Summary
2016 Joint Economic Report
Majority Views
Senator Dan Coats (R-Ind.), Chairman

CHAIRMAN'S VIEWS

Nearly seven years into the recovery, Americans are still waiting for a sign of stronger growth in their incomes that would help them move up the economic ladder. In the final Economic Report of the President and the Annual Report of the Council of Economic Advisers (Report) of this Administration, the crux of the Report promotes "inclusive growth" as a way of addressing income inequality, which the Administration characterizes as a "defining challenge of the 21st century economy." Yet here in America, we do not have a class system that relegates families to one particular income group; the American economy is incredibly dynamic and still harbors great potential for upward mobility.

Instead, America faces two defining challenges today. The first is slower economic progress over the course of the recovery from the not-so-recent recession. The second related challenge is the looming fiscal unsustainability that threatens to devastate what could be a bright economic future. These challenges will determine whether we will be able to continue the American tradition of passing down to the next generation a future that is more prosperous and full of opportunities than in the previous generation.

The longer the delay, the more painful the necessary fiscal policy changes will become. While unequal opportunities, as the Report highlights, are indeed concerning and a precursor for economic immobility, many of the Administration's policy recommendations could thwart stronger economic growth and mobility for the most vulnerable individuals as well as postpone critical reforms to ensure fiscal sustainability. With the use of carefully determined metrics to measure Americans' well-being and the performance of policies going forward, solutions abound for stronger economic mobility. These include reforms to the tax, regulatory, and education systems, and better policy outcomes for the welfare of the American people in the 21st century.

CHAPTER 1: GROWTH AND MOBILITY IN 21ST CENTURY AMERICA

This year's Economic Report of the President places emphasis on "inclusive growth" for the middle class, bolstered by policies aimed at promoting productivity, participation, and "equality of outcomes." However, equality of outcomes is a potentially dangerous misnomer for the resolution of "excessive" economic inequality, as it misplaces focus from the true problem of insufficient economic opportunities as detrimental to economic mobility and potential for growth. Moreover, any discussion of economic inequality must necessarily include economic mobility. While the analysis highlights the importance of removing barriers to employment and entrepreneurship that arise from unequal opportunities, its promotion of unionization and minimum wage increases beget a word of caution as these policies also present potential barriers to entry for the most vulnerable workers. Among the longer-term challenges listed above, high and rising publicly held Federal debt is unfortunately not among them.

CHAPTER 2: MACROECONOMIC OUTLOOK

The *Report* points out that relatively strong job growth has been particularly disconnected with slower GDP growth over the course of this recovery, and labor market "churn" has continued its long-run, declining trend. Yet whether this is due to greater job stability or workers' reduced ability to achieve wage gains by switching jobs remains to be seen. Despite presuming a relatively optimistic economic outlook going forward based upon a budget that presumes debt will at least "stabilize" over the next 10 years, the *Report* again fails to recognize the long-term impending debt crisis that, if left unaddressed, will hurt the U.S. economy, dampen wages, threaten our national security, and reduce the Federal Government's ability to respond to future challenges.

In the next decade, outlays on mandatory programs and interest payments on the debt will be the driving forces of increased spending, consuming 99 percent of all Federal revenues by 2026. Two of the primary trust funds used to provide certain Social Security and Medicare benefits will be exhausted by 2030 and 2026, respectively. It will cost over $5.9 trillion in additional spending to preserve scheduled Social Security benefits for 10 years after its insolvency date, and it will cost over $2.8 trillion to preserve Medicare services for an additional 10 years. Another key driver of mandatory outlays stems from the ACA, the costs of which have been grossly underestimated. The ACA essentially takes money from Medicare in order pay for the health law, and the JEC expects increased spending in the order of trillions will result from the ACA.

CHAPTER 3: THE GLOBAL MACROECONOMIC SITUATION

Chapter 3 of the *Report* assesses trends in the global economy, focusing on slowing growth around the world and the ramifications this will have for U.S. growth. Further, the *Report* underscores the benefits of U.S. trade with the world. Trade agreements such as the Trans-Pacific Partnership (TPP) provide comprehensive benefits including increased exports, higher gross domestic product (GDP), and more jobs across America.

The extensive economic problems around the world illustrate why the President's claim that America enjoys the "strongest, most durable economy in the world" is not a remarkable achievement. Also, regarding trade, several specific elements of the TPP agreement the Administration negotiated are cause for concern.

Finally, absent from the *Report* is any serious discussion of increasing international competitiveness and boosting growth by reforming America's tax system. Currently, the United States has the highest corporate tax rate in the OECD and is one of the few OECD countries with a worldwide tax system. Such an uncompetitive system has led many companies to move headquarters and capital overseas. Instead of seriously addressing the fundamental reforms required, the Administration instead proposes higher taxes and spending that would drive more companies offshore and hinder economic growth.

CHAPTER 4: OPPORTUNITY FOR ALL

The *Report* devotes much attention to the economic conditions facing low-income families and proposes several ways to address poverty. In doing so, the *Report* largely relies on the continuation of existing government programs that were created decades ago for a different time and economy. This chapter highlights how these programs far too often end up hindering the very people they are designed to help.

To break the cycle of poverty, public policy must remove the government-imposed barriers that impede economic mobility and develop smarter solutions that empower individual success. Smart reforms include: 1) increased economic growth, which expands opportunity; 2) strong, properly aligned incentives that promote savings, investment, and learning; and 3) long-term sustainability for the programs and, in turn, the beneficiaries.

CHAPTER 5: INNOVATION, TECHNOLOGICAL CHANGE, AND AUTOMATION

The *Report* highlights the concerning trends of less dynamism in the business sector, lower productivity growth, and subdued startup rates that pre-date the recent recession. These trends highlight a recurrent theme in this era of slower growth expectations: a divergent path that yet remains unclear for the future of America and worldwide. In the optimistic view, the *Report* suggests that investment will return to its historical trend after the capital overhang following the recent recession. In the pessimistic view, it is possible that the recent slowdown in investment may reflect lower capital intensity, slower labor force growth, or fewer startups going forward. Implementation of pro-growth policies remains important as ever in fostering a competitive business environment both here and abroad, as well as recognition of government's role in removing barriers to entry, protecting property rights and promoting the rule of law, thereby bolstering economic activity and entrepreneurship.

CHAPTER 6: INFRASTRUCTURE & ENERGY

In the *Report*, the Administration discusses the economic benefits of investing in U.S. infrastructure. It proposes a series of new clean technology programs and expanded public transit. The *Report* minimizes the role of the private sector, despite the encouraging prospects for public-private partnerships. The Administration proposes to pay for its clean energy agenda with a deemed repatriation tax on multinational corporations and a new tax of $10.25 per barrel on crude oil and imported petroleum products. An analysis prepared by the Tax Foundation found that the oil tax would reduce GDP by $48 billion and cost 137,000 full-time jobs.

The *Report* provides diminutive discussion of the energy sector or the Administration's aggressive regulation of American energy production. Absent from the *Report* is any discussion of the economic costs of the Clean Power Plan or the Paris Agreement on greenhouse gases. NERA Economic Consulting has estimated that the Clean Power Plan will cost between $220 billion and $292 billion. The *Report* also misses a chance to substantively highlight the revolutionary innovation in the energy sector related to hydraulic fracturing and horizontal drilling in an entire Chapter 5 dedicated to innovation.

CHAPTER 7: 70TH ANNIVERSARY OF THE JOINT ECONOMIC COMMITTEE

Chapter 7 of the *Report* commemorates the 70th Anniversary of the Council of Economic Advisers, which was created by the *Employment Act of 1946*. The same statute created the Joint Economic Committee.

The legislative history of the 1946 Act illustrates the tension that exists between interventionist and free-market economic philosophies. This chapter commemorates the 70th anniversary of the JEC by discussing its history, prestige over the years, and continuing role in advising Congress and contributing to sound economic policy.