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ECONOMIC UPDATE

June 25, 2021

Economic Issue in Focus – Fed Chair Powell: Inflation Increases Will “Resolve Themselves”

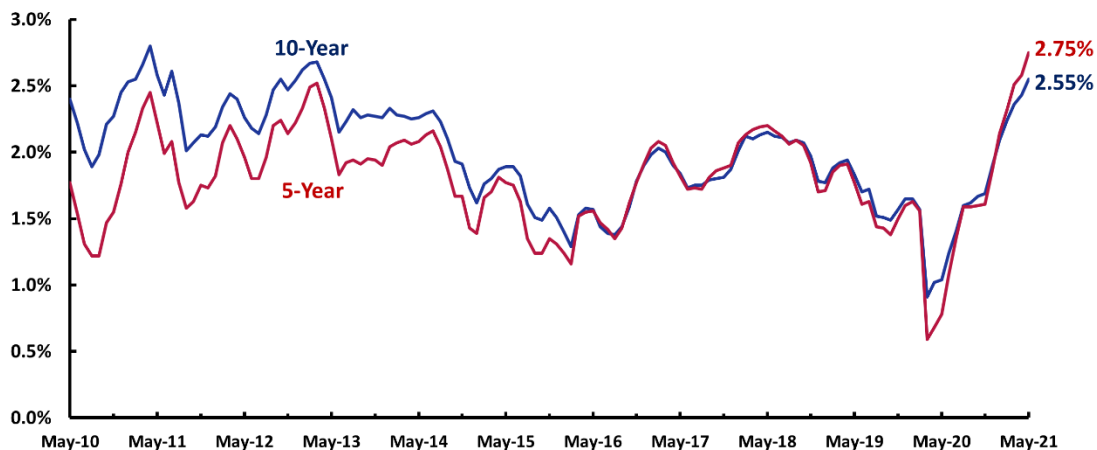
- During his recent testimony to Congress, Federal Reserve Chair Powell reiterated that recent increases in inflation are expected to be transitory and are due to “extremely strong” pent-up demand and supply side pressures that are expected to “[resolve themselves](#)” in the upcoming months. His testimony also calmed markets.

Key Economic Indicators to Track

- *June 24:* [Data](#) released by the Department of Labor showed that the labor market continues to recover: New claims for unemployment benefits fell to 411,000, down from 418,000 last week, and well below the 1.4 million claims that were filed during the same week last year. New [data](#) from the job site Indeed reveal that the 12 GOP-led states that have prematurely cut federal unemployment benefits have not seen spikes in job searching. In fact, job searching in those states is lower than their April levels and below the national average, providing new evidence that unemployment benefits are not holding people back from seeking work. Research [shows](#) unemployment insurance stabilizes consumption and supports families navigating job loss.
- *June 25:* Market-based measures of inflation expectations, including 5- and 10-year Treasury breakeven rates, remain within a normal range despite a 3.4% increase in May of year-over-year [core personal consumption expenditures \(PCE\)](#). As the economy reopens, this uptick is being driven by pent-up demand for goods and services, such as airline tickets, the price of which dropped sharply during the pandemic, and transitory supply-side pressures. As these effects abate, inflation is expected to return to the Federal Reserve’s long-term goal of 2%.

Treasury Breakeven Rates (TIPS)

Market-based measure of inflation expectation



Source: U.S. Treasury/Haver Analytics

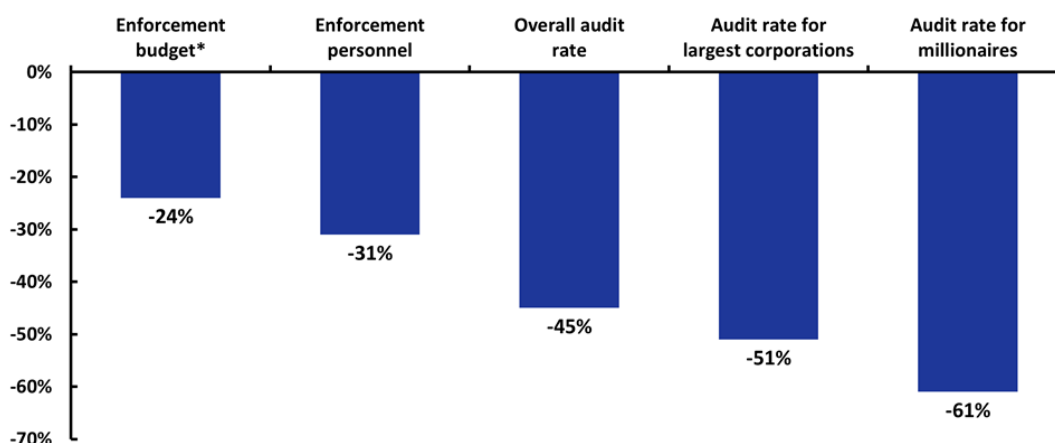
- *July 2:* The Bureau of Labor Statistics will release [employment and payroll data](#) for June. The latest unemployment claims data showed a continued decline in new claims, a sign that the U.S. labor market continues to strengthen as vaccination rates increase and sectors of the economy can safely reopen. This release will be closely watched.

JEC Spotlight – Increase Investment in the IRS to Close the Tax Gap, Raise Billions

As methods of tax evasion have become more sophisticated, it has become increasingly difficult for the IRS to maintain strong enforcement efforts—particularly as its budget and staffing levels have been slashed. As a result, not all taxes that are owed are actually paid, and this tax gap translates into lower revenue, reduced fiscal health for the nation as a whole, a less progressive tax system and greater economic inequality. According to the Treasury Department, the tax gap is projected to total \$7 trillion over the next decade. But evidence shows that investment in the IRS pays for itself: the IRS estimates that each additional dollar spent on tax enforcement yields \$4 in revenue, and in his American Families Plan, President Biden has proposed giving the IRS more enforcement power and an extra \$80 billion over the next 10 years to help crack down on tax evasion by high-earners and large corporations.

IRS Enforcement Is Severely Depleted

Percent change, 2010 to 2018



Source: Testimony of Chye-Ching Huang before the House Ways and Means Committee, CBPP calculations of IRS data
 Note: *The decline in the enforcement budget is as of 2020, adjusted for inflation. "Largest corporations" refers to corporations with \$1 billion or more in assets. "Millionaires" refers to individuals with total positive annual income above \$1 million.

Selected JEC resources

- [The Economic Legacy of the 1921 Tulsa Race Massacre: Today's Racial Wealth Gap](#)
- [Infrastructure and its Impact on the U.S. Economy](#)

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