JOINT ECONOMIC COMMITTEE DEMOCRATS

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ECONOMIC UPDATE

August 26, 2022

Economic Issue in Focus: Student Debt Relief Is Key To A Stronger, More Equitable Economy

On Wednesday, President Biden announced a new three-part plan for student debt relief to improve the economic security of borrowers and make a college education more affordable for all students. The plan includes targeted debt cancellation for eligible students, changes to the student loan system to make repayment more manageable and steps to hold schools accountable for tuition hikes. Importantly, experts have noted that this plan will not add to inflation, as the end of the loan repayment moratorium will offset any increase in consumer spending from debt relief.

Tackling the student debt crisis and improving college affordability are key to economic growth. Studies have shown that rising student debt can reduce consumer spending, hinder small business formation and shrink homeownership rates, thereby reducing economic activity and slowing growth. Additionally, rising tuition prices and the accompanying increase in student debt disproportionately affect students of color, reinforcing racial disparities in wealth and economic security. On average, Black students graduate with $7,400 more in student debt than white students, which can limit their future economic opportunity or prevent them from entering college in the first place. Reducing the burden of student debt and making repayment more manageable is critical to mitigating these disparate impacts and building a more equitable economy.

Key Economic Indicators To Track

- **New and Revised Data Show Economic Activity Was Positive in the Second Quarter**: Data released by the Bureau of Economic Analysis on Thursday show that gross domestic income (GDI) increased by an annual rate of 1.4% in the second quarter after adjusting for inflation. The data also show that real gross domestic product (GDP) growth was revised up to -0.6% (from -0.9%) in the second quarter. GDP and GDI are two measures of the size of the economy but from opposite sides: GDP measures output, while GDI measures income. They generally grow in the same direction but have diverged recently. Averaging the two together, as recommended by the Bureau of Economic Analysis for the most real-time measure of economic growth, indicates that growth in the second quarter accelerated to an annual rate of 0.4%, from 0.1% in the first quarter. This means the economic growth picture is more positive than initially reported.
- **Inflation Fell in July, While Year-Over-Year Inflation Decreased Slightly**: Data from the Bureau of Economic Analysis on the July Personal Consumption Expenditures (PCE) index showed inflation decreased last month, and overall prices fell by 0.1%—down from the 1.0% increase in June and marking the first decline in two years. This slowed annual inflation to 6.3% from a year ago, down from 6.8% in June. Falling gas prices accounted for much of the decline.
- **States Continue To See a Strong Labor Market Recovery**: Last Friday, the Bureau of Labor Statistics released state-level employment data for the month of July. Unemployment rates decreased

in 14 states and the District of Columbia and remained stable in 33 states, while 20 states saw the number of nonfarm jobs rise during the month. Overall, 14 states are now at their lowest unemployment rate on record, and the national unemployment rate has fallen to its pre-pandemic rate of 3.5%, which was a 50-year low.

JEC Spotlight: The Inflation Reduction Act Will Make the Tax System Fairer

A new JEC issue brief highlights how the Inflation Reduction Act will close tax loopholes and increase enforcement to ensure that the wealthy and big corporations pay what they owe. The bill includes three major tax reforms to fight inflation, make the tax system fairer, generate revenue and reduce the budget deficit:

1. **A 15% minimum tax on the profits that the most lucrative corporations report to shareholders**: This change will close loopholes that allowed 55 of the largest corporations to pay no corporate income tax in 2020. The new minimum tax will only apply to U.S. corporations with over $1 billion in average profits and foreign corporations with over $100 million in average profits over the previous three years. This minimum tax will ensure that corporations pay what they owe like all hardworking Americans and small businesses do.
2. **A new 1% excise tax on corporations when they buy back their own stock,** which they do to inflate the value of the remaining shares. Stock buybacks primarily benefit short-term investors who sell their stock after the price rises. This practice leads to lower worker pay and limits productive investments—both of which are a drag on overall economic growth. This new excise tax will narrow the preferential tax treatment of stock buybacks over dividends, making the tax system fairer as shareholders will be less able to avoid taxation on corporate earnings.
3. **An $80 billion investment in the IRS to go after wealthy tax cheats and close the tax gap**, which totaled $554 billion in 2019. This investment is critical to enforcing existing tax laws and will help ensure that wealthy individuals and corporations who use tax loopholes and other sophisticated tools to hide their income and profits pay what they actually owe. While most hardworking Americans earn their income through wages or salaries, which are easily reported and ensure near universal compliance, many wealthy taxpayers and corporations are able to conceal their income from the IRS and avoid paying their full taxes. By investing in tax compliance efforts, the Inflation Reduction Act will help crack down on tax evasion and avoidance, which have led to a two-tiered tax system: one that benefits the wealthiest Americans and one for everybody else.

Selected JEC Resources

- *The Inflation Reduction Act Would Fight Inflation and Lower Costs for Americans*
- *The Inflation Reduction Act Lowers Healthcare Costs, Fights Inflation While Cutting the Deficit*
- *People of Color and Low-Income Communities Are Disproportionately Harmed by Banking and Financial Exclusion*

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