely risky environment.

But purely budget-driven arguments are insufficient to marshal support for entitlement reform. The large entitlement programs need reform in their own right. Social Security is a good example. Under current law, retirees will face a 23-percent across-the-board cut in benefits in less than two decades.[4] That is a disgraceful way to run a pension system. It is possible to reform Social Security to be less costly overall and financially sustainable over the long term.

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

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

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

Automatic Stabilizers

Automatic stabilizers are provisions in law that generate greater aggregate demand as the economy slows or declines. For example, a progressive tax system acts as an automatic stabilizer because as incomes fall households move into lower tax brackets and have a greater fraction of their earnings available to spend. Similarly, the unemployment insurance (UI) system serves as an automatic stabilizer by providing income to the unemployed.

Obviously, the U.S. already has in place automatic stabilizers. There has been interest, evidenced by this hearing, in augmenting the system of automatic stabilizers. For example, in a recent Wall Street Journal opinion piece former Council of Economic Advisers Chairman Jason Furman argued[6]: "Congress should pass a law immediately that would automatically trigger stimulus if the labor market deteriorates, with unemployment rising rapidly. The package should include not only tax cuts but also relief for states, as well as extra help for people most hurt by recessions. The legislation should be permanent, the measures lasting as long as needed in the next downturn and set to trigger in future ones as well."

At an abstract level, the argument is appealing. But I have reservations about the idea at this juncture. First, the U.S. already has automatic stabilizers (as noted above) and there has been no compelling case made that they are somehow insufficient. Indeed, "how big" is a difficult question to answer. It is far from obvious (to me at least) how to appropriately scale the kinds of provisions that are suggested.

The alternative to automatic stabilizers is discretionary actions by Congress in the event of a downturn. Congress can (and has) cut taxes, enhanced unemployment insurance, provided assistance to states, augmented the Supplemental Nutrition Assistance Program (SNAP), and so on.

Thinking about the alternatives raises two additional concerns. First, from a budgetary perspective, automatic stabilizers are mandatory spending, while discretionary policy is (literally) discretionary spending. Other things being equal, it would be unwise to create additional mandatory spending programs – mandatory spending <u>is</u> the long-run budget problem.

The second additional concern is that it seems most likely that the outcome will be <u>both</u> automatic and discretionary responses. I consider it extremely unlikely that faced with a significant downturn Congress and the administration will choose to do nothing and explain to the American people that their predecessors had taken care of this problem. Instead, regardless of the robustness of the automatic stabilizers that are in place, Congress and the administration will enact further discretionary policies. The result will be budgetary excess and unsound fiscal policy.

Thank you and I look forward to your questions.

Notes

[1] http://americanactionforum.org/research/economic-and-budgetary-consequences-of-pro-growth-tax-modernization

[2] https://www.whitehouse.gov/wp-content/uploads/2018/02/spec-fy2019.pdf

[3] Holtz-Eakin, "Immigration Reform, Economic Growth, and the Fiscal Challenge."

[4] https://www.americanactionforum.org/research/future-americas-entitlements-need-know-medicare-social-security-trustees-reports/

[5] http://americanactionforum.org/insights/repairing-a-fiscal-hole-how-and-why-spending-cuts-trump-tax-increases

[6] https://www.wsj.com/articles/launch-a-pre-emptive-strike-against-recession-11567723004

Chairman YARMUTH. I thank you.

And just to clarify, you referred to things that he did as Chairman. He was Chairman and a very good one. So——

Dr. HOLTZ-EAKIN. My apologies, Mr. Chairman.

Chairman YARMUTH. No, no, no. It is all right. I just do not want to take credit for what you are giving Mr. Womack credit for.

Well, thank you all for your testimony. We will now begin the question and answer period. The Ranking Member and I will defer our questions until the end.

So I now recognize the gentlewoman from Washington, Ms. Jayapal, for five minutes.

Ms. JAYAPAL. Thank you, Mr. Chairman, and thank you for your incredible leadership and for these issues that you bring to the Budget Committee.

Thank you all for your testimony.

Although the Great Recession officially ended 10 years ago, the bottom 50 percent of households have only just retained their wealth, which I find appalling. We know from our studies of the last recession that certain programs, and you refer to these, including SNAP and TANF and unemployment insurance, are especially effective in stabilizing the economy during recessions, and they could be even more effective in dampening the harms of recession if they were available to more people with fewer barriers to entry.

But we do hear a lot of criticism about how we cannot afford to pay for these programs because the programs increase federal debt, and these arguments are used to justify cutting flexible spending programs that help people in need, and they are used to justify the placement of high barriers, like onerous and discriminatory work requirements.

We hear similar arguments against the creation of bold new programs that would address important problems like homelessness, our crumbling infrastructure, or climate change.

And so today I would just like to investigate a little bit how strategic government spending, even government spending financed by debt, actually helps our economy.

And, Dr. Elmendorf, I thought your testimony was incredibly insightful. There is widespread concern that the U.S. may experience a recession in the near future, and with interest rates already low, you refer to this in your testimony. The Federal Reserve is going to have even less space to intervene.

Does that mean that we have to rely on fiscal policies, even if they include significant federal spending, to limit the severity of a recession?

Dr. ELMENDORF. Yes, Congresswoman. I think it does mean that. We are currently running budget deficits of a trillion dollars a year or so. The proposal I offered which was just illustrative. We do not know how much fiscal stimulus we will need in the next recession, but even a very large piece of fiscal stimulus would add as much to the debt as we add every year now in what people discussed as a strong economy.

It would be a terrible mistake to run significant deficits when the economy is humming along and then to decide we cannot run deficits when the economy needs that support.

So I think we are looking for more fiscal stimulus in the next recession than we had in the last one.

Ms. JAYAPAL. Well, you are sort of getting at my next question, which is exactly that. You know, even during a recession, we hear that you cannot afford, we cannot afford to increase federal spending because it will increase debt.

But in your testimony, you asserted that the Great Recession would have been less destructive and long had the government spent twice as much.

Can you explain why key investments in federal programs and not austerity policies are actually more effective in heading off a recession?

Dr. ELMENDORF. So there are a few issues here, Congresswoman. One is that fiscal stimulus can come from tax cuts as well as spending increases, and I referred to both in complete parallel through my remarks.

The choice of what sort of stimulus to use depends on your and your colleagues' judgments partly about the economic effects, and we can talk about the benefits of targeting and so on; partly in your assessments of what is most important to have in our country.

Is it to have more consumer spending through tax cuts, or is it to have more support for people who need support? And is it to have more investments in the future?

So one very important role of government spending is to provide investments in our future. Some of those are investments in research and development, are investments in infrastructure, and currently federal spending for those purposes is about the smallest percentage of our economic output it has been in my entire lifetime. That is not a forward-looking policy.

But also, there is a growing body of evidence that some of the social programs that provide support for low-income families give the children in those families permanent advantages over their lives and the incomes that they can earn when they go to work.

And so their investments in both the productivity enhancing R&D and infrastructure, but also in the productivity enhancing skills of children who can get better access to the education they need with the right sort of federal support.

Ms. JAYAPAL. Thank you.

That investment early on in kids is so important, and, Dr. Ajilore, you refer to this with your comments about SNAP, for example.

Why is investment in programs for low income and middle-class people crucial for preparing for and responding to recessions, again, even though that increase might increase federal debt, even though that spending might increase federal debt?

Dr. AJILORE. Thank you for your question, Congresswoman.

One of the things that we need to understand is that these programs have a stimulus effect, and so as was mentioned before, consumer spending is 70 percent of GDP. So that has been very good. Consumer confidence is still pretty good.

And so what we need to do is emphasize further consumer spending, and the stimulus effect is larger for low-income and middle-class families.

So when we think about these automatic stabilizers, one of the things that we have to focus on, one of the things that we miss is that people want to work, and so we want to have programs that help people stay attached to the labor force.

So that means it is not just, you know, finding a job, but it is also putting food on the table, which SNAP helps with. It is also taking care of your health care, which Medicaid helps with.

So we have all of these programs so that people can be better able to find a job when they lose their job, and so that is why we need to focus on that, because of that stimulus effect that would help consumer spending and, therefore, boosting GDP.

Ms. JAYAPAL. Thank you so much.

My time has expired. I yield back.

Chairman YARMUTH. The gentlewoman's time has expired.

I now recognize the gentleman from Missouri, Mr. Smith, for five minutes.

Mr. SMITH. Thank you, Mr. Chairman.

Today marks 177 days since this Committee has failed to adopt a budget and pass a budget. It is the Budget Committee.

Speaker Pelosi has said numerous times that a budget is a statement of your values, and every party should do a budget. Yet her party is in power, and they are not doing a budget.

They do not care about the people's House right now, they care about making it a House of investigations. This is the Budget Committee, let us see your budget. It has been 177 days, and we still have not had it.

Thanks to the policies championed by President Trump and the work of a Republican Congress in his first two years in office, we have a booming economy. GDP was 3.1 percent in 2018, last year. This was the highest in 13 years. Our GDP was the highest in 13 years last year at 3.1.

First quarter of 2019, we were at 3.1 GDP.

Just in the last couple weeks, we hit the lowest unemployment rate in 50 years, the lowest unemployment rate in 50 years.

Do you know who has benefitted from a very, very low unemployment rate? The low-wage workers. I represent one of the poorest congressional districts in the country. My people have benefitted the most under the policies of the first two years of a Republican Congress and a Trump Administration, with all of the deregulations, with the lower taxes, with the doubling of the child tax credit from 1,000 to 2,000, with lowering the tax rates for low-income families, doubling the standard deduction. This has helped the folks in Southeast Missouri.

You know, there was a recent article that analyzed an economist's view of wage growth amongst low-income workers, low-income sectors. And in fact, it was comparing low income sectors that included retail, restaurants, clothing stores, casino workers, and in fact, those employees have seen the largest wage growth than any other sector.

That is great news, but no one is talking about it.

And the reason why they are benefitting with higher wage growth is because of the tight labor force. Like I just said, the lowest unemployment rate in the history of our country which was just announced, and that was created because of the policies of the Republican Congress, the last two years, and President Trump, with a booming economy that created a 3.1 percent GDP.

We need to champion the fact that those folks that work in restaurants and the retails, retail clothing stores, that they have seen the largest wage growth.

Let me read this. Wage growth was truly stagnant only for workers in high-wage industry, such as lawyers, doctors, and broadcasters.

Those broadcasters do not want the American people to know that their wages have not increased as much as someone who serves them in a restaurant because they care about their own pocketbook.

Let me read something else to you. Earnings growth for low-wage workers, such as those who work in retail and restaurants, like I said, has doubled in the last five years. Their wages have doubled in the last five years. That is phenomenal, and that is great because of the economy and the policies that were passed in the last two years.

Also, wages for the poorest Americans were rising twice as fast as those hourly earnings for high-wage earners. Those are great things to talk about, and so we need to look at is what created that.

Deregulation, which saved families $3,100 that President Trump initiated, and making permanent the Tax Cuts and Jobs Act, such as the doubling of the child tax credit and lowering tax rates for all Americans. That is how we can help continue this growth in the economy and the growth in wages for low-income workers.

Chairman YARMUTH. The gentleman's time has expired.

I now recognize the gentleman from California, Mr. Peters, for five minutes.

Mr. PETERS. Thank you, Mr. Chairman.

And thank you all for being here today.

Mr. Holtz-Eakin, you talked about some of the factors having to do with the growth rate, and I am onboard with a lot of those. You did not mention immigration, which is another one I would add.

The other thing I had a question for you though is: what is the effect of federal debt on the growth rate?

Dr. HOLTZ-EAKIN. So, first of all, I did mention immigration in my written testimony. I think it is a very important issue, and the U.S. has never really used immigration as a tool of economic policy and could, I think, reform its core visa granting programs to take better advantage of that. I would be happy to discuss that further if you want.

In terms of the debt, the outlook for the debt really has, I think, significant impacts on the capacity for the economy to grow, and the mechanisms are the following:

One, every time the federal government borrows a dollar, it takes a dollar that would otherwise be available for investments in skills, innovation, capital. That is an important channel by which the debt affects the economy.

It is not too visible at any point in time, but it is sort of a slow, corrosive opportunity lost, and we are doing an enormous amount of that right now.

The second thing is at some point, not today, you know, if you are a businessman looking at investing someplace in the globe and you look at the United States and it has a fundamental mismatch in its federal budget, you have to start asking yourself, well, how does this get resolved?

Does it get resolved by a crisis? Certainly we hope not, but that is not a pro-growth strategy.

We could just tax and close that gap. That is not a pro-growth strategy.

Or we could get the core spending programs under control and have a revenue stream that matches them.

By the way, one of those three is good news, and that is a bad news thing.

Mr. PETERS. Well, let me ask you about that. But is it appropriate to cut taxes on high-income earners who are particularly wealthy individuals at a time when the economy is strong?

That adds to the retardation of the growth rate, does it not?

Dr. HOLTZ-EAKIN. I think that you ought to think about tax policy not in terms of just high-income individuals, but what will be the incentives for saving investment growth over the long term?

Mr. PETERS. Right.

Dr. HOLTZ-EAKIN. And tax policy should be designed to heighten those to the extent possible.

Mr. PETERS. It also has to be designed to cover your expenses at some level.

Dr. HOLTZ-EAKIN. Yes, and we are not close at the moment.

Mr. PETERS. And, Mr. Elmendorf, I ask you. I keep hearing that debt is a long-term issue, but it does seem to me that, you know, we hear that we are going to be spending more on interest payments than children in three years and more on interest payments than defense in five years.

Is this not something that is with us right now?

Dr. ELMENDORF. Well, as you know, Congressman, federal debt is now at an historically high level relative to GDP. As I noted, that is a problem that you or your successors will ultimately confront.

I think the question is when and how. And so you talk about when to confront that. It is good to do when the economy is strong, bad to do when the economy is on the edge of recession or in a recession or in the first part of a recovery.

And then you come to the question of how, and you have to decide on behalf of citizens like me what we want the society to be about.

And so when you think about tax policy, it is about raising revenue. It is about the incentive effects, as Doug said. It is also about who is bearing the burden.

And given the great divergence of incomes in this country over the last several decades and, in particular, the slow growth of incomes for people in the bottom half of the income distribution, I think it is appropriate to have the burden borne more by people who are higher up in the income distribution.

And I would also just emphasize that when federal dollars reduce private investment and innovation and so on, that can be a cost, but also budget stringency reduces federal investments in R&D and in education and so on. That also has a cost for the future growth of the economy.

Mr. PETERS. No, 100 percent. I do not mind the idea of investing. I think we should be investing in that sort of thing. I do not like the idea of accruing interest payments, you know, which are becoming a bigger and bigger part of the pie.

And in the course of this economy, which is very strong, the majority in the last Congress cut taxes in a way that seemed to me it was unresponsive to the need to fill the gap in the debt and also ignored the effect of the slowing of growth that happens from this debt over time.

And I think we have to recover from that and what you call the next tax policy.

But really just quickly, Mr. Elmendorf, broadly speaking, with respect to housing, in the last recession we responded to the crisis by providing 7 to 9 million homeowners consumer's relief, enabling them to restructure their mortgage.

But the worth for the typical household plunged by about 40 percent, and economic inequality was exacerbated. Can you in a few seconds tell me how you think our response for homeowners did and whether we could do better next time?

Dr. ELMENDORF. A lot of smart people worked really hard to develop policies to help homeowners in the last downturn. I do not think we were terribly successful in the end, but I think that importantly reflects the difficulty of that challenge.

Too many people bought houses they could not really afford on the hope that house prices would keep rising, and they did not keep rising. It was very hard to solve that problem. So I wish more had been done, but I do not think it was so straightforward.

I think it is important going forward that we have the right sorts of regulation to help people avoid avoidable risks like that.

Chairman YARMUTH. The gentleman's time has expired.

I now recognize the gentleman from Oklahoma, Mr. Hern, for five minutes.

Mr. HERN. Thank you, Mr. Chairman and Ranking Member.

I appreciate the opportunity. It is really an honor to be here because this is something I would love to talk on for about the rest of my time in Congress.

Being a businessman for 35 years before I came here, I have only been in Congress not quite a year now. I do find it quite humorous on the conversation here that if somehow we did not have the tax increase, that somehow we would automatically start paying down debt.

This never happens. It only happened really four years in a row in our lifetime, and that was under President Clinton, and then the House was Republican led and the Senate was Republican led when everybody got together and had a thing called welfare work reform.

And it is an interesting thing because the only way we are going to work it out in our economy, the way it is structured is that we have more people working, paying in taxes, and less dependent on the federal government. That is really what happened.

We had 9/11 come along. I remind us our history. It changed the world economy forever, and now we are right back to where we were, running gigantic deficits and enormous debt that has really got to be troubling to all of us regardless of the side you are on, which really demands that we have a budget, one that really determines how we are going to spend those revenues.

In fact, if you look at the next 10 years of the budget window, it is incredibly devastating, once many of us are gone, what we are going to be leaving our kids and grandkids in the future. Somebody is going to have to pay the piper at some point in the future.

So to say that we are just going to all of a sudden, if we got those tax reforms back, that we were going to change our direction, with all due respect, I just think it is a joke. I have not seen that in my time here. It is how can we spend more, and nobody has the intestinal fortitude to want to cut anything.

I do think it is irresponsible though to not cut spending with the revenues we have, and so it is interesting. I do find it interesting, Mr. Elmendorf, that you said the wealthy ought to pay more of their fair share.

They are paying well over half of the American taxes. The upper 2 or 3 percent are paying well over half of taxes. So, I do not know what you define or describe as "fair." Maybe it is all of what they earn, and it still would not be enough.

In fact, we could take almost all of the revenue generated in the United States and have a difficult time paying off our debt, and so I do not know exactly where we are going with this other than we have got to figure out how we get our arms around increasing our participation rate.

As a person who was in the welfare system as a young child for a number of years, it was not because of a person who could not work. It was because they did not want to work. There were plenty of jobs, and at least I did not go hungry, I guess, but his hardest job was to run to the mailbox and get a food stamp check when it was still going to the mailbox.

Now we make it real easy today. We just send it to your checking account.

I do find it interesting also that we do not want to have people who are able-bodied adults without dependents actually have to work or get an education to get a job that might be available. There are over 7 million jobs in America today, and we have got 6 million-plus that are looking for jobs, and obviously their skills or their geographics do not match up with where those jobs are. So they should get a training that would allow them to go to work and be less dependent on the federal government, not more.

To the height of about 17 million people on food stamps in 2008 to the height of about 46 million people in 2015, now back down to about 38 million people on food stamps today, we should design a system, I would hope, that would not just be a fiscal cliff for them, but they would actually encourage them to move on to a job, not be fearful of getting a raise or getting a better job for losing their benefits.

So with all of that said, could we talk about, and we can start with you, sir, regarding the participation rate?

What kind of policies could we put in place that would help us grow our participation rate with our job seekers?

Dr. HOLTZ-EAKIN. I think the prime age male and prime age female participation rates are the things that are most troubling right now. We have not regained some past levels on those.

With the retirement of the Baby Boom generation, the overall participation rate has a lot of downward pressure on it. That is inevitable.

You want to have, I think, a strong foundation, and to be honest, the thing I am most troubled about right now is the fact that in our K–12 education system, we do annual testing, and those tests, the National Assessment of Educational Progress, indicate that a quarter to a third of fourth and eighth graders are seriously deficient in math and reading. So a quarter to a third of future workers are going to come into the labor force unable to compete effectively and probably unable to participate.

And that, I think, is an enormous mistake for the United States and something that is not being focused on.

So getting people to enter the labor force equipped to compete is very important, and then having a very work-friendly social safety net so that there are not barriers to work is the second piece.

Mr. HERN. Dr. Holtz-Eakin, is it fair to say that our systems were designed to have more people working to support those who need?

And so we have less people working today. Then we have got a real problem that is a structural problem, not necessarily a fiscal problem, but a structural problem. We just do not have enough workers in America to feed the opportunities we have to take care of folks when they need the safety net programs, whether it be Social Security, Medicare, SNAP. The list goes on and on.

We need more workers in America.

Dr. HOLTZ-EAKIN. Yes.

Mr. HERN. And if we fill these jobs, we could have a better GDP, change the trend that you talked about, have an immigration policy. You mentioned visas, so we could bring workers in to fill these jobs and grow our economy.

Dr. HOLTZ-EAKIN. And importantly, not just have people to work, but have people with skills and have equipment to raise productivity.

One of the beneficial things we have seen in the past couple of years is a resurgence in productivity growth was under 1 percent. It is now up at about 2.5. I do not know if that is going to continue, but if it does, that is the single most important piece of good news that we have seen.

In the long run, productivity growth is everything. It is how the standard of living goes up. It is how you manage to support a higher number of seniors, given the labor force.

Mr. HERN. Mr. Chairman, thank you.

Chairman YARMUTH. I promised you some extra time.

Mr. HERN. You did. Thank you, sir.

Chairman YARMUTH. If you want to ask another question, you are welcome to.

Mr. HERN. Well, let's talk about participation rate just a second. When we look back in 1997 through 2001, our participation rate was just short of 68 percent. Today it is at 63.

Do you feel today at a 68 participation rate, if that were achievable, that we would be in a different direction, or is this a different time for a different set of numbers?

Dr. HOLTZ-EAKIN. I am always nervous about comparisons to the late 1990s. You know, in the late 1990s, the world was a safer place. The Soviet Union had fallen apart. It is not a safer place right now.

In the late 1990s, discretionary spending was the dominant part of the budget. It was easier to deal with. That is not true right now.

The late 1990s gave us a dot-com bubble and a productivity boom. It turned out that that was illusory. We do not want to have another bubble as the key to economic and other successes.

And in the late 1990s, the retirement of the Baby Boom generation was two decades away. It is here.

And so we are in a different place right now, and we need to acknowledge that and deal with the problems we have right now using new solutions, not the things we did in the 1990s.

Mr. HERN. Thank you, Mr. Chairman.

Chairman YARMUTH. The gentleman's time has expired.

I now yield five minutes to the gentleman from New Jersey, Mr. Sires.

Mr. SIRES. Thank you, Mr. Chairman.

You know, I have been here now 13 years, and I came here when Paulsen was here. I was in Financial Services, and Paulsen came in before the Committee. I thought he was going to cry as he was describing the financial situation in this country.

And it really made an impact on me. You know, we had difficult roads to take. We were able to save the auto industry. We were able to save basically this country with all of the things with the Recovery Act that we put together.

So as things came along, one of the things that I was upset about and it is one of the things I want to talk to you about, is investment in infrastructure. I did not feel that we did enough investment doing the Recovery Act on infrastructure.

And here we are now looking to see what we can do to prevent any kind of recession in the future, and we do not seem to be making the investment that we need in infrastructure.

I was just wondering how do you feel about investment in infrastructure as a way of hedging off any kind of recessions or what part of it is it?

Dr. ELMENDORF. So, Congressman, I think infrastructure investment is very important for the long-term growth of the economy, and my judgment agrees with yours that we should be doing more infrastructure investment in this country.

But its role in fighting recessions is hindered by the fact that many forms of infrastructure have long set-up times. If we are trying to fix the airports around New York City, that is not a thing that really is shovel ready. That is a thing that takes time to prepare.

So throwing a lot of money at infrastructure during a period of economic weakness may or may not lead to extra spending when the economy needs it.

As it turned out in the last recession, it was long enough and deep enough that even the slow payout of infrastructure spending turned out to provide important stimulus as that went on. But for many recessions in this country that have been shorter, infrastructure spending can come late.

It is important for long-term growth, but I would say less central to addressing recession when recession hits, which is why some of the comments here have been more about payments to individuals and payments to states.

Mr. SIRES. So rather than having a larger stimulus in infrastructure, do I understand that you favor a strong amount of money if leaving——

Dr. ELMENDORF. Yes.

Mr. SIRES.——in order to head off any kind of recessions?

Dr. ELMENDORF. Well, I think we should have a higher level of infrastructure investment funded by the federal government to ensure the long-term growth of the country. I do not think that will particularly forestall the recession or is the best way to address the recession when it hits.

Mr. SIRES. I was wondering when you were talking about immigration, can you tell me how immigration would help? Because it seems that it has become a bad word around here, "immigration."

Dr. HOLTZ-EAKIN. So let me first just say that there is complete agreement across the ideological spectrum on every word that Doug Elmendorf just said on the infrastructure. It is not a cyclical issue. It should be dealt with as a proactive policy for raising the trend growth rate. That is a good idea.

Immigration. The reality is that native born Americans do not have enough kids. So in the absence of immigration, the size of the population will shrink. It will become increasingly old. The size of the economy will shrink, and we will be a less vital and less important presence on the world stage.

The flip side to that is all of our choices about the future reside in how we want to run our immigration system. Who are we going to admit? And what are we going to value?

Traditionally, the United States has focused on humanitarian issues in immigration. The last reforms were done in the 1960s, and the primary criteria were family unification and refugee and asylum status, I think indicative of the character of this country.

But many other of our competitor developed countries use immigration as a tool of economic policy, and I think it would be a good idea for us to do that, too. Under 5 percent of our permanent visas are granted for economic reasons. We could establish criteria by which we wanted people to come in who are going to be able to bring their productivity to the United States, bring their entrepreneurial vigor.

Immigrants traditionally work more, work longer, start businesses, create jobs. We can take advantage of that going forward in a more systemic fashion.

Mr. SIRES. So, in other words, we used to think in terms of immigration on a humanitarian basis, but they still worked and they still contribute.

Dr. HOLTZ-EAKIN. They did, and so without trying, they have contributed enormously. If we tried, we could do better.

Mr. SIRES. It was still a stimulus for the economy.

Dr. HOLTZ-EAKIN. Yes, it is essential.

Mr. SIRES. It is essential.

Dr. HOLTZ-EAKIN. Yes.

Mr. SIRES. And here we are today somehow thinking that immigration is bad in coming to this country because there are jobs in this country that even though you get 5 percent of well-educated people coming into the country, there are jobs they are not going to do, and we need that immigration of people that those start-up jobs that come on a humanitarian basis to become part of the American economy.

I mean, I see it in my district. I see it in myself. I was an immigrant. I came here when I was 11 years old. I saw my parents, no education, worked in a factory. Yet they contribute.

So I just think we have to rethink this issue of immigration that we want selective immigration. You know, there has got to be a way that we can bring immigration so people can add to the economy like they have done in the past.

This country was built on immigration, and most of them came as humanitarian necessities.

So there you are. I have run over. I am sorry. I apologize.

Chairman YARMUTH. That is all right. The gentleman's time has expired.

Now, I recognize the gentleman from Ohio, Mr. Johnson, for five minutes.

Mr. JOHNSON. Well, thank you, Mr. Chairman.

Is it not interesting? We are talking about the need for infrastructure. We are talking about the need for an immigration system that works.

How do we fund those? My gosh, it sounds like we are talking about the need for a budget. Is that not a novel idea?

I do not know why we are here today talking about a policy on how to improve economic resiliency. I am deeply concerned by the premise of today's hearing that an economic recession is imminent and that Congress needs to enact new automatic economic stabilizers to ease the effects of an impending economic downturn.

This is a false premise. The economy is strong. In fact, the United States economy is undergoing the longest, largest economic expansion in American history. The unemployment rate is at a 50-year low. Six point four million new jobs have been created since November of 2016.

And under the new Tax Cuts and Jobs Act, American families are keeping more of their hard-earned money. As the Federal Reserve Vice Chairman Richard Clarida stated, the economy continues to be in a good place.

So instead of trying to mitigate the damage from a nonexistent recession or to advance a false narrative of an inevitable recession, like many of our colleagues on the left and the national media are doing, solely for the purpose of throttling America's economic surge and striking fear across the nation, all to advance a political agenda, Congress should instead focus on extending our current economic expansion by enacting the USMCA, the U.S. Mexico-Canadian Agreement, and reducing burdensome regulations that add billions of dollars in cost to our economy.

So Dr. Holtz-Eakin, the Trump Administration has made efforts to reduce the amount of burdensome regulations that hurt American taxpayers and disproportionately affect industries that play an important role in the economies of my district, the Eastern and Southeastern Ohio, such as coal and natural gas.

Can you tell me how the reduction in regulatory costs have helped create a more competitive and productive economy?

Dr. HOLTZ-EAKIN. I think what the Administration has done through executive authority is actually quite remarkable. They have instituted regulatory budgets in all the agencies, and I think that is the right way to do this. You let the agencies develop the regulation they need, but they have a budget, and they cannot just do something without an offset someplace.

You get a smarter regulatory system as a result. I think this should be a statutory regime. I think Congress should pass this as a permanent feature.

In doing so, you get the same impacts you get from tax policy. Regulations are an overall reduction in resources available to do other things, and they distort the activities of businesses. They have to focus their capital investments not only on what is most productive, but on what meets the regulatory requirements.

And so minimizing to the extent possible those burdens is something that is very beneficial for growth.

We have less in the way of quantitative estimates of the impact of regulation than we do of tax policy, and obviously, there are big disagreements on tax policy. No doubt we would get big disagreements about the impact of the regulatory policy.

But given the magnitudes involved, going from over $100 billion a year to zero, I have little question that it has contributed significantly to the post-2016 acceleration.

Mr. JOHNSON. Okay. So this hearing is discussing potential automatic stabilizers that could be used to minimize the adverse effects of, in my view, a false claim of an economic recession. Several ideas have been proposed that involve higher federal spending.

In your opinion, could regulatory reform be utilized to mitigate these adverse effects?

For example, since federal regulations impose burdensome compliance costs which would reduce economic growth, could you design a stabilizer in the regulatory space?

Dr. HOLTZ-EAKIN. You could. As I said in my opening remarks, I would prefer to first focus on raising the trend rate of growth so that you have less need for stabilizers and less probability of going into a negative GDP growth territory.

So there is a lot that could be done in that front, and the regulatory reforms can contribute to it.

Mr. JOHNSON. Yes. You know, I find it interesting because we do not learn from history in our country very well, and I think we tend to forget the successes of our past and our legacy.

I mean, we discovered powered flight. We put a man on the moon. We discovered nuclear energy. We discovered internal organ transplants. We built the Internet. We brought marvels to the world prior to 1970 when big government came on the scene. We are pretty smart people.

If we would just get the government out of the way and spend the money that we take from the taxpayers more effectively and efficiently, we would be making a lot more progress.

Mr. Chairman, thanks for the indulgence. I yield back.

Chairman YARMUTH. I thank the gentleman. His time has expired.

I now recognize the gentleman from Virginia, Mr. Scott, for five minutes.

Mr. SCOTT. Thank you, Mr. Chairman.

You know, listening to the other side about fiscal responsibility, I have got to congratulate them on being able to message fiscal responsibility better than we do, but let's get some facts on the table.

Dr. Elmendorf, is it not a fact that since Nixon every Republican President has ended up with a worse deficit than they came in with, and since Carter, every Democratic President has ended up with a better deficit or even a surplus than they came in with, and that this Administration is on track to keep that pattern going?

Dr. ELMENDORF. Yes, Congressman, I think that is a fair description of your very interesting chart.

Mr. SCOTT. Thank you.

And the next chart is on jobs. You can tell where President Obama's initiative went into effect. That is at the bottom, when you are bouncing off the bottom of the chart, and his about $700 billion initiative went into effect, and you can see jobs coming in pretty much flat since then.

Can you tell where, without looking at the chart, President Trump was elected or when his stimulus package twice as big as President Obama's economic package went into effect?

Dr. ELMENDORF. No, Congressman. The continued economic expansion over the past few years is a straight extension of the economic expansion that was started years ago under President Obama.

Mr. SCOTT. So with a package twice as big, there is no upward trajectory in jobs?

Dr. ELMENDORF. No, Congressman.

Mr. SCOTT. Thank you.

You mentioned triggers. We have unemployment compensation, which is automatic; SNAP benefits, automatic; Medicaid. And you talked about infrastructure. If we required states to have on the shelf, shovel ready projects, school constructions, stuff like that, and provided low cost or low interest loans, would that be something that we should have on the shelf in cases of economic decline?

Dr. ELMENDORF. I think, Congressmen, there are some infrastructure projects that can be launched fairly readily if the money is available, but not many others, and that is why I, and I think many of my colleagues on this panel, would encourage you and your colleagues to focus on other ways of fighting recessions and to think about infrastructure investment as a longer term strategy.

Mr. SCOTT. Okay. Well, you mentioned there are tax cuts and there are other tax cuts, and you said that all tax cuts do not stimulate the economy equally. What did you mean by that?

Dr. ELMENDORF. To stimulate the economy, we need to have tax cuts that encourage households or businesses to spend. So when you think about individual tax cuts, tax cuts that go primarily to higher-income individuals are much more likely to be saved than tax cuts that go to lower- and middle-income individuals and will, therefore, have less stimulative effect on the economy.

Mr. SCOTT. One problem you have with tax cuts is once you get them into effect, they are kind of hard to eliminate. So that a temporary tax cut is difficult.

Infrastructure spending you can cut off without as much aggravation. Can you make a comment about if you put these tax cuts in can you ever get them out?

Dr. ELMENDORF. Well, you put in a two-year payroll tax cut to help fight the last recession, and one piece of advice I would offer to you in this Committee is to construct a version of that sort of payroll tax cut that would be triggered on by a slowing of the economy and would be triggered off when, but only when, the economy has recovered sufficiently.

I think if you build a tax cut as an explicit recession fighting tool, then I think it is clearer to the American people, as well as to Members of Congress, that this is meant to be temporary.

Mr. SCOTT. The gentleman from Missouri went to great lengths to talk about how the lower incomes had increased significantly. Did Missouri not have an increase in the minimum wage in the last couple of years?

Dr. ELMENDORF. That may be, Congressman. I am afraid I actually do not know.

Mr. SCOTT. Yes.

Would an increase in the minimum wage stimulate the economy, particularly on the low end?

Dr. ELMENDORF. Yes, Congressman, I think it would. The analysis that CBO did when I was Director and the analysis in the version they have updated more recently shows that raising the minimum wage can reduce employment, but it also provides a great deal of additional income primarily toward people who are lower down in the income distribution.

Mr. SCOTT. And about half of the analyses in the CBO report show that there would actually be an increase in jobs; is that right?

Dr. ELMENDORF. It is a possibility as well, Congressman.

Mr. SCOTT. Thank you.

Thank you, Mr. Chairman.

Chairman YARMUTH. The gentleman's time has expired.

I now recognize the gentleman from Texas, Mr. Crenshaw, for five minutes.

Mr. CRENSHAW. Thank you, Mr. Chairman.

Since we are in the method of debunking myths, let's talk about that graph where fiscal responsibility was the main focus and which President from which party was in power at the time.

Mr. Elmendorf, it is good to see you again, by the way.

Dr. ELMENDORF. Good to see you, too, Congressman.

Mr. CRENSHAW. Since that question was directed at you, I will direct this one at you as well.

Where does the budget start? Does it start with the President or does it start in Congress?

Dr. ELMENDORF. Congressman, I always put the Congress first in my own thinking.

Mr. CRENSHAW. Right, and when we look at that graph, what we would also note if we cared about the facts was that a Republican Congress was in power both during the Budget Control Act of 2011 and under the Clinton Administration when we actually did not have deficits for a couple of years. I mean, quite amazing stuff there.

So the facts do matter.

On the CBO analysis, I would point out on the minimum wage that at the upper end we risk having 3.7 million jobs lost if we went to a $15 minimum wage. So it is just good to know.

This next question is for Dr. Holtz-Eakin.

Since this is about recession, I want to get to the core of that really quick. The Federal Reserve and other financial institutions monitor the signs of a potential recession. What are the common indicators that a recession is imminent, and should we be worried about this?

Dr. HOLTZ-EAKIN. People have their different favorite leading indicators. Traditionally, building permits, housing starts have been good indicators of the business cycle.

Orders for durable goods, so on non-defense capital goods, excluding aircraft, is my preferred measure.

All of these are, and monthly retail sales, are ways to monitor the confidence and the spending habits of different pieces of the real economy.

The other ones that you hear a lot about are financial market indicators like inversions in the yield curve and the like. I am less a fan of those. I pay less attention to financial markets on a near term basis because they fluctuate a lot in the way that has nothing to do with the trends, but others like those more.

Mr. CRENSHAW. Okay. How much do you think expectations affect economic outcomes?

So if in the public eye we keep talking about a recession, and this is very difficult to measure, I imagine, but do you think that affects economic outcomes?

Dr. HOLTZ-EAKIN. Yes, and there is a lot of evidence of this from the efforts of the Federal Reserve to set and maintain inflation expectations, and we have seen that.

Doug Elmendorf mentioned forward guidance, expectations about the future of policy. These are all important channels for improving the performance of the economy.

I am spending a lot of time looking at consumer confidence right now because the household sector is the bulwark of the economy right now, and continued bad news can dent that confidence, and that is something I would be concerned about.

Mr. CRENSHAW. Dr. Elmendorf, did you want to comment on that as well?

Dr. ELMENDORF. I would just add a comment. I agree that expectations can be important, but I also think that the American people expect the Congress to be realistic about future possibilities and risks, and to try to enhance the possibilities and guard against the risks.

Mr. CRENSHAW. Of course. So let's talk about those risks, and if we wanted to be as pessimistic as possible, you know, what risk should we be worried about?

More importantly, what would we do to alleviate those risks?

I will start with you, Mr. Elmendorf. Go ahead.

Dr. ELMENDORF. Well, I sympathize with Doug Holtz-Eakin's exhortations to try to raise trend growth, but I think that is a complementary policy to policies that would help bolster the economy if it falls into recession.

And I disagree with Doug about the automatic stabilizers. We have a set of stabilizers today whose strength is basically a byproduct, an accidental byproduct, of tax rules and spending programs that we have built for other purposes.

And so there is no reason to think we have the optimal level of automatic stabilizers today, and in fact, if you look back at the past set of recessions in this country, we have had bit run-ups in unemployment that have caused a lot of suffering, and stronger automatic stabilizers would have helped to reduce that.

And in particular now, with monetary policy having less room to maneuver in the future because market interest rates are already so low, there are clear reasons to think we will need stronger fiscal measures in the future, and that is why I think building strong automatic stabilizers is important.

Mr. CRENSHAW. Dr. Holtz-Eakin, is it stronger stabilizers or is it more efficient stabilizers that we need? Can you comment on that?

Dr. HOLTZ-EAKIN. I think efficiency of a stabilizer really comes down to the issue of how well targeted they are. Are they targeted on the problem?

And one of the issues in design I see right now is that in the 20th century, recessions were essentially industrial, inventory driven, investment driven events, and in the 21st century, 2000, 2001, dot-com bubble bursts. We get a minor recession. In the mid-2000s, we get a credit bubble burst. The housing bubble bursts, and we get the Great Recession.

These are bubble-driven recessions. Their onset is different and sort of targeting effectively to offset the initial downturn is an important issue. I do not know exactly how to do that in this day and age.

Chairman YARMUTH. The gentleman's time has expired.

I now recognize the gentleman from Massachusetts, the Vice Chairman of the Committee, Mr. Moulton, for five minutes.

Mr. MOULTON. Thank you, Mr. Chairman.

Dr. Elmendorf, good to see you. Thank you very much for joining us here today.

Dr. ELMENDORF. Thank you, Congressman.

Mr. MOULTON. And all of the panelists for participating in this discussion.

Dr. Elmendorf, I would like to start with you. To paraphrase your testimony, in the event of a new recession our monetary policy is limited by low interest rates. Our fiscal policy can be limited by our timeliness in response and I would add political considerations.

You also outline a stimulus package in your testimony that doubles the ARRA under President Obama.

Why have you chosen a value double what was enacted previously?

And how did limiting our stimulus as we climbed out of the Great Recession impact our recovery?

Dr. ELMENDORF. So I picked an illustrative stimulus package that was deliberately large because the stimulus that we enacted in 2009 was not sufficiently strong, given the nature of that downturn, the severity of that downturn, and because with monetary policy having less room to cut the federal funds rate than it had in any of the past recessions, fiscal policy will be more important.

So I think there is a reasonable chance that we will need quite a large fiscal stimulus to effectively counter the next recession.

And I wanted to discuss the fact that we can afford that, despite the large amount of outstanding federal debt. Even a stimulus package that was twice the size of what was the previous largest stimulus package is something for which this country has fiscal capacity.

Mr. MOULTON. I think it is worth just pointing out that as you say, it was not big enough. It was the Republican Congress that cut that stimulus short, and I think we could have had a much stronger recovery if we had not done that.

Dr. ELMENDORF. There was a survey of economists done at the time of the Recovery Act. It showed overwhelming support for the view that the Recovery Act boosted output and employment.

And the slew of research about that Recovery Act and other forms of fiscal stimulus over time that we have seen in the last decade has strongly confirmed the views at the time that fiscal stimulus is an effective way to put people back to work.

Mr. MOULTON. Dr. Ajilore, automatic stabilizers, such as unemployment insurance, can also help reduce the impact of a recession. In fact, according to your recent article, unemployment insurance kept more than 5 million people out of poverty and prevented more than 1.4 million foreclosures.

If states have reduced unemployment insurance benefits since the Great Depression, how will reduced UI benefits slow recovery during the next recession, whenever it occurs?

Dr. AJILORE. Thank you for the question, Congressman.

It is really important to understand that UI benefits are not just about the individual who is laid off and they are able to spend. It has a stimulus impact on the economy.

So if you have lower benefits, that is less they can spend. So, for example, there are nine states that reduced the maximum benefit duration from 26 weeks down to 20, even down to 14, and they also made stricter eligibility requirements.

And so, you have some states that if someone was unemployed in 2007, they would end up with that first paycheck of, say, like $3,000. Then in 2017, if that same person would be unemployed, they would end up with like $2,000.

That $1,000 from that first payment, that is a loss to the economy, not just to the individual but to the economy, and so we have had that.

So we have had a lot to talk about, “We may not need this” or “we should not be worried about the recession,” and that is fine, but we retrench back on unemployment insurance, which is the first kind of line of defense when we have a recession.

You know, as has been mentioned, the monetary policy is going to be weaker. Fiscal policy is going to be helpful, but once we hit that recession, we need that first kind of, you know, return, that first kind of like punch to like, okay, let's get the economy back going again. And that is what unemployment insurance is.

And we have gone back worse than the Great Recession, and so that is why we need to even just get back to par where we were in 2008.

Mr. MOULTON. So, I mean, to sort of paraphrase what you are saying and to put it in layman's terms, there is no real downside to having strong unemployment insurance because it is something that not only helps people who need the help. It just helps the broader economy.

Dr. AJILORE. Exactly. And the other thing is that we do not have to worry too much about the debt burden of it because when you have a job, you do not get un-insurance benefits, and so when you lose your job, you get benefits, but then you get a job again. Then it is not mandatory spending that is constant. It is just once you lose a job.

And then when you get a job again, it goes away.

Mr. MOULTON. But by definition, it is an automatic stabilizer.

Dr. AJILORE. Right.

Mr. MOULTON. Dr. Elmendorf, we could address the reduction in UI among states by extending the length of benefits when unemployment grows, offering more to states with higher unemployment rates.

The Committee for a Responsible Federal Budget estimates that this would cost approximately $25 billion during a normal recession.

How might this expansion reduce the length and severity of the next recession and how else might we amend automatic stabilizers before a recession arises?

Dr. ELMENDORF. Strengthening the role of unemployment——

Mr. MOULTON. I apologize. I do not have much time left.

Chairman YARMUTH. You can have some more.

Mr. MOULTON. Okay.

Dr. ELMENDORF. Strengthening the role of the unemployment insurance system, as has been suggested, I think would have two very important advantages. One is that it would alleviate the harm suffered by people who lose jobs when the economy slows down.

Also it would provide continued spending that would help maintain some momentum in the economy.

But on the second piece, maintaining momentum in the economy, you all will need to do more than that because we have a very large economy at $20 trillion of annual output now.

In a slowdown to be effectively countered, you will need to bring some real force to bear, and that is why I think you and your colleagues should think about a collection of policies, a collection of ways to strengthen automatic stabilizers, in order to reduce the damage that will occur to the economy and individual families whenever the economy next goes into recession.

Mr. MOULTON. Gentlemen, thank you.

Thank you, Mr. Chairman.

Chairman YARMUTH. The gentleman's time has expired.

I now recognize the gentleman from Pennsylvania, Mr. Meuser, for five minutes.

Mr. MEUSER. Thank you, Mr. Chairman.

Thank you to you all very much for being here with us. It is terrific having former CBO Directors. As a former revenue secretary from the Commonwealth of Pennsylvania, Dr. Elmendorf, good to see you again.

Dr. ELMENDORF. Thank you, Congressman.

Mr. MEUSER. So a couple of questions. Clearly, our public debt is a bipartisan issue. We have averaged 42 percent of our debt to GDP over the last 50 years; 79 percent versus GDP today, projected to continue to grow, as we all know.

So the first question is the tax cuts versus stimulus discussion. We have had a large tax reform a couple of years ago, and in my numbers it shows that at this point the idea of gaining tax revenue neutrality, we are not quite there yet.

It has added approximately $160 billion, my numbers, to the current deficit yet out of $900 billion, but it has done wonders to the economy. There is really no denying that.

I mean, we have a very robust economy, wages, unemployment, and every demographic, manufacturing, new business starts. A lot of great things are happening versus the stimulus one could argue did not have the same sort of returns and yet could arguably say cost more.

So what is your response—and, Dr. Elmendorf, I will ask you—to tax cuts versus stimulus package?

Dr. ELMENDORF. Well, Congressman, as I read the evidence from CBO and from outside analysts, the 2017 Tax Act was expected to boost economic output by a little bit, and given everything else going on in the economy, it is always hard to tell whether something has had the effect one predicted.

But I think as analysts look at what has transpired since that Tax Act took effect, it is quite consistent at least with the view that it was of a notable short-term boost in growth rates in 2018, but now the economy has slowed to the growth rates of GDP and employment it had before that boost.

And so I think the evidence is consistent with the view that there will be a small positive effect on GDP of the tax law.

If you look at stimulus legislation, that would occur during a recession. So, if you just tried to do that now with the unemployment rate already at 3.5 percent, you would not get so much.

But my analysis here was or my suggestion drawing on serious analyses was in a recession when there are people unemployed and if the Federal Reserve has already cut the federal funds rate close to zero, which seems quite likely, then under those conditions, you get quite a large short-term boost to GDP from a short-term increase in the budget deficit through either tax cuts or spending increases.

It is not just about spending increases. There is stimulus from tax cuts of the right sort, but you get a pretty big boost in GDP, and thus, you get a larger dynamic effect on tax revenue, which I believe and have argued should be included in estimates you see for important pieces of legislation. You get a pretty big feedback effect.

And that is why the numbers I think make sense, given the uncertainties are bigger boost for smaller cost for stimulus under the conditions that we have been talking about.

Mr. MEUSER. Now you are not in an official capacity at CBO and, Dr. Eakin, you as well. Do you work some dynamic figures in, such as better trade agreements and perhaps more competitive Fed. interest rates, competitive versus the rest of the world?

Would that add to GDP in your view?

Dr. HOLTZ-EAKIN. So I certainly spend a lot of time worrying about the quality of economic policy, and I think starting with the Fed. that the Fed. has done a remarkably good job of exiting from extraordinary monetary policy.

I do not think we could have anticipated it would go as well as it did. And that has been an enormous benefit to the U.S. economy.

Interest rates in other countries are noticeably lower because those economies are more broken, and I do not want to get lower interest rates from a broken economy. I would prefer to have a strong economy which would display higher productivity and interest rates. I think that is where we are.

In terms of the Tax Act, I think the focus is too much on the individuals' side and the cut and the stimulus that comes from that and not enough attention is focused on the bipartisan agreement that the U.S. corporation income tax was broken, was damaging our international competitiveness, was harming our capacity for economic growth.

And the most important reforms in there are structural reforms that will last that are permanent and should improve the incentives to invest, innovate, and have higher productivity in the United States, and those are key parts of policy. We can enhance them even further.

Mr. MEUSER. Thank you.

Mr. Chairman, I yield back.

Chairman YARMUTH. The gentleman's time has expired.

I now recognize the gentleman from Nevada, Mr. Horsford, for five minutes.

Mr. HORSFORD. Thank you very much, Mr. Chairman, for holding this hearing today.

And I just really want to build off of the last points that were being made because I come from Nevada, and we were a state that faced really some of the hardest hit circumstances from the Great Recession, and I saw, directly, the impacts not only to my neighbors and folks in my community, but I was serving in the state legislature at the time and so had to deal with the impact of losing about a third of our state's economy during that recession.

Nevada lost more jobs to our workforce than any other state during that period, with more than 70 percent of those losses in the Greater Las Vegas Metro Area.

So one of the points that was just being made about the Jobs and Tax Cuts Act is that while the corporate tax rate was permanent, the middle-class tax cuts and tax cuts for small businesses were temporary, and that shows just the inequity in the tax policy that was set by this Administration and Republicans in Congress.

But today I would like to focus on how we can strengthen the unemployment insurance program as an automatic stabilizer. I am a Member of the Ways and Means Committee as well, which has jurisdiction over the unemployment insurance program which serves as a lifeline for many Nevada families, and without the unemployment insurance program during the recession, I do not know what many families would have done to keep the living standards that they were able to maintain.

Earlier this Congress, Ways and Means, and subsequently the full House passed H.R. 1759, the "Bridge for Workers Act," which would ensure that states have flexibility to provide reemployment services to workers receiving earned unemployment benefits who need them.

UI is one of the many tools we have at our disposal to help keep people and families afloat when they experience job loss during an economic downturn.

Not everyone though is eligible for unemployment insurance, such as independent contractors, because they do not pay into the program. That is particularly true today because we have so many workers who make a living off of the informal gig economy.

But one of the positive aspects of unemployment insurance is the fact that it functions as a federal-state partnership.

So, Dr. Ajilore—if I said that wrong, I apologize—what options with respect to unemployment insurance can policy makers consider to meet the needs of those who are increasingly working in the gig economy during times of high unemployment?

Dr. AJILORE. Thank you for your question, Congressman, and you got the pronunciation correct. Thank you.

One of the things you look at is as the proposal has been talked about called the job seeker's allowance, which would work to kind of fill in the gaps beyond those for unemployment insurance, as you mentioned, independent contractors.

Also you have to be employed for about a year to get unemployment insurance, and there are people, especially like new entrants, new labor entrants that are not eligible.

And what you would do is you actually would come up with kind of what a weekly benefit, about $170, which relates to kind of the low-income people, and so you would expand eligibility.

You provide this weekly benefit, and then also have the reemployment services, things called RESEA, where you would help people kind of stay attached to the labor force.

And so the key is as you have talked about and as was mentioned before, the context of where we are now in terms of the economy is much different than it was 20 years ago, 30 years ago, and so we have to have our programs to adjust for that.

And so having a simple program like what is called the job seeker's allowance where you just get that weekly benefit and provide employment services would help address that issue.

Mr. HORSFORD. Thank you.

And, Mr. Hicks, again, from the state perspective on what more can be done to help them ensure that they are prepared to respond in a recession, what should states be doing now with their rainy-day funds and other tools in order to be ready to utilize those tools when necessary?

Mr. HICKS. Yes, thank you, Congressman.

The first thing you mentioned was rainy-day funds. States have been adding to their rainy-day funds after the last recession to a level that has never been seen before, and so the lessons were learned from the last two recessions that the sufficiency of their reserves were not there.

And so states have been active in this area, raising the caps of their rainy-day funds, tying some of the deposit rules to volatility of revenues. A number of states are taking the extra revenue they get from certain volatile taxes and putting those in the reserves rather than budgeting them and increasing their base.

The other thing that has happened in the last couple of years, particularly, is a return to a structural balance. A number of states through the slow recovery had structural imbalances in their budgets, and so more and more governors and legislatures now have budgets that are recurring revenues and equal and current recurring expenses and paying attention to the nonrecurring uses thing.

So settled into a lower risk expenditure profile is one of the things they are doing, and then other things they are doing is planning better, stress testing both their revenue and expenditure growth under various scenarios, a mild recession, a moderate recession, a severe recession, at least informing the legislature and governors about, well, what would it look like if, you know, a downturn occurs and being a little more knowledgeable ahead of time about doing those things.

And some of the things that we did during the Great Recession, we had all kinds of tricks that we needed to do to avoid severe cuts and to balance the budget. We are rolling some of those back into the toolbox and setting ourselves up to, you know, if we had to use those things again, not good budget policy, but sometimes the necessary actions.

The states are preparing in that way.

Mr. HORSFORD. Thank you very much.

Thank you, Mr. Chairman.

Chairman YARMUTH. The gentleman's time has expired.

I now recognize the gentlewoman from Texas, Ms. Jackson Lee, for five minutes.

Ms. JACKSON LEE. Mr. Chairman and Ranking Member, thank you for your courtesies. I was in a mark-up, but this is such an important hearing that I wanted to make sure that I was able to get here.

My questions will be in the backdrop of the most deadly or devastating tax cut that has now generated debt that I do not think we have experienced in the last three presidencies.

I was here with the presidency of Bill Clinton, George W. Bush, and Barack Obama. I was also here, and, Dr. Elmendorf, I will have to get my numbers straight. I think it was 2007–2008 when we got the word from Secretary Paulsen that we were not going to be the country that we thought we were in the matter of a weekend.

So I want to have it in the backdrop of this trillion dollar-plus tax cut, and then a news item that I have heard that we do have unemployment, but hiring has slowed down, and I do not know whether that is an indicator that we should certainly be looking at.

But let me then pose these questions first to Dr. Elmendorf. Since I lived through this, what is your assessment of what would have happened without the Recovery Act?

If you can just answer these two questions, and why are automatic stabilizers fiscally responsible?

Dr. ELMENDORF. Thank you, Congresswoman.

Without the Recovery Act, the previous recession would have been longer and——

Ms. JACKSON LEE. Can you give me the year so it will be in the record?

Dr. ELMENDORF. Right. So you and your colleagues enacted the Recovery Act in 2009, and without that action the terribly deep recession would have been even deeper, longer, more severe than it was.

Automatic stabilizers are important because it is difficult for the Congress to always act very quickly when economies fall into recession. Economists are bad at predicting recessions, but quick responses from fiscal policy are important.

And the way to do that with quick responses is to build them in ahead of time. Automatic stabilizers in our current fiscal systems have arisen by accident essentially by having certain sorts of tax provisions and spending programs that were designed to achieve other ends.

If we strengthen the automatic stabilizers in a deliberate way, that would then provide stronger anti-recessionary policy when the economy needs it.

Ms. JACKSON LEE. Give us an example of one that we could strengthen.

Dr. ELMENDORF. So, for example, Congresswoman, you and your colleagues could enhance the unemployment insurance system in a way that would provide benefits for a longer period of time, which makes sense if you end up in an economy in which jobs are harder to find.

You could also write into law increases in federal payments to states for the Medicaid program, which would help state governments get through recessions without having to cut other sorts of benefits or raise taxes, which would be exactly the wrong thing to do.

You could write into law a cut in the payroll tax of the sort that you and your colleagues enacted to help fight the last recession, but that could be written into law with a trigger to take effect if unemployment rises and then a trigger to be turned off when unemployment falls back down again.

Those are the sorts of policies I have in mind.

Ms. JACKSON LEE. I appreciate it.

The question is we should have more than an umbrella on a rainy day. We need to really get prepared.

For the last two gentlemen, I am going to ask my question so that you can be answering it. Let me just indicate to Mr. Hicks I think some of the questions may have been asked that we are concerned about, but I would be interested in Kentucky's experience with the Recovery Act.

And I would also be interested in whether you think a recession is inevitable.

And let me then pose my question, too, which means that we should be getting all of our emergency ducks in order to be prepared. Either Boy Scout, Girl Scout, Red Cross, however you will be prepared, we need to be prepared.

Dr. Ajilore, I heard you talk about unemployment, but I am interested in a question. Are there steps that we should be taking to make sure that Medicaid, SNAP, and I did think I heard you were talking about unemployment insurance, are ready for the next recession?

We get colds and others in impoverished conditions have pneumonia and have to be hospitalized, and I am really concerned. I just have an unreadiness about this enormous debt because of this tax cut, among other things, that are existing right now.

So I would ask first if Mr. Hicks would answer and then Doctor.

Mr. HICKS. Thank you, Congresswoman.

Ms. JACKSON LEE. Have you got my questions?

Mr. HICKS. Yes, I did.

I spent 32 years in the Commonwealth of Kentucky and 25 in the Budget office.

So, the Great Recession was a series of continuous budgeting for states. States typically will cut first as revenues fall short of the estimates, and in fiscal year 2008, the recession had already started.

We had a brand new governor in transition. The first briefing I had with that governor was how much he was going to have to cut spending, you know, for when he was walking in the door.

And so, then we put the budgets together in fiscal year 2009 before the Recovery Act. So that was done in the 2008 legislative session. Again, we were planning for a downturn without any expectation of assistance from the federal government.

And so what had happened- states quickly pivoted to try to array that assistance they had across this multiple years. The flexibility that was in the Recovery Act for use of some of those funds was very helpful. States could choose how much to use one of those streams of funding over Year A or Year B.

It was really important to measure that against their drawdown to reserves because we had a number of states that did three consecutive years of drawdown of reserves, exhibiting kind of the planning of do not empty it out until we know it is really bad.

And so states struggled but, I think, weathered a lot of those issues, and then the ability or the requirement to maintain spending on education that was part of the State Fiscal Stabilization Fund really assisted states in preventing from significant reductions in our primary spending item, which is K–12.

And in terms of inevitability of recessions, they are always inevitable. We just do not know when they are, and so my membership this year is taking up this project to kind of just talk about, like this Committee hearing is, just what can we do to be ready when and what were the lessons that we learned from past occurrences.

It really is just an educational and informative process to just be thinking ahead and state budget officials are typically very good planners.

Ms. JACKSON LEE. Thank you.

Doctor?

Dr. AJILORE. Thank you for your question, Congresswoman.

So we talked a lot about unemployment insurance because that is kind of like the first stage, but other programs like SNAP and Medicaid are very helpful, too. And one of the reasons why it is helpful is because when people look for a job, they still have to eat. They still have issues with health care.

And so these programs can help with those things that will make it easier then to get back to work.

And so one of the things we can do with SNAP, we already have an existing program. One of the things that could happen is they could do a trigger where if there is a downturn, you immediately boost benefits by 15 percent. So now you give people more money to spend on food and things like that so that they do not have to worry about that, and you are able to hit more people.

The other thing you could do is, you know, there has been a big push for work requirements, as if people do not want to work. And the gentleman before had mentioned that, you know, he knew of people like that.

There are a lot of people who do want to work, and so adding work requirements that make it difficult; even if you do work requirements, you have to put in the infrastructure. So a lot of times, you know, we are moving to automation, and there are a lot of things you have to do online.

Now, one, it is difficult for people to learn how to use these things online, but then you have to think about certain areas, like rural areas and rural communities that do not even have broadband. How are they going to, you know, satisfy these work requirements?

Or you have work requirements that say, oh, well, you need to apply to five jobs a week. If you are in a rural community with three employers, how can you meet those?

And so because you have these work requirements and people getting kicked off, now you are making it even worse for them.

So you can remove work requirements. You can boost spending with SNAP, and as the gentleman was talking about, you know, sometimes you cannot rely on the federal government, but the federal government can do a lot to do that to help them out.

When there was, you know, lack of spending by the states because they had the balanced budget rules, the federal government had a program where they supplemented them. Now, that could be made automatic so that in a downturn, the federal government already, you know, automatically provides supplemental funding so that you are not cutting Medicaid, you are not cutting SNAP, you are not cutting CHIP.

So there are a number of things in these other programs that are very helpful, that are very important during a downturn that the federal government can do.

Chairman YARMUTH. I thank the gentleman.

Ms. JACKSON LEE. Thank you. I yield back.

Chairman YARMUTH. The gentlewoman's time has expired.

I now recognize the gentlewoman from Illinois, Ms. Schakowsky, for five minutes.

Ms. SCHAKOWSKY. Thank you, Mr. Chairman.

You know, I am so sorry that I missed your statements. I wish we would not schedule hearings all at the same time, and I am such a proud Member of this Committee. So I am glad.

If everything I ask has already been talked about, I am going to apologize up front.

But I do want to get an answer to these questions. So who exactly was left behind in the Great Recession and the recovery that followed?

And who is still really being left behind, and maybe how we could address that?

I am going to leave that open to whomever wants to answer that. Doctor?

Dr. ELMENDORF. Congresswoman, in recessions traditionally, and in the last recession, people with less education lose jobs at a higher rate than people with more education and end up with higher unemployment rates.

And members of racial and ethnic minority groups, black Americans, Hispanic Americans tend to and did in the last recession end up with higher unemployment rates.

So it was the people who have worst economic experiences in general between recessions also end up having the worst experiences in recessions on average, and you and your colleagues can do more to help these people both in the regular year and when recessions hit.

Your tools, your budget tools, of course, are tax policy that supports working people and spending programs that support people when they cannot find jobs. And those programs are particularly important when jobs are harder to find in recessions.

Ms. SCHAKOWSKY. Thank you.

Let me ask Dr. Ajilore.

Dr. AJILORE. Ajilore.

Ms. SCHAKOWSKY. Ajilore?

Dr. AJILORE. Yes.

Ms. SCHAKOWSKY. Okay. Say it a little faster. I will get it.

We in the House of Representatives voted to raise the minimum wage, gradually, and we also in that same bill got rid of the tip wage, $2.13 an hour, and went to one fair wage.

So is not raising the minimum wage really important for protecting those people that are vulnerable during recessions and in between recessions?

Dr. AJILORE. Thank you for your question, Congresswoman.

It is very important because there are so many issues. It not just an economic issue, but even almost like a job quality issue.

So a lot of problems with, you know, tip wage, you have a lot of issues of sexual harassment or other types of harassment that when you have that minimum wage and you get rid of the tip minimum wage, that goes away because you are not working so much for that.

The other thing is that it was mentioned earlier that low-income workers have done really well in the last two years. A lot of that has coincided with state level increases in the minimum wage.

And so if we had a national minimum wage, a federal minimum wage, that would boost incomes for a lot of low-income workers, and then it is going to have that stimulus effect to help out.

So one of the things is that consumer spending is 70 percent of GDP, and that is what has been keeping this economy afloat, and so you boost the incomes especially of low-income people. That is going to help continue this economic growth and so we do not have to worry about a recession as much.

So it is very important to have that minimum wage.

Ms. SCHAKOWSKY. I want to ask you though, I am all for raising the minimum wage in the way that we did it. It gets to $15 an hour by 2025, is what we have done.

I am wondering what you think in terms of is that meaningful enough by 2025 or are we going to look at $15 an hour as inadequate by those five-plus years.

Dr. AJILORE. I would say for right now, in 2025 as it stands, the minimum wage is going to be $7.25. So if it is $15, that is going to be important.

And so I think the key is that we have to worry about let's try to increase it, and if it turns out by 2022, 2023 we find that maybe it needs to be higher, we can do that because we do that with tax cuts.

You know, we pass a tax cut, and then two years later we say, oh, well, we need to make it permanent. We can do the same thing with the minimum wage. We can say, okay, let's pass the minimum wage. It is going to $15 in 2025, but in 2021, if we find it inadequate, then we could pass a bill to boost it up again.

Ms. SCHAKOWSKY. I appreciate that advice, and that we should watch carefully and make sure that we are serious about moving closer to a living wage in our country.

Thank you.

Chairman YARMUTH. The gentlewoman's time has expired.

I now recognize the Ranking Member, Mr. Womack for 10 minutes.

Mr. WOMACK. I thank you, Mr. Chairman, and a good discussion today.

I appreciate our witnesses today.

I said in my opening remarks that—and this is kind of a prayer that I have for our country—that we would spend as much time trying to use lessons learned in history to better protect ourselves against a recession, a potential recession, by preventing it than we do spending time on how to figure out how to build all of these automatic stabilizers into the formula so that we can guarantee something to happen, and I will come back to that in just a minute.

Here we are in the Budget Committee, and I agree with my colleagues that talk about the need to do a budget because I do think, as Speaker Pelosi indicated, that it is a statement of your values.

We do not really know what those values are because we did not do a budget, and we did not lay this out for the American people and have that adult level discussion about it.

But here we are today talking about how can we add to more mandatory spending in this country when any person with half a brain and decent in eighth grade math can figure out that when 70 percent of your federal spending is on the mandatory side of the ledger and you are going to run a trillion dollar deficit, which is going to come really close to equaling the amount of money we are going to spend on the discretionary side of the ledger, a significant portion thereof.

Here we are talking about adding to it, when I think the conversation would be better spent talking about issues of how do we better prevent a recession from happening through our policy discussions and get off of this desire or this insatiable appetite to talk about relitigating the 2016 election with impeachments and investigations.

I mean that has consumed the Congress of the United States right now, but yet here in these Committee hearings we are talking about things that actually have the chance to move the needle for the American public.

So, Dr. Holtz-Eakin, thanks for indulging me in my soapbox speech.

You have already talked about things we could do. I made a couple of notes here. We could influence some resistance to future recessions through education policy, could we not?

Dr. HOLTZ-EAKIN. Yes.

Mr. WOMACK. How?

Dr. HOLTZ-EAKIN. As I mentioned in an answer to another question, I am deeply concerned, beginning in the K–12 area, that our education system is badly underperforming, and it is not just an economic issue. It is a great social injustice.

We are going to create an underclass if we do not educate those individuals better.

If you want to find the single biggest indicator that someone is going to get into student debt problems, find someone who comes out of high school and needs remedial help entering college.

Those individuals are less likely to graduate. If they do graduate, they are likely to take longer, and they are going to end up with more student debt.

So this starts at the beginning, and in the end what we care about is capacity to participate and productivity or participants in the labor force. That is at the core of it.

Mr. WOMACK. And let us remind ourselves we have a student loan debt bubble right now of one point—pick a number—$6 trillion. In my understanding it is about $400 billion of that, 25 percent of the amount, has been accrued to people who never received a college degree.

How has that helped us protect ourselves against a future recession?

Dr. HOLTZ-EAKIN. That is heading in the wrong direction, quite frankly. I think the student loan program that is something that needs deep review by the Congress.

Mr. WOMACK. Dr. Elmendorf, I see your eyes lit up a little bit over there. So I want to give you a chance to comment on the same assertion that I made that policy discussions, good policy discussions about how to protect ourselves against a future recession.

And let me just give you an example of what drives my thinking on it. We know there is going to be another recession, just like we know there is going to be another hurricane. We just do not know where and when.

But there are things we can do to protect ourselves against that next future hurricane if we just use our heads a little bit and use some of the lessons learned in history like raising the base flood elevation or building from materials that are more wind resistant and that sort of thing.

So why could we not do the same thing about recessions?

Dr. ELMENDORF. So I think we can and should, Congressman. So I sympathize very much with Doug's concern about the educational system in this country, and I agree that you and your colleagues should work to build a stronger trend growth of our economy. I think that is a complement to, not a substitute for also thinking about what will happen when a recession hits.

So to use your analogy, we should build buildings out of flood plains, but we still need FEMA to turn up when the hurricanes hit.

And what I am saying here, my view of economic policy fits that. We should build a stronger economy for the medium term and long term. We should also be prepared for the consequences of recession.

Mr. WOMACK. But we already have automatic stabilizers in place. Why are they not sufficient?

Dr. ELMENDORF. That is an important question, Congressman. I think the answer is that the strength of those stabilizers was not by design by you and your colleagues. You built tax provisions and spending programs to achieve other ends, and out of those decisions, we end up with a certain amount of automatic stabilization.

But it is not by design. We have not picked the current amount, and if you look at the past recessions we have had in this country, we have had a lot of people lose jobs and not be able to get back to work as quickly as we all would like them to in ways that I think stronger stabilizers would have helped.

And that is even worse going forward because with market interest rates in the 2 percent range, not the 5, 6, 7 percent range of the past, the Federal Reserve will have less room to cut the federal funds rate.

So I think we will need even stronger fiscal policy to fight recessions in the future.

But can I say one more thing, Congressman? It does not have to be spending. It can be tax cuts. So I have referred every time these questions have come up there could be cuts in payroll taxes of the sort that people here did in the Congress a decade ago.

So you should not think about it as there are spending ways to do it, and I personally think there are important spending aspects of that, but if you and some of your colleagues prefer to fight recessions with tax-based countercyclical policy, that can have some of the same, not all of the same, but some of the same positive effects I have been talking about.

Mr. WOMACK. In this resiliency discussion that we are having, sometimes I believe we can talk ourselves into believing that we are going to have a recession, and when you turn on the nightly news and all these economists who are like TV weathermen, they still keep their job even though they are wrong.

We sometimes say it enough that the average Joe out here believes that it is about to happen.

And every metric that I look at, even inverted yield curves, are not long term. There is no evidence that it is going to happen.

And even if and when it does happen, every recession is going to be different than the previous one. The time frames are different. The conditions are different.

For example, in the 1970s, it was about energy. In the early 2000s, it was a dot-com, and then we all know the housing bubble. I believe we are going to have some kind of, you know, a hiccup with student loan debt, but that is just me, and we have got to figure out a way to fix that.

So, Dr. Holtz-Eakin, should we be tailoring automatic stabilizers if, in fact, we do not have a sufficient number?

I believe we do, but if we are going to do those, should we not tailor those to the situation rather than just try to do a one size fits all approach?

Dr. HOLTZ-EAKIN. As I said, I understand the logic, and I think it makes sense, for example, to think hard about whether the real value of unemployment insurance is at the appropriate level. It has diminished over time. That is a stabilizer we have. Make sure that it is sufficient and it is working well.

What I do not know how to operationalize, you know. You would have to write law, and this is the Budget Committee. So magnitudes matter.

What is the trigger? Is it the level of unemployment? Is it the increase in unemployment?

How much do you cut the payroll tax if that is something that is going to be a trigger? Two percentage points, 3 percent, 5?

We do not know what the recession looks like. So how in advance are you going to write down the actual metrics which are we are going to spend this money, and this is how much we are going to spend in an unknown future?

So I just do not know how to operationalize this idea. It sounds great, but I do not know how to do it, and I am not sure anyone has enough science to do it well.

And my concern that I will repeat is I think that it will be impossible for a future Congress, in the face of a recession, to do nothing. And the idea that you are going to rely on automatic stabilizers and it is all going to be good, I think, is not realistic.

A future Congress is going to do things, and so given that you are going to do discretionary things, do not set yourself up to spend the money twice or cut the taxes twice.

Mr. WOMACK. Well, I know I am about out of time. I do not want the moment to pass though without referring to a conversation you had with Mr. Sires here about immigration because, again, here is another policy that the Congress of the United States is, I think, required to address because we have a broken immigration policy.

And within the last couple of years, we have had policy on the floor, legislation on the floor that would, in fact, do exactly what Mr. Sires was talking about in terms of visas and this sort of thing and how we can build a system that provides something that would contribute strongly to the economy if it were done properly.

And not lost on me was the fact that he voted against that particular policy when it came on the floor, and I am sure it was more over political reasons and the political consequences of trying to support something like that rather than one on merit. And I am just going to leave it there.

If I have got one more moment?

Chairman YARMUTH. Go right ahead.

Mr. WOMACK. Since Ms. Jackson Lee took four extra minutes, I do not mind taking an extra minute.

I never let these moments pass without asking our panelists because I believe that $22.5 trillion of debt is way too much, and we are going to spend $400-plus billion this year on servicing that debt. That $400 billion would pay for a lot of really cool stuff if we had the money with which to do it across the spectrum of discretionary spending.

Dr. Elmendorf, when is it time for us to do our jobs?

Dr. ELMENDORF. Every day, Congressman.

I think you are right, Congressman, to note that we have a level of debt and, even more importantly, a trajectory of that debt under current policies that is not sustainable, and ultimately you or your successors will raise taxes and cut benefits and services to reduce the rate of borrowing.

But, it is also true that we have interest rates today that are lower on Treasury debt than have been at essentially any point in my professional lifetime. They have been trending down for decades, and not just in this country, but in other countries as well.

And there is a signal in that about how much damage the outstanding debt is doing. And with low interest rates, that is a signal that the crowding out of investments is not so costly because one of the ways we have always tracked the cost of that crowding out is interest rates get pushed up.

Interest rates are very low today. So that makes the problem less urgent, less urgent than I said when I came here as the Director of the Congressional Budget Office half a dozen years ago because we have seen something happen in the world, which is a further decline in the interest rates.

It does not mean we can go on like this indefinitely, but it does mean there is a less urgent problem.

Mr. WOMACK. So maybe a less urgent, but urgent nonetheless, right?

Dr. HOLTZ-EAKIN. It is out of fashion to worry about this. I do not mind being out of fashion.

I think that the heavy focus of the economics profession on interest rates has missed the fact that the primary deficit, the mismatch between spending and revenue is large and growing and needs to be dealt with, and that is the Budget Committee's job.

Mr. WOMACK. Yes. You know, Mr. Chairman, it is indisputable that as a percentage of our economy, discretionary spending, that which the appropriators of the Congress have to deal with and are currently wrangling with, is going down, and that as a percentage of the economy, mandatory spending is continuing to skyrocket.

And I would hope that our Committee will eventually come to terms with that and be willing to deal with it no matter how tough the political world may be.

And I yield back.

Chairman YARMUTH. I thank the gentleman.

I now yield myself 10 minutes, or however much time I can take.

Mr. WOMACK. Or 15.

Chairman YARMUTH. Yes.

[Laughter.]

Chairman YARMUTH. Thanks, again, to all of the witnesses. I think it has been a very useful discussion.

I thought it was getting way off the tracks for a time being, not from the witnesses, but from some of the members who wanted to talk about how great things were, and the whole point is to say whatever you think of the current state of the economy, as the Ranking Member said, we know that the hurricane is coming at some point, and is there something we should be doing now to get ready for it? That is a pretty simple question.

I know we do not usually think too far ahead in this body, but it is useful to at least have that discussion.

Mr. Hicks, I am sorry that I did not mention your 25 years of service to the Commonwealth of Kentucky, our beloved state, earlier in the hearing, and I thought you were going to get ignored for the whole hearing as I was prepared to spend most of my time talking to you, but fortunately people did turn attention to you.

Getting back to the Recovery Act and Kentucky's experience, I know when we debated the Recovery Act, we on the Democratic side said we want more infrastructure. We want to spend more, and we want more infrastructure, and Republicans said they wanted to spend less, and they wanted to get it under $900 billion, and they wanted a larger share to go to tax cuts than we did.

I do not know who was right or wrong, but in the Kentucky experience, if you were writing it today, and granted that we are different now than we were in 2009 and 2010, but if you were to write it today, how would you have done it differently?

Mr. HICKS. Well, as it relates to infrastructure, I think one of the things that Departments of Transportation across state governments will tell you, they have plenty of projects they can do resurfacing bridge repair. The infrastructure deficit has been well documented. There is plenty of that kind of spending that is not transformative, that is not reinvestment, but is truly spending.

There is more of that supply of projects available than there are on the long-term projects, the construction of a brand new bridge. That is, as Mr. Elmendorf said, you know, a longer term issue.

So in one sense there is plenty of spending that takes place there. States in the last six fiscal years, over 33 states have raised their gas taxes. It did not matter what party, you know, the states were. They have done that.

And so that is the area of some of the largest spending increase that states have done because they recognize that infrastructure deficit. So that is one area that I think is good.

The other probably I would say is the use of Medicaid as a means of both, you know, incorporating the fact that enrollments rise and that safety net element, you know, needs attention, also combined with the fungibility of the dollars that the last two recessionary fiscal responses we have had are very effective.

If you want to get spending done quickly and you want to keep states from raising taxes or really reducing education spending because that is where most of our big dollars go to, that is a very effective tool, and it has proved effective in the last two recessions.

So we looked at that very closely, you know, when we were contending with the Great Recession, and it really was a rescue effort aimed at really K–12 spending and higher education spending at the time.

I will say the fiscal cliff that we ran into, we did not know how long the recession was going to last, and on state revenues, it lasted longer than anyone expected. And so when the relief dropped off, we had to do what we had to do, which is we had to backfill the Medicaid with state dollars and we cut the heck out of everything else.

We tried to keep K–12 spending from being cut, but higher education took uniformly across the country the biggest single year spending cut, you know, that we have seen in years and years because that is the largest discretionary element of state government spending.

And then the last thing I say in my remarks, this kind of conversation and an institutional type of conversation between and among the federal government, state governments, and the local governments we used to have done in a better way back when the ACIR, Advisory Commission on Intergovernmental Relations, was okay.

So one of the things in terms of your theme here, preparing and getting ready for that next contingency, is to pay some attention to that.

Speaker Ryan had a task force, you know, on that issue a couple of years ago, and I still think it is important because when such a large amount of the Recovery Act flowed through state governments on domestic spending, and I will say it was a shock in terms of the amount of effort that needed to be done, but we are all willing to do it, and I think states worked really hard.

But the federal government did a really good job of communicating during the time of implementation, and GAO did an excellent job in terms of getting out ahead of these things so they could identify problems and get to resolution before enforcement had to take place and later has.

So I think some of that preparation are the lessons learned, and I would love to see some of that institutionalized.

Chairman YARMUTH. Some of my Republican colleagues were talking about how great the economy is and minimized the risk here, but just for a review of history, Dr. Elmendorf, and by the way, I apologize. I am not sure I introduced you as the Dean of the Harvard Kennedy School at the beginning. I introduced you as a former CBO, but you have got to give a shout-out to the Kennedy School.

But was there not growth, the economy growing at a fairly reasonable rate back in 2007, right before it was not?

Dr. ELMENDORF. So, Congressman, Mr. Chairman, I will say first that as some of the alumni of the Harvard Kennedy School are here and Members of your Committee, we are very proud of that.

Economists are very bad at predicting recessions. In fact, it is quite common for economists, once the recession is known to have started, to look back and see economists leading policy makers, saying things like, "Well, we are not in recession now."

It turns out the economy had already slowed because the data become available with a lag, and there are jolts that are reversed, and then jolts that are not reversed.

So it is hard to know, and that is why it is important to be prepared.

Chairman YARMUTH. The quarter before we went into a negative growth rate, we had a 2.5 percent growth rate in GDP.

Dr. ELMENDORF. Yes, Mr. Chairman.

Chairman YARMUTH. Essentially where we are right now.

You said something, Dr. Holtz-Eakin, that I think is really important when you talked about the differences between the 1990s and today. Some of my colleagues have heard me say this. I repeat it all the time.

We had a Chief Technology Officer from Microsoft in my district several months ago, and she said that over the next ten years we would experience 250 years' worth of change.

Even if she is 50 percent wrong, that is an awful lot of change.

Then, one of the top people at IBM told me that in the next three years alone, artificial intelligence was going to change, significantly change or eliminate, 150 million jobs around the world. That is just in the next three years.

So we are in a period of rapid change, and it is going to get more and more rapid. So I think the idea that we could face and almost a certainty that we will face some really significant disruptive changes in society that are going to make significant difference and without question will disadvantage certain categories of the population, as we know, is something I think makes this discussion much more important.

One of the things that you talk about enhancing economic growth and the chance is that I become more and more focused on is early childhood education in that we know that very soon we are going to be a majority non-white population, which means that a generation or two from now, the tax base is going to be majority non-white.

And we have a lot of people in vulnerable situations whose children are going to make up a lion's share of the tax base a generation or two from now.

Is that one of those things that you think we could do, along with immigration and other things?

Dr. HOLTZ-EAKIN. There is a lot of evidence that early childhood education has high returns over the course of people's lives. That is in the economics literature pretty clearly.

From the Budget Committee's perspective, I think like the key is this is yet another piece of evidence that we have two budget problems. One is the mismatch on revenues and spending, and the other is the composition of the spending.

Discretionary accounts are the place where you do all the genuine investments, basic research, infrastructure, education, and the mandatory programs, which are largely legacy programs and aimed at the elderly, are pushing out the discretionary accounts, and the kids get shortchanged as a result.

And how you deal with that I think is one of the fundamental challenges of the budget going forward.

Chairman YARMUTH. I thank you for that.

And going back to immigration, I do not know. I will let Mr. Sires speak for himself about why he voted against it, but you are not talking about back in 2013, are you?

Mr. WOMACK. No.

Chairman YARMUTH. Because the reason that a lot of Democrats, and I am sure I was one of them, voted against that was because it was the easy stuff to do, and one of the problems we have always faced in doing immigration reform, at least since I have been here is everybody wants to do the easy stuff, H–1B visas, yes, simple.

Border security? Yes, we can do border security.

DACA, half of the citizenship, those are the tougher things, and I think that, as one of the Gang of Eight in 2013, I worked for seven months to bring comprehensive immigration reform to the floor when the Senate had already passed it, and we were not able to get it to the floor, even though seven of the eight of us had signed off on a proposal that we thought could pass.

Mr. WOMACK. The bill I am talking about did have a six-year DACA fix in it.

Chairman YARMUTH. A temporary DACA fix, yes.

Mr. WOMACK. Yes.

Chairman YARMUTH. Got you, but I totally agree that immigration reform—I agree with you, the Ranking Member, and everybody else—is something that is not optional. It is mandatory.

In my district, over the last 10 years, 100 percent of the population growth has been from immigration. None has come from native born growth.

We had a hearing on immigration and its future impact on the budget, and one of the witnesses said that it is estimated in about 2045, 87 percent of the population growth of the country would be from immigration. So it is something that, again, looking down the road we definitely have to do.

So anyway, once again, thank you all for your testimony. I found the discussion extremely interesting and valuable. And I do not think I have anything else to do except to say once again thank you, and I thank the Ranking Member.

And without objection, the hearing is adjourned.

[Whereupon, at 12:19 p.m., the Committee was adjourned.]

SHEILA JACKSON LEE
18TH DISTRICT, TEXAS

WASHINGTON OFFICE:
2160 Rayburn House Office Building
Washington, DC 20515
(202) 225-3816

DISTRICT OFFICE:
1919 SMITH STREET, SUITE 1180
THE GEORGE "MICKEY" LELAND FEDERAL BUILDING
HOUSTON, TX 77002
(713) 655-0050

ACRES HOME OFFICE:
6719 WEST MONTGOMERY, SUITE 204
HOUSTON, TX 77019
(713) 691-4882

HEIGHTS OFFICE:
420 WEST 19TH STREET
HOUSTON, TX 77008
(713) 861-4070

FIFTH WARD OFFICE:
4300 LYONS AVENUE, SUITE 200
HOUSTON, TX 77020
(713) 227-7740

Congress of the United States
House of Representatives
Washington, DC 20515

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CONGRESSWOMAN SHEILA JACKSON LEE OF TEXAS

HEARING STATEMENT: "STRENGTHENING OUR FISCAL TOOLKIT AND IMPROVING ECONOMIC RESILIENCY"

COMMITTEE ON THE BUDGET
210 CANNON
OCTOBER 16, 2019
10:00 A.M.

- Thank you Chairman Yarmuth and Ranking Member Womack for convening this hearing on strengthening our fiscal toolkit and improving our nation's economic resiliency.

- Let me welcome our witnesses:

  Doug Elmendorf, Ph.D.
  Dean and Professor of Public Policy
  Harvard Kennedy School
  (former director of the Congressional Budget Office (CBO), senior economist at the Council of Economic Advisers, deputy assistant secretary at the Treasury Department, and as an assistant director at the Federal Reserve Board)

Olugbenga Ajilore, Ph.D.
Senior Economist
Center for American Progress

John Hicks
Executive Director
National Association of State Budget Officers

Doug Holtz-Eakin, Ph.D. -- Republican witness
President, American Action Forum
(former chief economist of the Council of Economic Advisors and director of CBO 2003-2005)

- Thank you for being here and sharing your expertise with this Committee.

- No one wishes for or knows when the next recession will occur or how deep it will be, or which sectors or families would be hit hardest.

- But what is certain that every period of economic growth comes to an eventual end.

- Thanks to the courageous and visionary leadership of President Barack Obama beginning in January 2009, the United States began the longest uninterrupted period of economic expansion in U.S. history in June 2009.

- But with this Administration's arbitrary and undisciplined and uniformed fiscal policy, trade policy uncertainties, an inverted yield curve, and a jolted stock market, the warning signs are growing that the economic boom begun with the 'Obama Recovery" may soon be ending under the misrule of the 45th President of the United States.

- Mr. Chairman, in response to the last recession, President Obama proposed, and the Congress refined and passed the American Recovery and Reinvestment Act (ARRA, or the Recovery Act) of 2009, which pulled our economy out of the ditch and laid the foundation for the recovery we have enjoyed for the last several years.

- The next recession will certainly be different from the last, so the response will need to be different.

- Mr. Chairman, the Great Recession that began in 2007 and lasted until June 2009 was the most severe economic downturn in the United States since the Great Depression.

- The official unemployment rate exceeded 10 percent in October 2009 and didn't fall back to below 5 percent until late 2016.

- A more expansive measure of employment that also includes people who have part-time employment but want full-time employment and people who wanted employment but gave up looking for a job peaked at above 17 percent in 2009-2010 and stayed above 10 percent through 2015.

- These statistics mask wide disparities across race, income, and other demographic characteristics, as unemployment rates for African American, Hispanic, and less-educated Americans were significantly higher.

- The effects of the Great Recession were not limited to lost jobs.

- Tumbling stock markets meant that individuals and businesses invested less, reducing long-term economic potential.

- State and local governments reduced investments in education, health care, and employee compensation due to budget holes.

- People who graduated from high school or college into a sluggish job market were more likely to begin their careers in lower-paying jobs, and it may take years for them to catch up to peers who graduated into better job markets.

- Other people ended up leaving the labor force entirely.

- Mr. Chairman, policymakers generally have two types of tools to respond to recessions: monetary policy and fiscal stimulus.

- Monetary policy is implemented by the Federal Reserve and refers to actions that change the money supply, interest rates, and/or inflation. Fiscal stimulus means increasing government spending or reducing revenues, or doing both, to grow the economy.

- While there are significant automatic stabilizers inherent in current law, larger responses needed to combat significant economic pain require an act of Congress.

- The most significant action of fiscal stimulus in response to the Great Recession was President Obama's *Recovery Act* or *ARRA*.

- Known officially as the American Recovery and Reinvestment Act of 2009, ARRA which was passed with only Democratic votes, dispensed economic aid and boosted investment in job creation through national infrastructure just as the economy was hitting rock bottom.

- Among the important, economy rescuing features of the ARRA are that it:

    1. Provided temporary tax relief for individuals and businesses, such as installing the new Making Work Pay tax credit for working families and creating the American Opportunity tax credit to help students afford a higher education; and expanding incentives for businesses to

grow and invest by enhancing deductions for depreciation and expensing of new equipment.

2. Helped sustain state and local government functions by raising federal matching rates under Medicaid and preserving funding for teachers, police, and firefighters.

3. Supported people in need by enhancing unemployment benefits and extending their duration, and increasing SNAP benefits; and

4. Funded construction of schools and transportation projects that occurred over several years.

- Most economists believe that the Recovery Act was necessary and softened the impact of a very deep and prolonged economic downturn.

- In its 2015 update of the Recovery Act estimate, CBO estimated that in 2010, the Recovery Act:

    1. Raised real (inflation-adjusted) GDP by between 0.7 percent and 4.1 percent;

    2. Lowered the unemployment rate by an amount between 0.4 percentage points and 1.8 percentage points;

    3. Increased the number of people employed by between 0.7 million and 3.3 million; and

    4. Increased the number of full-time-equivalent jobs by between 0.9 million and 4.7 million.

- The Center on Budget and Policy Priorities estimates that federal Recovery Act funding, including an extension in August 2010, closed 24 percent of state budget gaps between 2008 and 2012.

- Most of this emergency federal aid came through Medicaid, via an increased federal match, and through the State Fiscal Stabilization Fund, which primarily boosted federal education funding.

- The Recovery Act was not the only policy response to the Great Recession. Policy responses taken before and after the Recovery Act were crucially important in reducing the length and severity of the recession.

- According to Moody's Analytics' Mark Zandi and Princeton's Alan Blinder, without the Recovery Act and other actions taken by President Obama and the Democratic Congress, the economic contraction would have been twice as long; the number of jobs lost would have been twice the actual number; and the unemployment rate would have peaked at just under 16 percent, rather than the actual 10 percent.

- The next economic downturn is unlikely to be as severe but because of this Administration's mismanagement of the federal budget, the nation's toolkit for responding may be more limited.

- Notably, monetary policy–which played a critical role in countering the Great Recession and promoting the recovery–will be less effective at stimulating the economy going forward.

- A key advantage of monetary policy is that the Federal Reserve can manipulate short-term interest rates quickly and flexibly in response to a weakening economy by lowering the federal funds rate as it did during the Great Recession.

- Today, however, the federal funds rate sits at 1.75-2 percent – and is projected to remain historically low even in the absence of a recession – leaving the Fed with very little room to cut interest rates in the face of another downturn.

- But Mr. Chairman, we have the fiscal space to fight the next recession

- Fears of insufficient fiscal space today are misguided, however, as they were a decade ago.

- We do not currently face constraints on our ability to borrow money in bond markets and are not at risk of defaulting on our debt.

- Interest payments as a share of GDP are relatively small at less than two percent, half the level we paid in the 1990s.

- There is no economic reason why we would be unable to undertake aggressive fiscal stimulus when we need it.

- Utilizing the fiscal space to fight the next recession is good economic and budget policy.

- Timely and well-designed fiscal stimulus can boost short- and long-run employment, GDP, and tax revenues, hastening the pace of recovery and containing the economic damage.

- Effective fiscal stimulus that reduces the severity and length of recessions and fosters a fast-paced and broadly shared recovery can significantly improve our long-term economic and budgetary outlooks.

- By contrast, doing nothing–or, even worse, implementing austerity–is counterproductive and jeopardizes our long-run economic potential.

- During the Great Recession, Congress' abrupt turn to deficit reduction led fiscal policy to begin serving as a drag on economic growth after 2011, even as the unemployment rate remained well above 8 percent.

- Austerity continued to weigh on our economy years into the recovery: had government spending in the wake of the Great Recession tracked the spending that followed the early 1980s recession (which was less severe), government spending would have been nearly $1 trillion higher in 2016 alone.

- That spending growth pace would have allowed the labor market return to pre-recession health by 2013.

- Mr. Chairman, thank you for holding this important hearing and I yield back the remainder of my time.

Questions for the Record
Congresswoman Ilhan Omar
"Strengthening Our Fiscal Toolkit: Policy Options to Improve Economic Resiliency"
House Budget Committee
October 16th, 2019

For Dr. Ajilore:

While there are many other contributing factors to our economic inequality, it's clear that the racial wealth gap has deepened much further after the Great Recession. The collapse of the labor, housing, and stock markets disproportionally harmed people of color and low-income individuals. According to a 2014 Pew Research Report, during the Recessions, white households saw a 21% decline in wealth, while black households suffered a more than 40% decline. ***Could you detail some of the long-lasting effects felt to this day in communities of color and low-income households? And could you further outline what aggressive fiscal policies we can enact today to prevent the worsening of racial disparities during future recessions?***

For Dr. Elmendorf:

One of the groups most affected by the student debt crisis is millennials, many of whom graduated college into the worst job market in a generation. Burdened with the higher costs of student loan debt, recent graduates had to deal with lower wages and less economic opportunities intensified by the Wall Street Crash of 2008. If we are willing to bail out the banks, then we must invest back into a broken education system that penalizes and discourages people from trying to achieve a college degree. That is why I was proud to introduce the Student Cancellation Act to clear all $1.6 trillion of student debt in our country. We must take such bold steps not only to stimulate our economy in sudden downturn but also expand inclusive economic growth in the long run. I agree with much of what you said and feel strongly that we can unleash billions of dollars in economic growth, creating up to a million new jobs annually, reducing the racial wealth gap, boosting consumer spending, and fueling new business creation. ***Could you outline the potential benefit of cancelling student debt in regard to economic growth? Are there other proactive policies we can enact to protect Americans from economic uncertainty?***

For Dr. Holtz-Eakin:

Dr. Holtz-Eakin, in 2003, you were the Director of the Congressional Budget Office. Under your leadership, the CBO released a study on the 2003 Bush Tax Cuts, which estimated that the tax cuts "would increase the budget deficits by $349.7 billion over the 2003-2013." We're facing a similar situation here with the recent 2017 Tax Cuts and Jobs Act. It's unclear whether these tax cuts to the wealthy and corporations really do anything positive for inclusive growth, but they are certainly not leading to this Republican promise of surging investments, sustain job creation and equitable economic development. Over the past 30 years, the top 1% of Americans saw their wealth grow by almost 300%. The bottom 50% of Americans have seen no growth. And for the first time in 100 years, U.S. billionaires, paid a lower tax rate than the bottom 50% of U.S. households in 2018. While there are many factors to this country's severe economic inequalities, broad tax cuts on the richest families, unsurprisingly, does not seem to help close the wealth gap. With deficits going up, the Trump Administration has taken counterintuitive measures such as enacting massive tax cuts on the privileged wealthy. And yet, they are more than willing to cut and limit essential assistance like Medicaid and SNAP to the many American families who rely on it to survive in times of dire need. We should have the fiscal space and moral clarity to protect our most socioeconomically vulnerable families during economic downturn if we are willing to give any sort of financial and tax relief for the wealthiest households. ***I yield back.***

Answers to Questions for the Record
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Thank you, Congresswoman for those important questions. Since the cause of the Great Recession was the bursting of the housing bubble, this has had wide ranging adverse effects on communities of color. They were more likely to have subprime mortgage loans and thus, have incurred more debt. They were less likely to recover from the Great Recession and are less able to benefit from the recovery. While unemployment rates for communities of color have fallen to their lowest level in decades, the gap between their unemployment rates and White unemployment rates are not converging. Wealth inequality has risen since the Great Recession.

If we want to be aggressive about making sure racial disparities do not worsen, we must strengthen automatic stabilizers and have a laser focus on programs like SNAP and Medicaid. We don't need new programs because the programs that we already have work but need to be made stronger. SNAP has been a particularly helpful program for African Americans[1] and Latinx[2] populations. Finally, it is imperative that work requirements are not added to Medicaid and already existing work requirements in SNAP need to be eased.

For Dr. Elmendorf:

One of the groups most affected by the student debt crisis is millennials, many of whom graduated college into the worst job market in a generation. Burdened with the higher costs of student loan debt, recent graduates had to deal with lower wages and less economic opportunities intensified by the Wall Street Crash of 2008. If we are willing to bail out the banks, then we must

[1] https://www.cbpp.org/research/food-assistance/snap-helps-millions-of-african-americans
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invest back into a broken education system that penalizes and discourages people from trying to achieve a college degree. That is why I was proud to introduce the Student Cancellation Act to clear all $1.6 trillion of student debt in our country. We must take such bold steps not only to stimulate our economy in sudden downturn but also expand inclusive economic growth in the long run. I agree with much of what you said and feel strongly that we can unleash billions of dollars in economic growth, creating up to a million new jobs annually, reducing the racial wealth gap, boosting consumer spending, and fueling new business creation. ***Could you outline the potential benefit of cancelling student debt in regard to economic growth? Are there other proactive policies we can enact to protect Americans from economic uncertainty?***

Research shows that graduating from college in a weak economy tends to lower incomes throughout those graduates' lives. Those lower incomes can make the burden of student debt more difficult to manage. Moreover, some college students who take on student debt are not able to graduate and then often have trouble paying off their debt. So, I agree with your concern about the need for effective policy regarding student debt.

In addition, canceling student debt would enable those debtors to spend more on a wide range of goods and services, which would boost overall demand and support economic growth.

At the same time, most people who graduate from college end up with higher incomes over the long run than they would have if they had not gone to college. Therefore, canceling all student debt would benefit some people who have higher incomes than some of the taxpayers who would need to pay the cost of that cancellation.

With this consideration in mind, I favor more-selective loan forgiveness and focused policies to reduce the amount of debt taken on by students who will not be able to repay it.

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