

STATEMENT OF VICE CHAIR CAROLYN B. MALONEY

Introductory Letter

I am pleased to share the Joint Economic Committee (JEC) Democratic response to the 2019 *Economic Report of the President*. The JEC is required by law to submit findings and recommendations in response to the *Economic Report of the President* (the *Report*), which is prepared and released each year by the Council of Economic Advisers (CEA).

This year's *Report* is substantially different from those of previous administrations, which largely were careful, research-based and data-driven assessments of the economy supported by mainstream economic theory. Instead, the 2019 *Report* misconstrues well-established facts, cherry-picks data, relies on economic theories widely rejected by mainstream economists and entirely omits critical subjects. As a result, it seems motivated more by politics than economics.

The *Report*, like President Trump, claims full credit for economic conditions that he mostly inherited from his predecessor. It altogether ignores the fact that average monthly job growth was stronger during the last two years of the Obama administration than the first two years of the Trump administration, the period examined in the *Report*. At the time of the president's inauguration, the unemployment rate was 4.7 percent and trending down and the economy had added jobs for 76 straight months. The president implausibly has claimed that he has achieved an economic turnaround, a claim that has been refuted by the facts.

The Trump administration's economic forecast is extremely optimistic compared to those of respected mainstream sources like the Federal Reserve and the Congressional Budget Office (CBO). It estimates real GDP growth of 3.2 percent in 2019 and 3.0 percent or higher in each of the next five years, assuming full implementation of an economic agenda that is widely believed to be extremely unrealistic. In contrast, the Federal Reserve estimates growth at 2.1 percent this year before falling below 2 percent in 2020. CBO projects average annual growth of 1.7 percent from 2020 to 2023.

The *Report* exaggerates the impacts of the Republican tax cuts, which mainstream economists have characterized as a short-term "sugar high" and an unnecessary stimulus of an already-hot economy. While private investment increased in 2018, much of the increase may have resulted from changes in oil prices. Even with the boost from oil prices, private investment grew more slowly in 2018 than in 2011 or 2012.

The *Report's* claim that in the long term the tax cuts would result in a \$4,000 increase to average household income has been widely dismissed by most economists as not credible. A year after the tax cuts passed, corporate profits grew 14.3 percent while wages increased only 3.4 percent. Moreover, the law is expected to worsen economic inequality, with more than 99 percent of the benefits going to the top 5 percent in 2027.

While the benefits of the Republican tax legislation are targeted at the fortunate few, the costs are substantial and will be widely shared. The 2017 tax package adds \$1.9 trillion to the debt. If the president's FY 2020 budget were enacted, which makes permanent the individual provisions set to expire at the end of

2025, the costs would increase. It is widely believed that this sharp increase in debt likely will slow future economic growth.

The *Report* gives only brief consideration of the economic status of Millennials, who now make up the largest generation in the workforce. It ignores their experience entering the workforce and beginning their careers during and in the wake of the worst recession since the Great Depression. Many Millennials have depressed wages, more student debt and lower rates of homeownership and household formation than previous generations at the same stage of their lives.

The *Report* tilts at windmills, spending many pages claiming the dangers of the individual mandate for health insurance coverage, even though Republicans already eliminated that mandate. When it was in existence there was no evidence it was causing the dangers claimed in the *Report*. After the *Report's* release, the administration came out in support of throwing out the entire Affordable Care Act, which would take away health insurance from millions of Americans and remove protections for the more than 130 million Americans who live with pre-existing health conditions.

The *Report* paints an overly rosy picture of recent progress on prescription drug prices. The United States spends twice as much per capita on prescription drugs as Great Britain. Some drugs, such as insulin, cost thousands of dollars each year and as many as one in four people using insulin do not take the amount they need because of the high price.

The *Report* ignores the substantial risks inherent in the administration's weakening of financial regulations and consumer protections. It fails to consider the impact of the administration's dismantling of the Consumer Financial Protection Bureau, which

has left consumers vulnerable to predatory lending practices. It also ignores the fact that loosened lending regulations have led to an explosion in leveraged loans. Lenders have made more than \$1 trillion in high-risk loans in 2017 and 2018. These risks do not appear in the *Report*.

The *Report* declares that President Johnson's War on Poverty "is largely over and has been a success" based on 1963 standards of material hardship. It uses an alternative measure of poverty to find that only 2.3 percent of Americans live in poverty, compared to the official poverty rate of 12.3 percent. This makes light of the daily challenges facing the nearly 40 million Americans who live in poverty and the millions more who move in and out of poverty during their lives.

With such an overly optimistic assessment of poverty, it is not surprising that the *Report* says little about the critical issue of income and wealth inequality, which has widened dramatically over the past four decades. It also sidesteps issues of race, class, gender, education, age and geography.

The *Report* almost entirely omits the subject of climate change, perhaps the greatest challenge facing the global economy in the coming decades. The economic effects of climate change likely will dwarf those of any of the subjects covered by the *Report*.

Ultimately, the *Report* is a reflection of a president who attaches little value to economic facts, and whom *The Washington Post* found to have made 931 false or misleading economic claims during his first 16 months in office. Like the president, the *Report* claims credit for an economy he inherited and displays little regard for the work of mainstream economists. This Democratic response, by contrast, focuses on core economic challenges facing the country and is grounded in fact. It is divided into six chapters:

- 1) Macroeconomic Overview
- 2) Economic Inequality
- 3) Millennials
- 4) Consumer Financial Protection
- 5) Prescription Drug Prices
- 6) Climate Crisis

This response is not intended to be exhaustive. It highlights major issues from climate change to widening inequality that must be part of any comprehensive effort to strengthen our economy and lay the groundwork for future growth. In the coming months, we look forward to addressing many of these issues in more detail through reports, hearings and further analysis.

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