Congress of the United States
JOINT ECONOMIC COMMITTEE
(CREATED PURSUANT TO SEC. 5(a) OF PUBLIC LAW 304, 79TH CONGRESS)
Washington, DC 20510–6602

May 13, 2022

The Honorable Bernard Sanders
Chairman
Committee on the Budget
United States Senate
624 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Lindsey O. Graham
Ranking Member
Committee on the Budget
United States Senate
624 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senators Sanders and Graham:

Thank you for inviting the Joint Economic Committee (JEC) to provide views and estimates of the Budget of the U.S. Government for Fiscal Year 2023 (the Budget), as described in section 301(d) of the *Congressional Budget Act*. The JEC is responsible for providing Congress with fiscal policy recommendations to meet the goals of the *Employment Act of 1946* and provide an economic evaluation of the Budget (31 U.S.C. 1109). We will address the economic and fiscal assumptions in the Budget, as well as issues of purchasing power, full employment, and maximum production in accordance with the 1946 *Act's* central goals.

Our four main points are as follows:

- The Budget overstates economic growth and understates inflation. By obscuring central components of President Biden's economic agenda, the Budget creates more confusion than clarity.

- Inflation fueled by the United States' excessive COVID-19 fiscal response continues to erode the purchasing power of American families, costing the average household $569 extra in April 2022 to purchase the same items they bought in January 2021. By misdiagnosing the causes of inflation, the Budget could add at least a third of a percentage point to the inflation rate by 2023.

- Total real labor market earnings remain 7.6 percent below their pre-pandemic trend due to high inflation and a 6.4 million worker shortfall. The Budget does little to address these trends and could make it harder for the U.S. to return to full employment.

- The pro-growth policies implemented before the pandemic, including deregulation and tax cuts, benefited low-income and otherwise disadvantaged Americans the most through a strong labor market and healthy economy. The Budget ignores these lessons from the pre-pandemic economy by increasing taxes and elevating an agenda of increasingly costly regulations.

Economic and Fiscal Assumptions

The Budget was published on March 28, 2022, 49 days past its statutory deadline.[1] The economic projections used for the budget baseline were finalized on November 10, 2021 with data from mid-October. In short, the Budget relies on economic assumptions that were more than five months out of date at its time of publication. From November to March, the Federal Reserve's Federal Open Market Committee (FOMC) compiled two separate updates to its economic projections.[2]

For 2023, when the proposed policies would take effect, the Budget assumes higher Real Gross Domestic Product (GDP) growth and lower inflation compared with contemporaneous FOMC economic estimates. Its inflation projections are even further from the consensus when compared with estimates produced in March 2022 at the time of the Budget's release. Table 1 compares the FOMC consensus GDP and Personal Consumption Expenditures (PCE) Price Index projections from December 2021 and March 2022 with the Budget's economic assumptions.

Table 1: Economic Assumptions from the Budget and Federal Reserve (FOMC)

	2022	2023	2024
Real GDP			
Budget, November 2021	3.8	2.5	2.1
FOMC, December 2021	4.0	2.2	2.0
FOMC, March 2022	2.8	2.2	2.0
Inflation			
Budget, November 2021	2.4	2.0	2.0
FOMC, December 2021	2.6	2.3	2.1
FOMC, March 2022	4.3	2.7	2.3

Source: Budget for Fiscal Year 2023, December 2021 and March 2022: FOMC Projections Materials.
Note: All estimates are expressed as percent changes from 4th quarter to 4th quarter. The Budget reports inflation as Consumer Price Index (CPI) and the GDP Price Index. FOMC reports PCE Price Index. Table 1 reports the GDP Price Index because recently it has tracked PCE more closely than CPI. Some of the differences in the Budget and FOMC projections could be due to measurement differences between the GDP Price Index and PCE. However, recent trends (2019-2021) show that the GDP Price Index has risen faster than PCE by 10-40 basis points on an annual basis, suggesting that any measurement differences between the indices would further bias down the Budget's inflation projections relative to FOMC.

The Budget assumes GDP will grow 0.3 percentage point faster in 2023 compared to the FOMC consensus in both December and March. It assumes inflation will be 0.3 percentage point below the contemporaneous December estimate and 0.7 percentage point below the March estimate.

The Budget's overstatement of GDP growth and understatement of inflation could in theory be explained by the standard assumption that the Budget will be fully adopted, which the

[1] 31 U.S.C. §1105(a)
[2] Federal Open Market Committee, "December 15, 2021: FOMC Projects materials, accessible version," Federal Reserve, https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20211215.htm; Federal Open Market Committee, "March 16, 2022: FOMC Projects materials, accessible version," Federal Reserve, https://www.federalreserve.gov/monetarypolicy/fomcprojtable20220316.htm.

Administration believes will raise GDP growth and lower inflation. Federal Reserve estimates, in contrast, do not assume the Budget will be adopted as written. However, the JEC estimates that the President's economic agenda will depress GDP growth and increase inflation, making the Budget's economic assumptions even further out of step with the FOMC consensus.

Properly assessing the full economic impact of the President's Budget is difficult as it obscures the Administration's central economic policy proposals. Since the *Build Back Better Act* (BBB) failed to pass Congress in 2021, Congress and the Administration have reformulated the parameters of the BBB agenda.[3] Perhaps to avoid the difficult political, economic, and budgetary decisions involved in detailing specific policies, the Budget forgoes proposing a specific set of policies with a detailed price tag and instead includes a "deficit-neutral reserve fund" to preserve ongoing discussions with Congress.[4] It does not describe the anticipated effects of its proposals on revenues or outlays, but nonetheless claims they will "reduce costs for families, expand the productive capacity of the economy, and reform the tax system."[5] The unspecified reserve fund renders the Budget uninformative for assessing its economic impact.

It is unlikely that actual legislation formulated along the lines of BBB would be deficit neutral or promote growth as the Budget asserts. The House-passed version of BBB would increase the deficit by $231 billion over ten years, scored conventionally. However, the true cost of the legislation—assuming its provisions were made permanent—would expand the deficit by $3.0 trillion over ten years and likely even more in the years outside the budget window.[6]

The Penn Wharton Budget Model, the American Action Forum, and the Tax Foundation independently estimate the effects of the BBB agenda using different assumptions. They estimate these proposals would decrease long-run GDP by between 0.2 percent and 0.5 percent.[7] Following the publicly described parameters set forth by President Biden and Congressional Democrats, the consensus economic assessment is that the BBB agenda will shrink GDP in the long run.

In addition to proposing new policies that would slow economic growth, the Budget fails to meaningfully discuss or detail reforms to the existing programs that are primary drivers of U.S. fiscal insolvency. In 2022, 65 percent of the Budget ($3.8 trillion) is allocated to mandatory

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[3] Li Zhou, "What happened to Build Back Better?" Vox, March 2022, https://www.vox.com/2022/3/16/22955410/build-back-better-scenarios.

[4] Office of Management and Budget, "Budget of the U.S. Government: Fiscal Year 2023," p. 119, https://www.whitehouse.gov/wp-content/uploads/2022/03/budget_fy2023.pdf.

[5] Office of Management and Budget, "Analytical Perspectives: Long-Term Budget Outlook," in *Budget of the U.S. Government: Fiscal Year 2023*, p. 31, https://www.whitehouse.gov/wp-content/uploads/2022/04/ap_3_long_term_fy2023.pdf.

[6] Phillip L. Swagel, "Re: Budgetary Effects of Making Specified Policies in the Build Back Better Act Permanent," Congressional Budget Office, December 2021, https://www.cbo.gov/system/files/2021-12/57706-BBBA-Palmer-Letter.pdf.

[7] Jon Huntley, Maddison Erbabian, and John Ricco, "H.R. 5376, Build Back Better Act: Budget and Macroeconomic Effects," Penn Wharton: University of Pennsylvania, November 2021, https://budgetmodel.wharton.upenn.edu/issues/2021/11/15/hr-5376-build-back-better-budget-macro; Alex Durante, Cody Kallen, Huaqun Li, and William McBride, "Details and Analysis of President Biden's American Jobs Plan," Tax Foundation, June 2021, https://taxfoundation.org/american-jobs-plan/; Gordon Gray and Douglas Holtz-Eakin, "Assessing the Biden Promises: Infrastructure, Taxes, and Growth," American Action Forum, April 2021, https://www.americanactionforum.org/insight/assessing-the-biden-promises-infrastructure-taxes-and-growth/.

outlays—spending that is on "autopilot" and does not require annual Congressional appropriation.[8] The largest of these mandatory programs, Social Security, was projected in the most recent Trustees Report to pay out more in benefits than it collects in taxes in 2021. Social Security will exhaust its trust fund reserves in 2034, at which point benefit payments will be cut by an estimated 22 percent. The Medicare trust fund is projected to be insolvent even earlier by 2026.[9]

Growth in these programs means that just three federal expenditures—Social Security, health care entitlement spending, and interest on the debt—are projected to exceed federal revenue in 2036, according to the Congressional Budget Office.[10] Without major structural reforms, these programs will continue to put pressure on discretionary appropriations and force Congress to make difficult budgetary and economic tradeoffs in the years to come. By not seriously engaging with reforms to mandatory spending programs, the Budget leaves current and future retirees vulnerable to uncertainty regarding their retirement and healthcare benefits, and fails to address pressing fiscal concerns for the country in the coming years.

Furthermore, by failing to itemize the President's central policy proposals, the Budget renders its reported baseline and projections uninformative. Without articulating the President's proposed policies and budgeting for how they would be implemented over time, the economic projections, revenue and outlay estimates, and deficit figures contain no useful information or insight into the Administration's desired path for economic and fiscal policy.

Purchasing Power Eroded

Following President Biden's election, Congressional Democrats passed the $1.9 trillion *American Rescue Plan Act* (ARP). By supplementing incomes, this legislation boosted consumer demand despite consumer spending having already recovered to pre-COVID levels, fueling the highest U.S. inflation in 40 years.[11]

The President's Budget largely ignores the high inflation rate and attributes the "uncertainty" in its inflation assumptions to Russia's invasion of Ukraine.[12] By misdiagnosing the most pressing economic challenge facing Americans today, the President's Budget doubles down on policies that could make inflation worse. The Budget attributes the state of the 2021 economy to "the new

[8] Office of Management and Budget, "Table S-4: Proposed Budget by Category" in *Budget of the U.S. Government: Fiscal Year 2023*, https://www.whitehouse.gov/wp-content/uploads/2022/03/budget_fy2023.pdf.
[9] The Board of Trustees, Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, "The 2021 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds" August 2021, https://www.ssa.gov/OACT/TR/2021/tr2021.pdf.
[10] Congressional Budget Office, "The 2021 Long-Term Budget Outlook," March 2021, https://www.cbo.gov/publication/56977.
[11] U.S. Bureau of Economic Analysis, "Personal Consumption Expenditures: Chain-type Price Index [PCEPI]," retrieved from FRED, Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/PCEPI.
[12] Office of Management and Budget, "Analytical Perspectives: Economic Assumptions," in *Budget of the U.S. Government: Fiscal Year 2023*, p. 23, https://www.whitehouse.gov/wp-content/uploads/2022/03/ap_2_assumptions_fy2023.pdf.

economic vision" that is reflected in ARP, and calls for more federal spending, but it does not acknowledge that ARP played an outsized role in the surging prices Americans currently face.[13]

High inflation is eroding nominal wage gains and making it harder for Americans to afford the everyday goods they need to raise their families. In April 2022, the Consumer Price Index (CPI) registered a 12-month price increase of 8.3 percent.[14] The JEC estimates that the average American family spent $569 extra in April 2022 to purchase the same goods and services they bought in January 2021.[15] Even if prices stop increasing, the inflation that has already occurred will cost the average American household $6,829 over the next year. The task of keeping prices stable is not only a key metric of the *Employment Act*, it is also the most important economic issue currently facing American families, workers, and businesses.

One key question facing policymakers is what factors are driving inflation. Prices first started accelerating in early 2021, caused by an uptick in consumer demand while supply was constrained by domestic labor shortages and global supply chain issues.[16] The largest driver of recent inflation has been elevated consumer demand, particularly for goods. Inflation-adjusted goods spending was 14 percent higher in April 2022 than before the pandemic.[17]

Expansionary fiscal and monetary policy have contributed to this increase in consumer spending. Since March 2020, the Federal Reserve has more than doubled the size of its balance sheet, from $4.2 billion in February 2020 to $8.9 billion in April 2022.[18] Congress also disbursed more than $5 trillion as a part of ARP and other COVID-relief measures, boosting individual and business incomes. This constituted the largest fiscal response in the world and fourth largest as a share of GDP—more than double the spending of similar developed nations such as the United Kingdom, Norway, and New Zealand.[19]

While inflation is high across the world, the magnitude of the U.S. inflationary experience has been unique, largely driven by the overcorrection of fiscal stimulus. Dr. Tyler Goodspeed notes that U.S. inflation historically has been roughly comparable to that in the Euro Area but as shown in Figure 1, "diverged sharply in 2021, with a sharp break occurring after March 2021"

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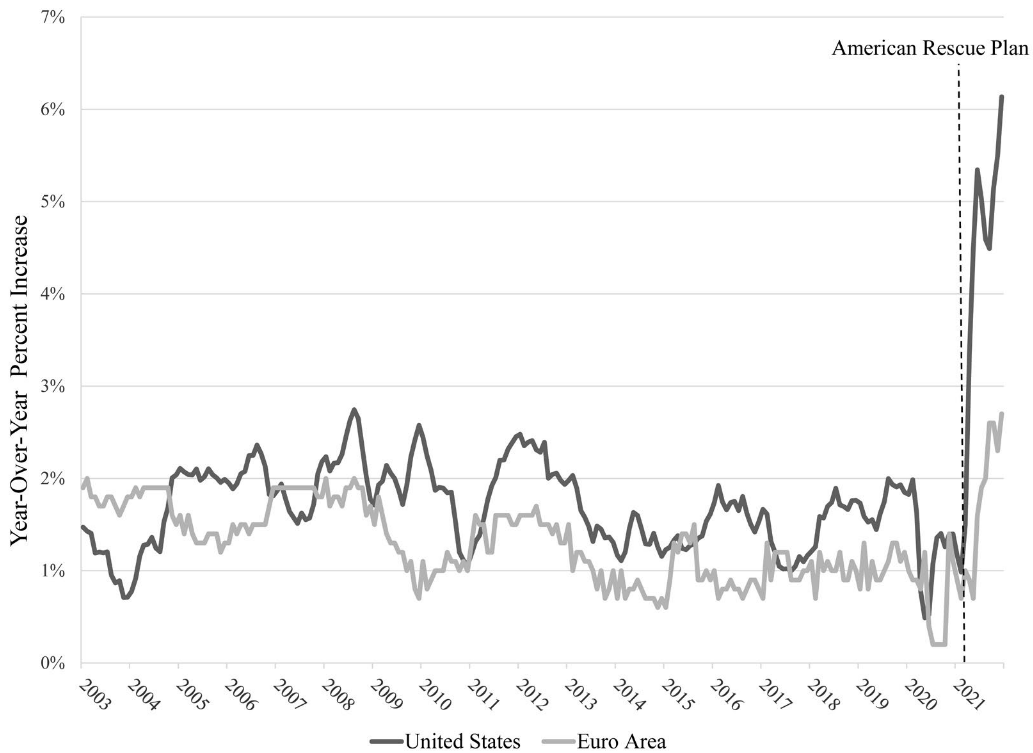
[13] Office of Management and Budget, "Budget of the U.S. Government: Fiscal Year 2023," p. 1, https://www.whitehouse.gov/wp-content/uploads/2022/03/budget_fy2023.pdf.
[14] U.S. Bureau of Economic Analysis, "Consumer Price Index for All Urban Consumers: All Items in U.S. City Average (CPIAUCSL)," retrieved from FRED, Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/CPIAUCSL.
[15] Jackie Benson, Kevin Corinth, and Kole Nichols, "State Inflation Tracker: March 2022," JEC Republicans, April 2022, https://www.jec.senate.gov/public/_cache/files/9ddef25c-4b29-40ce-bfb7-e4bfca7bca5d/state-inflation-tracker-march-2022.pdf.
[16] Jackie Benson, "The Economics of Inflation and the Risks of Ballooning Government Spending," Joint Economic Committee Republicans, October 2021, https://www.jec.senate.gov/public/index.cfm/republicans/2021/10/the-economics-of-inflation-and-the-risks-of-ballooning-government-spending.
[17] U.S. Bureau of Economic Analysis, "Real Personal Expenditures: Goods (DGDSRX1)," retrieved from FRED, Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/DGDSRX1.
[18] Federal Reserve, "Credit and Liquidity Programs and the Balance Sheet," April 2022, https://www.federalreserve.gov/monetarypolicy/bst_recenttrends.htm.
[19] JEC calculations; Elgin, C., Yalaman, A. "COVID-19 Economic Stimulus Packages Database," Centre for Economic Policy Research, May 2021, http://web.boun.edu.tr/elgin/COVID.htm.

when ARP was passed.[20] Compared with international inflation rates, the much larger U.S. stimulus is estimated to have increased inflation for Americans by about 3 percentage points, according to an estimate from the Federal Reserve Bank of San Francisco.[21]

Figure 1: Harmonized Index of Core Consumer Prices, 2002-2022



Source: U.S. data are retrieved from the Bureau of Labor Statistics via Haver Analytics; Euro Area data are retrieved from Eurostat via Federal Reserve Bank of St. Louis.
Notes: Harmonized Index of Core Consumer Prices (HICP) for the United States excludes food and energy; HICP for the Euro Area excludes food, energy, alcohol, and tobacco.

Contrary to the assumptions of the President's Budget, the high inflation Americans currently face has not primarily been caused by Russia's invasion of Ukraine.[22] Inflation in the United States was climbing long before the Russia-Ukraine conflict began in March.[23] Annual inflation rates averaged 3.4 percent in the first half of 2021, 6.0 percent in the second half of 2021, and 7.9

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[20] Tyler Goodspeed, "Testimony of Dr. Tyler Goodspeed before the U.S. House of Representatives Committee on Financial Services," March 2022, https://financialservices.house.gov/uploadedfiles/hhrg-117-ba00-wstate-goodspeedt-20220308.pdf.
[21] Òscar Jordà, Celeste Liu, Fernanda Nechio, and Fabián Rivera-Reyes, "Why Is U.S. Inflation Higher than in Other Countries," Federal Reserve Bank of San Francisco, March 2022, https://www.frbsf.org/economic-research/publications/economic-letter/2022/march/why-is-us-inflation-higher-than-in-other-countries/.
[22] Office of Management and Budget, "Analytical Perspectives: Economic Assumptions," in *Budget of the U.S. Government: Fiscal Year 2023*, p. 23, https://www.whitehouse.gov/wp-content/uploads/2022/03/ap_2_assumptions_fy2023.pdf.
[23] Russia invaded Ukraine on February 24, however, oil prices (measured by the price of WTI crude) did not spike until the beginning of March. It is unlikely that the Russian invasion had any significant impact on U.S. CPI in February. Oilprice.com, WTI crude, https://oilprice.com/oil-price-charts/#WTI-Crude.

percent in February 2022—the highest level since January 1982 and nearly four times higher than the Federal Reserve's 2 percent target.[24] If Russia had never invaded Ukraine, U.S. inflation would have only been modestly lower. Assuming that energy prices in March would have increased at the same rate they did in February (by 3.5 percent instead of 11.0 percent), overall prices still would have increased by 7.9 percent year-over-year instead of their actual rate of 8.5 percent.[25]

Likewise, contrary to the Budget's assumptions, high inflation has not been caused by a sudden increase in corporate greed or corporate concentration. The Administration has argued that oil companies are gouging consumers,[26] pointing to the recent trend of crude prices falling faster than gasoline.[27] Yet, there is little evidence this is the case. The asymmetry between crude and gas prices is a well-researched phenomenon known as "rockets and feathers," and is observed in many other sectors.[28] The United States also has one of the lowest levels of oil and gas business concentration in the world and thus there are too many firms for the industry to effectively collude to inflate prices.[29]

By misdiagnosing the causes of inflation, the President's Budget endorses a policy agenda that will make inflation worse, not better. The $1.4 trillion in additional spending it proposes over the next ten years, along with the estimated $367 billion for BBB that it leaves undescribed in a

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[24] Inflation rates are retrieved from: Bureau of Labor Statistics. Databases, Tables, & Calculators by Subject. Inflation & Prices, All Urban Consumers (Current Series). https://www.bls.gov/data/home.htm.

[25] JEC estimates; "Consumer Price Index - March 2022," Table 6. Consumer Price Index for All Urban Consumers (CPI-U): U.S. city average, by expenditure category, March 2022, 1-month analysis table, Bureau of Labor Statistics, April 12, 2022, https://www.bls.gov/news.release/archives/cpi_04122022.pdf.
The counterfactual annual CPI growth rate, which assumes 3.5 percent growth in energy prices from February to March, is calculated using the following three step formula:

1. Counterfactual Seasonally Adjusted Effect of Energy on All Items in March 2022 =
   [Counterfactual Monthly Growth Rate in Energy Prices / Actual Monthly Growth Rate in Energy Prices] x Seasonally Adjusted Effect of Energy on All Items in March 2022
2. Counterfactual March 2022 CPI =
   Actual March 2022 CPI + [Counterfactual Seasonally Adjusted Effect of Energy on All Items in March 2022 - Seasonally Adjusted Effect of Energy on All Items in March 2022]
3. Counterfactual Annual CPI Growth Rate = [Counterfactual March 2022 CPI/Actual March 2021 CPI] – 1

[26] Pippa Stevens, "Biden calls on FTC to Probe anti-consumer behavior by energy companies as gas prices soar," CNBC, November 2021, https://www.cnbc.com/2021/11/17/biden-calls-on-ftc-to-probe-anti-consumer-behavior-by-energy-companies-as-gas-prices-soar.html.

[27] President Biden (@POTUS), "Oil prices are decreasing, gas prices should too…" Twitter, March 16, 2022, https://twitter.com/potus/status/1504073842871963653.

[28] Peltzman, Sam. "Prices Rise Faster than They Fall." *Journal of Political Economy* 108, no. 3 (2000): 466–502. https://doi.org/10.1086/262126.

[29] Brown, Stephen, and Mine Yücel. "Gasoline and Crude Oil Prices: Why the Asymmetry?," *Economic and Financial Review*, 2000. https://www.dallasfed.org/~/media/documents/research/efr/2000/efr0003b.pdf; Gupta, Kartick, "Oil Price Shocks, Competition, and Oil & Gas Stock Returns — Global Evidence." Energy Economics 57 (2016): 140–53. https://doi.org/10.1016/j.eneco.2016.04.019; JEC Calculations using: "Consumer Price Index - March 2022," Table 7. Consumer Price Index for All Urban Consumers (CPI-U): U.S. city average, by expenditure category, March 2022, 12-month analysis table, Bureau of Labor Statistics, April 12, 2022, https://www.bls.gov/news.release/archives/cpi_04122022.pdf.
The calculation divides the unadjusted effect on All Items, Mar. 2021- Mar. 2022, for energy commodities (1.771) by the annual percent change in the all items index (8.5).

deficit neutral slush fund, will likely exacerbate the inflation Americans face. Assuming the President's proposed budget is approved and BBB becomes law, a conservative fiscal multiplier of 0.6 implies that the President's Budget will increase inflation by an estimated 0.3 percentage point in 2023.[30]

Below Full Employment

The President's Administration has consistently championed the subsidization of non-work through policies like expanded pandemic unemployment benefits and the removal of long-standing earnings requirements for Child Tax Credit beneficiaries. These policy choices, particularly those included in ARP, exacerbated worker shortages in 2021 and 2022 by paying people more to remain at home than to return to their jobs.[31] The Budget proposes expanding these policies, making it harder for Americans to return to full employment.

Compared with the slow and unstable recovery following the Great Recession, the COVID recovery initially progressed remarkably quickly. Between February and April 2020, total employment fell by 14.4 percent, or 22 million non-farm workers. Fortunately, over half of those jobs (12 million) returned by the end of the year with nearly 65 percent of the total job recovery to pre-pandemic levels occurring between April 2020 and March 2021.

However, following the initial rapid jobs recovery through early 2021, the Administration-championed ARP became law, adding $1.9 trillion in new federal spending. The ARP extended earlier COVID policies and added new programs that together posed strong anti-work incentives and likely contributed to the slower labor market recovery from March 2021 onward (Figure 2). Compared with the pre-COVID labor market trend, the April 2022 workforce was short 6.4 million workers.[32]

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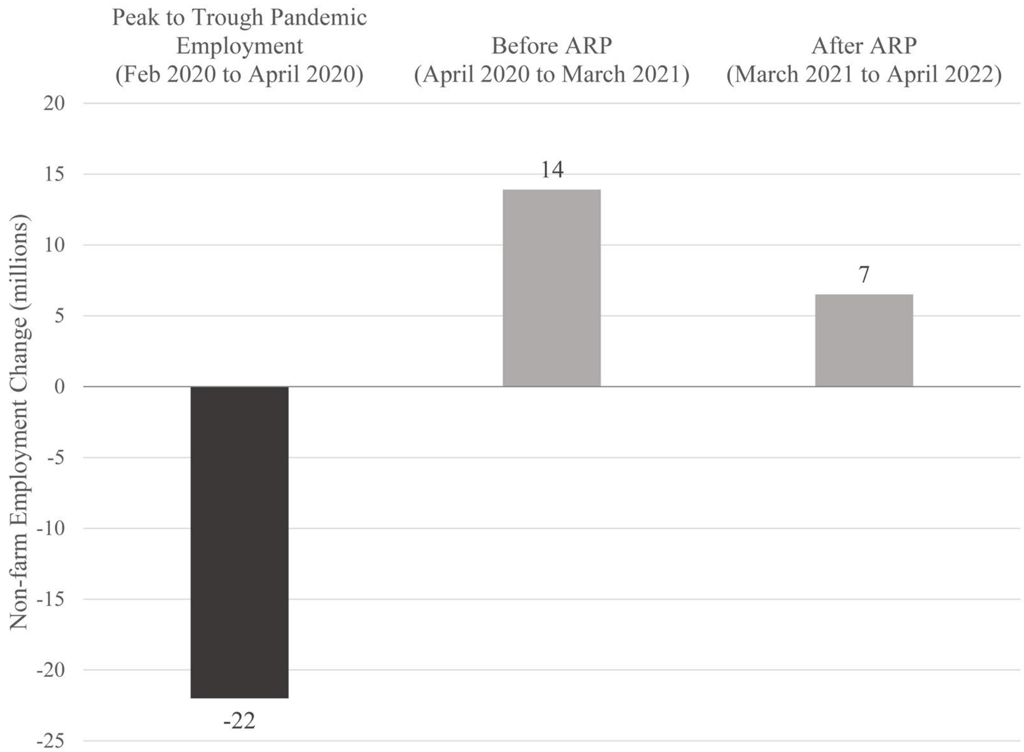
[30] JEC calculations. Inflation is measured as the annual percent change in the GDP Price Deflator, defined as Nominal GDP/Real GDP x 100. Nominal and real GDP projections are retrieved from CBO's 10-Year Economic Projections published in July 2021. The added inflation from the Budget and BBB in 2023 is the difference between two inflation estimates: one real-world estimate based on GDP deflators derived from actual CBO projections, and a counterfactual rate based a nominal GDP estimate for 2023 that adds together CBO's nominal GDP projection, proposed increases in the budget, and CBO's cost estimate for BBB. Because there is no output gap (consistent with CBO's 10-Year Economic Projections) we assume 100 percent of the increase in nominal GDP will translate into price increases via a larger GDP Price Deflator in 2023. Our assumption relies on the additional spending not increasing real GDP because the economy is already at its short-run productive capacity. Bureau of Economic Analysis, National Income and Product Accounts, Table 1.1.4 Price Indexes for Gross Domestic Product, https://apps.bea.gov/iTable/index_nipa.cfm; Congressional Budget Office, "10-Year Economic Projections," July 2021, https://www.cbo.gov/data/budget-economic-data; Congressional Budget Office, "Summary of Cost Estimate for H.R. 5378, the Build Back Better Act," November 18, 2021, https://www.cbo.gov/publication/57627.

[31] Peter Ganong, Pascal Noel, and Joseph S. Vavra, "US Unemployment Insurance Replacement Rates during the Pandemic," Becker Friedman Institute for Economics at the University of Chicago, August 2020, https://bfi.uchicago.edu/working-paper/2020-62/.

[32] JEC calculations from linear trendline fitted from trough of 2008 recession through February 2020; U.S. Bureau of Economic Analysis, "All Employees, Total Nonfarm (PAYEMS)," retrieved from FRED, Federal Reserve Bank of St. Louis, April 2022, https://fred.stlouisfed.org/series/PAYEMS.

Figure 2: Changes in Employment by Period of the Pandemic Recovery



Source: JEC calculations; U.S. Bureau of Labor Statistics.

The labor market today remains well below full employment. Measured by number of workers, labor force participation, and employment to population ratio, the U.S. labor force is still smaller than it was in February 2020 and well below its pre-pandemic trend.

The Americans who have returned to work also face rising inflation that is eroding their nominal wage gains. In the first quarter of 2022, real median weekly earnings were below pre-pandemic levels.[33]

When factoring in lower overall employment levels (the 6.4 million missing workers) and real earnings, the recovery of aggregate inflation-adjusted earnings received by all employed Americans is even further below the pre-pandemic trend. Figure 3 shows real aggregated weekly earnings for all workers from January 2017 to March 2022. Compared to the pre-pandemic economy, aggregate real earnings in March 2022 are 7.6 percent below where they should be. Lower total earnings also persist among most demographic groups, with women and Asian workers remaining the furthest behind.

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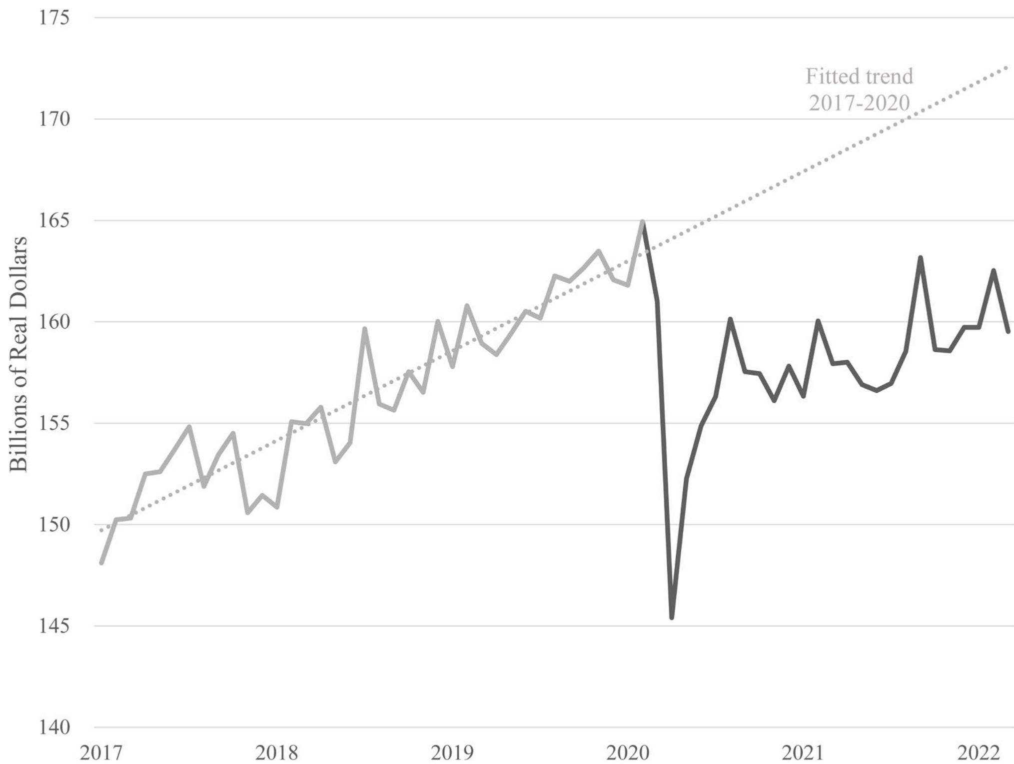
[33] Bureau of Labor Statistics, "Table 1. Median Usual Weekly Earnings of Full-Time Wage and Salary Workers by Sex, Quarterly Averages, Seasonally Adjusted." April 2022, https://www.bls.gov/news.release/wkyeng.t01.htm.

Figure 3: Aggregate Real Weekly Earnings for All Workers, Billions of 2022 Dollars, 2017-2022



Source: JEC Calculations; Basic Monthly Current Population Survey data; Bureau of Labor Statistics. Inflation & Prices, All Urban Consumers (Current Series).
Notes: JEC calculations with linear trendline fitted based on data from January 2017 through February 2020. Earnings adjusted to 2022 dollars using the Consumer Price Index–Urban Series.

The President's Budget fails to acknowledge these labor market challenges or offer meaningful remedies. Instead, its proposals largely focus on increasing funding to worker training programs with an emphasis on supporting women and minorities, and encouraging unionization among federal workers. Federal worker training has continually failed to keep up with the needs of the changing labor market and often does not leave workers better equipped than they were before the program.[34] None of the Budget's proposals would adequately address shortfalls in the current labor market or better equip the labor force of the future.

The proposals not explicitly outlined in the Budget, yet potentially candidates for the nondescript "reserve fund," would also be counterproductive in promoting Americans' employment. The Administration continues to promote initiatives such as those in the *Protecting the Right to Organize Act* that would lower employment by making it harder to work as an independent contractor or enter into a franchise agreement and by increasing the power of unions over

[34] Doug Holtz-Eakin and Tom Lee, "An Analysis of Federal Training Programs," American Action Forum, September 17, 2019. https://www.americanactionforum.org/research/an-analysis-of-federal-training-programs/; David Muhlhausen, "Federal Job Training Fails Again," The Heritage Foundation, March 10, 2017, https://www.heritage.org/jobs-and-labor/report/federal-job-training-fails-again.

workers who want to be independent.[35] Measures passed as part of the House version of BBB, such as an expanded Child Tax Credit that permanently removes the earnings requirement and increased child care subsidies that drive up the cost of child care for those who do not qualify, would increase incentives for non-work and fail to improve labor force participation.[36]

Competitive Enterprise for Maximum Production

The pre-pandemic economy afforded broad benefits for a diverse cross-section of Americans. Following pro-growth reforms, GDP growth in 2017, 2018, and 2019 surpassed forecasters' expectations and resulted in important gains for American families.[37] In 2019, unemployment fell to 3.5 percent, its lowest level since 1969, and real median household income grew by a record 6.8 percent to an all-time high of $68,700.[38] These income gains and historic levels of job growth—particularly for women and minorities—caused poverty to fall to a record low for every race and ethnic group, with Black and Hispanic poverty falling the most. The four years before the pandemic also marked the reversal of a 20-year decline in prime-age labor force participation, rising in January 2020 to 83.1 percent, a level not seen since 2008.[39]

The pro-growth policies implemented in the pre-pandemic economy, including deregulation and tax cuts, benefited low-income and otherwise disadvantaged Americans the most through a strong labor market and healthy, growing economy.[40] The President's Budget ignores these lessons by increasing taxes and advancing an agenda of increasingly costly regulations. The Biden Administration's 2022 regulatory agenda reflects a 35 percent increase in active regulatory actions and a 186 percent increase in economically significant rulemakings—those that have an annual effect on the economy of $100 million or more.[41] By reversing the deregulatory gains

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[35] "Joe Biden Demonstrates Continued Strong Support for Workers in His First State of the Union Address," Communications Workers of America, March 1, 2022, https://cwa-union.org/news/releases/joe-biden-demonstrates-support-for-workers-in-state-of-the-union; Isabel Soto and Thomas O'Rourke, "State-Level Costs of the Protecting the Right to Organize Act," American Action Forum, August 13, 2021, https://www.americanactionforum.org/research/state-level-costs-of-the-protecting-the-right-to-organize-act/.
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made during the Trump Administration, the Budget proposes changes that will likely cost Americans more than $220 billion a year.[42]

The Budget recommends as much as $6 trillion in tax increases over the 10-year budget window, which includes $2.5 trillion in enumerated tax increases, $1.7 trillion in tax increases from BBB, and $1.8 trillion in automatic tax increases following the expiration of the *Tax Cuts and Jobs Act,* which is not addressed in the Budget.[43]

The Budget plans to raise about $886 billion in revenue from increasing the corporate income tax rate by 7 percentage points from 21 percent to 28 percent.[44] Such an action would leave American businesses paying the highest combined corporate tax rates in the developed world, as shown in Figure 4. President Biden's tax proposals could raise total combined top marginal personal income tax rates by 14.4 percentage points (from 42.9 percent to 57.3 percent) and capital gains tax rates by 19.7 percentage points (from 29.2 percent to 48.9 percent).[45] These tax increases would put American personal and businesses taxes well above the international norm. The result would be less private investment, less economic growth, and weaker income gains for American families.

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[42] "This Is How Much Overregulation Would Cost Your Family Each Year – the White House," Trump White House Archives, July 2020, https://trumpwhitehouse.archives.gov/articles/this-is-how-much-overregulation-costs-your-family-each-year/.

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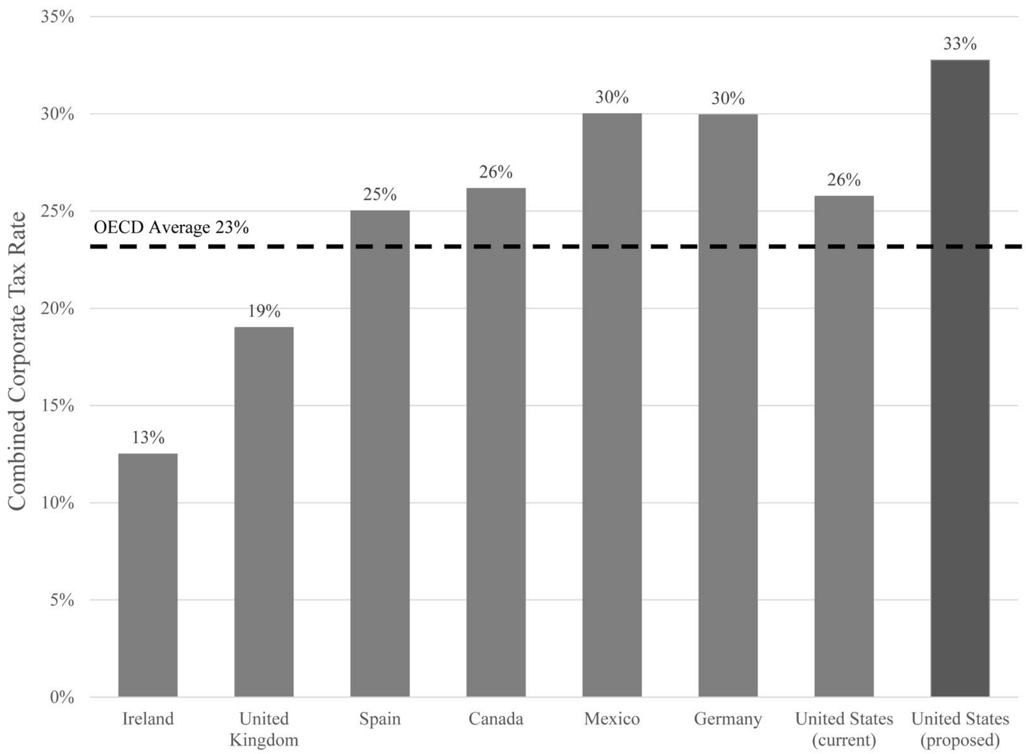
Figure 4: Combined National and Subnational Corporate Income Tax Rates, Selected Countries



Source: OECD, Table II.1. Statutory corporate income tax rate, 2021.

Before the pandemic, the American economy was meeting the 1946 *Employment Act's* central goals of maintaining Americans' purchasing power, supporting maximum employment, and ensuring robust economic growth. These goals were supported by pro-growth policies that kept taxes low and removed burdensome regulations.

A Budget that outlines ways to reduce federal outlays, cut regulations, keep taxes low, and remove disincentives to work would go a long way towards retuning our economy to one of low inflation, full employment, and sustainable long-term growth.

Unfortunately, the Budget fails to meet these objectives.

Sincerely,

Senator Mike Lee
Ranking Member
Joint Economic Committee
United States Congress