THE 2024 JOINT ECONOMIC REPORT

R E P O R T

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

ON THE

2024 ECONOMIC REPORT
OF THE PRESIDENT

CHAPTER 1 OF THE
REPUBLICAN RESPONSE

Failures in Economic Policy

JUNE 17, 2024

Joint Economic Committee Republicans
Vice Chairman David Schweikert

CHAPTER 1: FAILURES IN ECONOMIC POLICY

The Fiscal Problem

According to the Congressional Budget Office (CBO), the FY2023 deficit was $1.7 trillion, the third highest level on record, only surpassed in FY2020 and FY2021, which were excessively large due to the significant fiscal stimulus in response to the COVID-19 pandemic. This was over two times the average annual deficit between FY2013 and FY2019 and ten times higher than the average annual deficit between FY2000 and FY2007, the two other typical macroeconomic periods of this century.[1]

This level of deficit spending during a time of peace and economic expansion is unprecedented and is not expected to slow soon. Annual deficits are expected to accelerate considerably over the next ten years, surpassing $2.5 trillion in FY2034, according to CBO.[2] Persistent deficits are projected to raise the debt-to-GDP ratio from 99 percent in 2024 to 116 percent by 2034. While much of the recent debate has focused on discretionary spending, mandatory programs account for a larger share of total spending. Social Security, Medicare, and Medicaid accounted for 48 percent of total government spending in FY2023.[3] Overall nominal

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[1] Congressional Budget Office (CBO), *The Budget and Economic Outlook: 2024 to 2034* (February 2024): Table 1, https://www.cbo.gov/system/files/2024-02/51134-2024-02-Historical-Budget-Data.xlsx.

[2] CBO, *The Budget and Economic Outlook: 2024 to 2034* (February 2024): Table 1-1, https://www.cbo.gov/system/files/2024-02/51118-2024-02-Budget-Projections.xlsx.

[3] In FY2023, Social Security outlays were $1,348 billion, Medicare outlays were $1,009 billion, Medicaid outlays were $616 billion, and total outlays were $6,135 billion: ($1,348 + $1,009 + $616) / ($6,135) * 100 = 48%. CBO, *The Budget and Economic Outlook: 2024 to 2034*, Table 1-4 & Table 1-1, https://www.cbo.gov/system/files/2024-02/51118-2024-02-Budget-Projections.xlsx.

spending has risen 184 percent over the past 20 years, and in FY2023, receipts (government revenue) only accounted for 72 percent of total government outlays.[4] These trends are only exacerbated by demographic headwinds, as discussed in Chapter 2 of this *Response.*

Furthermore, rising interest costs on the debt are propelling deficit growth. The decline in real interest rates over the past several decades, which brought the average nominal interest rate on the debt to levels at or below 2.5 percent between 2010 and 2022, has reversed.[5] In response to the spike in inflation observed in 2021 and 2022, the Federal Reserve raised interest rates. The result has been an increase in interest costs, with net interest payments on the debt nearly doubling over the past three fiscal years, growing from $352 billion in FY2021 to $658 billion in FY2023.[6] Because of the rise in interest rates and the growing debt, by the end of this

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[4] In FY2003 outlays were $2,159,899 million, and in FY2023 outlays were $6,134,507 million. Office of Management and Budget, "Table 1.1 – Summary of Receipts, Outlays, and Surpluses or Deficits: 1789-2029," Historical Tables, March 2024, https://www.whitehouse.gov/wp-content/uploads/2024/03/hist01z1_fy2025.xlsx; U.S. Department of the Treasury, "Monthly Treasury Statement," (September 2023), https://www.fiscal.treasury.gov/files/reports-statements/mts/mts0923.pdf; CBO, *The Budget and Economic Outlook*, Table 1-1; in FY2023, revenues were $4,439 billion and outlays were $6,135 billion: ($4,439 / $6,135) * 100 = 72%; CBO, *The Budget and Economic Outlook: 2024 to 2034*, Table 1-1.

[5] Kenneth S. Rogoff, Barbara Rossi and Paul Schmelzing, "Long-Run Trends in Long-Maturity Real Rates 1311-2021," NBER Working Paper no. 30475 (September 2022), https://doi.org/10.3386/w30475; U.S. Department of the Treasury, "Average Interest Rates on U.S. Treasury Securities," FiscalData, https://fiscaldata.treasury.gov/datasets/average-interest-rates-treasury-securities/average-interest-rates-on-u-s-treasury-securities.

[6] OMB, "Table 6.1 – Composition of Outlays: 1940-2029," Historical Tables, March 2024, https://www.whitehouse.gov/wp-content/uploads/2024/03/hist06z1_fy2025.xlsx.

fiscal year net interest costs as a share of outlays will have more than doubled since 2017, growing to be larger than the defense budget.[7] By FY2026, net interest payments are expected to exceed $1 trillion.[8] Gross interest payments will surpass $1 trillion this fiscal year.[9] A series of poor Treasury auctions over the past year following an acceleration in the number of securities being auctioned have raised concerns that demand for Treasuries may be waning.[10] Declines in demand could drive up interest costs further and exacerbate our fiscal crisis.

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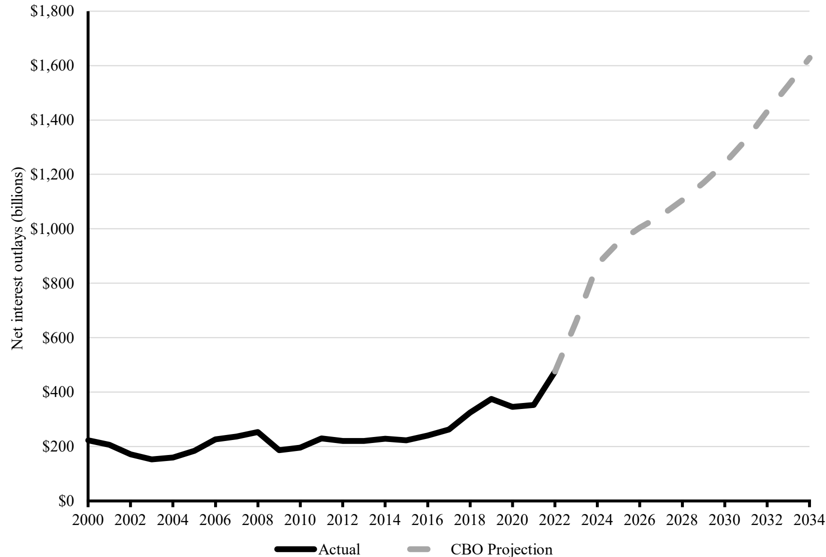
[7] CBO, Historical Budget Data, February 2024, Table 3, Outlays, https://www.cbo.gov/system/files/2024-02/51134-2024-02-Historical-Budget-Data.xlsx; CBO, *Budget and Economic Outlook: 2024 to 2034* (February 2024): Table 1-1, https://www.cbo.gov/system/files/2024-02/51118-2024-02-Budget-Projections.xlsx.

[8] In FY2026, CBO projects that net interest will be $1,005 billion. CBO, *The Budget and Economic Outlook: 2024 to 2034 By the Numbers*.

[9] Bureau of the Fiscal Service, *Monthly Treasury Statement* (U.S. Department of the Treasury, April 2024), Table 3, https://www.fiscal.treasury.gov/files/reports-statements/mts/mts0424.xlsx.

[10] Karishma Vanjani, "30-Year Treasuries Had an Ugly Auction. What's Behind the Weak Demand," *Barron's*, October 12, 2023, https://www.barrons.com/articles/treasuries-weakness-demand-a2bec374.

Figure 1-1: Net Interest Costs, 2000 -2034



Source: Office of Management and Budget (OMB); Congressional Budget Office (CBO), Feburary 2024

Framework to Bring Balance to the Fiscal Problem

Proposed in Chapter 2 of the *2023 Response* was a framework for U.S. debt stabilization. This framework draws on Olivier Blanchard's 2019 presidential address to the American Economic Association and considers the relationship between three macroeconomic variables presented below:[11]

1) the inflation-adjusted growth rate of the U.S. economy ("g");
2) the inflation-adjusted interest rate on U.S. Federal debt ("r"); and
3) the primary deficit of the U.S. Federal government ("p").

[11] Olivier Blanchard, "Public Debt and Low Interest Rates," *American Economic Review* 109, no. 4 (2019): 1197-1229, https://www.aeaweb.org/articles?id=10.1257/aer.109.4.1197.

As a simplifying assumption, assume that r and g are constants, equal to their long-run averages. Where t denotes time, the growth of the debt-to-GDP ratio is given as follows.

$$\frac{\partial}{\partial t}\left(\frac{Debt_t}{GDP_t}\right) = (r - g) * \frac{Debt_t}{GDP_t} + \frac{p_t}{GDP_t}$$

Effectively, Blanchard's model proposes that, so long as real interest rates remain below the growth rate of the economy and deficits are sufficiently small, the U.S. can stabilize debt-to-GDP growth. Considering the increase in interest rates and the projected size of deficits, debt stabilization has become more precarious. While current CBO projections of inflation-adjusted interest rates remain smaller than the forecasted real growth rate of the economy, the gap has shrunk by 0.6 percentage points since prior to the COVID-19 pandemic and has even shrunk from 0.5 percentage points to 0.3 percentage points since last year's *Response*.[12] Given these circumstances, it is now even more pressing to grow the economy and reduce the primary deficit.

[12] Note: Assuming a 2 percent long-run inflation target. CBO, *The Budget and Economic Outlook*, Table 3 in Economic Projections, https://www.cbo.gov/system/files/2024-02/51135-2024-02-Economic-Projections.xlsx; CBO, *The Budget and Economic Outlook: 2024 to 2034*, Table 1-3; CBO, *The Budget and Economic Outlook: 2020 to 2030* (January 2020): Table 1-2, https://www.cbo.gov/system/files/2020-01/51118-2020-01-budgetprojections_0.xlsx; CBO, *The Budget and Economic Outlook: 2020 to* 2030, Table 3 in Economic Projections, https://www.cbo.gov/system/files/2020-01/51135-2020-01-economicprojections_0.xlsx; Joint Economic Committee (JEC) Republicans, *Republican Response to the Economic Report of the President* (U.S. Congress Joint Economic Committee, 2023): 192, https://sen.gov/LVQYY.

Box 1-1: Debt Threshold

Research suggests that a high debt-to-GDP ratio hampers long-run economic growth through a variety of channels. These include an erosion of consumer confidence, increased interest rates, and crowding out of private investment.[13] Specifically, the CBO estimates that every additional dollar the Federal government borrows results in a 33 percent reduction in private investment, slowing economic growth.[14] The cornerstone study on the effect of the debt-to-GDP ratio on economic growth is by Carmen Reinhart and Kenneth Rogoff. By estimating average cross-country growth rates across time, they find that debt-to-GDP ratios above 90 percent correspond with an approximately 50 percent reduction in economic growth compared to countries with debt-to-GDP ratios between 60 and 90 percent.[15] Other research largely supports the premise that economic growth is slowed by higher debt-to-GDP ratios and that there exists a threshold around 90

[13] Committee for a Responsible Federal Budget, "CBO Outlines Negative Implications of High & Rising National Debt," August 17, 2023, https://www.crfb.org/blogs/cbo-outlines-negative-implications-high-rising-national-debt.

[14] Committee for a Responsible Federal Budget, "CBO's Alternative Long-Term Budget Projections."; Mark J. Warshawsky and John Mantus, "An Expanded and Updated Analysis of the Federal Debt's Effect on Interest Rates," *American Enterprise Institute*, September 22, 2022, https://www.aei.org/research-products/report/an-expanded-and-updated-analysis-of-the-federal-debts-effect-on-interest-rates/; Committee for a Responsible Federal Budget, "CBO's Alternative Long-Term Budget Projections," July 25, 2023, https://www.crfb.org/blogs/cbos-alternative-long-term-budget-projections.

[15] Carmen M. Reinhart and Kenneth S. Rogoff, "Growth in a Time of Debt," *American Economic Review* 100, no. 2 (2010): 573–78. doi:10.1257/aer.100.2.573.

percent above which the impact on growth is magnified.[16] Because the U.S. is the global reserve currency this may not apply in exactly the same way as in other countries, however, the point stands that higher debt profiles slow economic growth.

As the debt grows, interest costs to service the debt also rise. The debt grows even faster so long as deficits remain static or increase. Depressed economic growth under these circumstances accelerates the growth of the debt-to-GDP ratio, further slowing growth and worsening the fiscal situation. Unaddressed, a vicious cycle can arise that raises the threat of a debt crisis.

The Biden Administration's policy choices over the past year—and since the beginning of the term—have diverged from the goal of growing the economy while minimizing debt and deficit growth. Instead of enacting policies that reduce regulatory burdens and encourage private-sector-fueled growth and investment, the Biden Administration has prioritized government-led, demand-side, spend-and-regulate policies akin to those in centrally planned economies. This Chapter reviews the Administration's economic policy actions and priorities.

Responding to the Biden Administration's Policy Framework

The Biden Administration has spent more as a share of GDP in the first three years of the term than any other three-year period since World War II (excluding the bipartisan response to the COVID-19 pandemic in 2020).[17] From the nearly $2 trillion American Rescue Plan (ARP), a partisan fiscal stimulus package which passed in March 2021, to the Inflation Reduction Act (IRA),

[16] Jack Salmon, "The Impact of Public Debt on Economic Growth," Cato Institute, 2021, https://www.cato.org/cato-journal/fall-2021/impact-public-debt-economic-growth.

[17] OMB, "Summary of Receipts," Table 1-1.

estimated to cost between $700 billion and $1.2 trillion, and the $1.2 trillion Infrastructure Investment and Jobs Act (IIJA), the Biden Administration has built a demand-side-dominant economic policy regime.[18]

Keynesian economic theory suggests that a rise in outlays creates a fiscal multiplier effect, whereby government spending can be a substitute for private spending in times of crisis—such as the COVID-19 pandemic or the 2007–2008 financial crisis—and the resulting increase in consumption drives employment, creating compounding positive effects. The Biden Administration's economic policy framework appears to rest on this theory. While research tends to find substantially smaller effects than would be suggested by Keynes, government spending in the short run does

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[18] In March 2023, researchers at Brookings estimated the IRA's fiscal cost to be $780 billion through 2031, and Goldman Sachs estimated $1.2 trillion. In April, University of Pennsylvania researchers estimated just over $1 trillion from 2023 to 2032. The White House, "Building a Clean Energy Economy: A Guidebook to the Inflation Reduction Act's Investments in Clean Energy and Climate Action," version 2 (January 2023), https://www.whitehouse.gov/wp-content/uploads/2022/12/Inflation-Reduction-Act-Guidebook.pdf; John Bistline, Neil R. Mehrotra, and Catherine Wolfram, "Economic implications of the climate provisions of the Inflation Reduction Act," *Brookings Institution*, March 29, 2023, https://www.brookings.edu/articles/economic-implications-of-the-climate-provisions-of-the-inflation-reduction-act/; Pipeline and Hazardous Materials Safety Administration, "Bipartisan Infrastructure Law (BIL) / Infrastructure Investment and Jobs Act (IIJA)," U.S. Department of Transportation, https://www.phmsa.dot.gov/legislative-mandates/bipartisan-infrastructure-law-bil-infrastructure-investment-and-jobs-act-iija; Michele Della Vigna, Yulia Bocharnikova, Brian Lee, and Neil Mehta, *Carbonomics: The third American energy revolution*, Goldman Sachs (March 2023), https://www.goldmansachs.com/intelligence/pages/gs-research/carbonomics-the-third-american-energy-revolution/report.pdf.

in fact lead to an increase in output.[19] Thus, the growth and tightening of the labor market following the pandemic was accelerated by the vast fiscal stimulus. As of April 2024, there have been 27 straight months with an unemployment rate below 4 percent, and quarterly real economic growth since January 2021 has averaged 3.0 percent.[20] The magnitude of fiscal support was questioned at the outset by prominent economists affiliated with former Democratic presidential administrations, including Lawerence Summers and Jason Furman, and time has shown that the record deficit spending came with a significant cost—the highest inflation in 40 years.[21]

As concluded in Chapter 1 of the 2023 *Response*, the substantial fiscal spending, aided by expansionary monetary policy, contributed to the increase in the price level that has been observed since President Biden took office, with year-over-year CPI inflation peaking at 9.1 percent in June 2022 and cumulative CPI inflation reaching 19.9 percent as of April 2024.[22] Research

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[19] Veronique de Rugy and Garett Jones, "Keynesian Stimulus: A Virtuous Semicircle?", Mercatus Center Working Paper (June 2, 2021), https://www.mercatus.org/research/policy-briefs/keynesian-stimulus-virtuous-semicircle.

[20] U.S. Bureau of Economic Analysis, "Real Gross Domestic Product [GDPC1]," retrieved from FRED, Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/GDPC1.

[21] Lawrence H. Summers, "The inflation risk is real," Larry Summers blog, May 24, 2021, https://larrysummers.com/2021/05/24/the-inflation-risk-is-real/; Nancy Cook, "Obama, Biden Economists in Conflict on Inflation Jump, Spending," Bloomberg, May 12, 2021, https://www.bloomberg.com/news/articles/2021-05-12/obama-biden-economists-in-conflict-on-inflation-jump-spending; U.S. Bureau of Labor Statistics (BLS), "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.

[22] U.S. Bureau of Labor Statistics (BLS), "Consumer Price Index for All Urban Consumers: All Items in U.S. City Average [CPIAUCNS]," retrieved from FRED, Federal Reserve Bank of St. Louis,

suggests that the ARP alone added 2.5 to 3.0 percentage points to U.S. inflation in 2021 and likely also exacerbated inflationary pressures in 2022 and 2023 (see Figure 1-2).[23]

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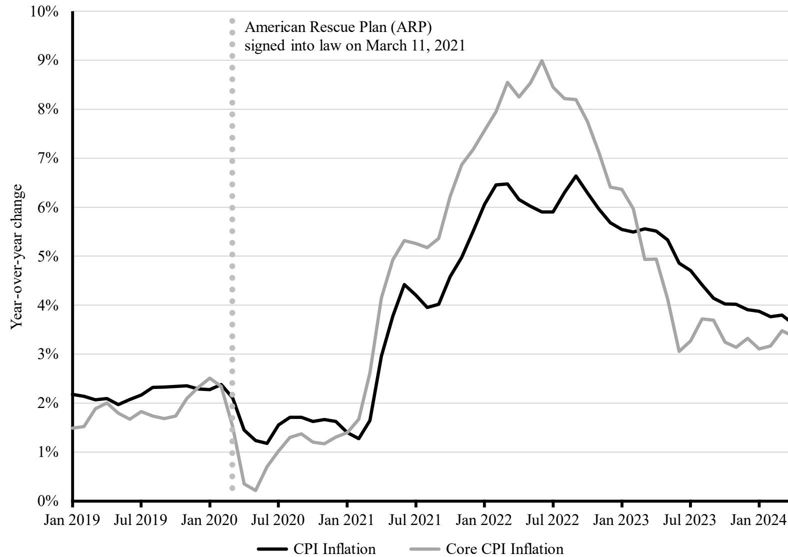
https://fred.stlouisfed.org/series/CPIAUCNS; Julian di Giovanni, Ṣebnem Kalemli-Özcan, Alvaro Silva and Muhammed A. Yildirim, "Quantifying the Inflationary Impact of Fiscal Stimulus Under Supply Constraints," NBER Working Paper no. 30892 (January 2023), https://doi.org/10.3386/w30892; François de Soyres, Ana Maria Santacreu, and Henry Young, "Fiscal policy and excess inflation during Covid-19: a cross-country view," *FEDS Notes* (Board of Governors of the Federal Reserve System, 2022), https://doi.org/10.17016/2380-7172.3083; JEC Republicans, *Response*, 173.

[23] François de Soyres, Ana Maria Santacreu, and Henry Young, "Demand-Supply imbalance during the Covid-19 pandemic: The role of fiscal policy," International Finance Discussion Papers 1353 (Board of Governors of the Federal Reserve System, 2022), https://doi.org/10.17016/IFDP.2022.1353; 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 Economic Letter, March 28, 2022, https://www.frbsf.org/wp-content/uploads/el2022-07.pdf; Michael R. Strain, "Yes, the Biden Stimulus Made Inflation Worse," *National Review*, February 10, 2022, https://www.nationalreview.com/corner/yes-thebiden-stimulus-made-inflation-worse/.

Figure 1-2: CPI and Core CPI Inflation, Jan 2020 – Apr 2024



Source: U.S. Bureau of Labor Statistics (BLS), Consumer Price Index (CPI-U) (not seasonally adjusted)

The remaining share of inflation in 2021 was likely due to supply chain pressures that arose from the reopening of the economy.[24] If not for the Biden Administration beginning one of the largest regulatory expansions in history, which limited supply in the face of a fiscal surge, inflation would likely have been less severe, and some of the inflationary pressures may have abated more quickly. Since January 2021, a total of over $1.6 trillion in regulatory cost has been added.[25] As explained further in Chapter 5 of the *Response,* regulations, while warranted to an extent, impose compliance and administrative costs that reduce capital investment and innovation, total employment, and economic

[24] Zheng Liu and Thuy Lan Nguyen, "Global Supply Chain Pressures and U.S. Inflation" Federal Reserve Bank of San Francisco Economic Letter, June 20, 2022, https://www.frbsf.org/wp-content/uploads/el2023-14.pdf.

[25] Dan Goldbeck, "May Closes With a Whimper," *American Action Forum*, June 3, 2024, https://www.americanactionforum.org/week-in-regulation/may-closes-with-a-whimper/.

dynamism.[26] Regulatory accumulation can also raise consumer prices and exacerbate inflationary pressures.[27]

In response to the inflation fueled in part by the Biden Administration's policies, the Federal Reserve began the most aggressive rate hiking cycle since the late 1970s.[28] Increasing interest rates raise the cost of borrowing and put downward pressure on current demand.[29] The impact has been widespread, from higher mortgage payments to larger interest costs for the

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[26] Michael Mandel and Diana G. Carew, "Regulatory Improvement Commission: A Politically-Viable Approach to U.S. Regulatory Reform," Progressive Policy Institute Policy Memo, May 2013, https://www.progressivepolicy.org/wp-content/uploads/2013/05/05.2013-Mandel-Carew_Regulatory-Improvement-Commission_A-Politically-Viable-Approach-to-US-Regulatory-Reform.pdf; Dustin Chambers, Patrick McLaughlin, and Tyler Richards, "Regulation, Entrepreneurship, and Firm Size," Mercatus Center Working Paper (April 26, 2018), https://www.mercatus.org/research/working-papers/regulation-entrepreneurship-and-firm-size; James Bailey and Diana Thomas, "Regulating Away Competition: The Effect of Regulation on Entrepreneurship and Employment," Mercatus Center Working Paper (September 9, 2015), https://www.mercatus.org/students/research/journal-articles/regulating-away-competition-effect-regulation-entrepreneurship.

[27] Dustin Chambers and Courtney A. Collins, "How Do Federal Regulations Affect Consumer Prices? An Analysis of the Regressive Effects of Regulation," Mercatus Center Working Paper (February 23, 2016), https://www.mercatus.org/research/working-papers/how-do-federal-regulations-affect-consumer-prices-analysis-regressive.

[28] Board of Governors of the Federal Reserve System, "Federal Funds Effective Rate [FEDFUNDS]," retrieved from FRED, Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/FEDFUNDS.

[29] Thorvaldur Gylfason, "Interest Rates, Inflation, and the Aggregate Consumption Function," *The Review of Economics and Statistics* 63, no. 2 (1981), 233-45, https://doi.org/10.2307/1924094.

Federal government. Inflation has since moderated but remains well above the Federal Reserve's long-run target.[30]

The *Report* notes supply-side reforms. However, the Administration's economic policy consists almost exclusively of demand-side, resource-allocation-distorting inflationary proposals, with limited supply-side policies.[31] When the Administration does propose supply-side reforms, they are often temporary or reactive. The temporary reduction in hourly restrictions for truck drivers illustrates this. To address pandemic-era supply chain issues and alleviate inflationary pressure, the Biden Administration temporarily eased driving hour restrictions on truck drivers.[32] The Administration could have instead sought to eliminate or greatly loosen these restrictions permanently to lower transport prices over the long term and make markets more responsive to fluctuations, but it instead sought only a temporary fix to mitigate the short-term effects.

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[30] BLS, "Consumer Price Index for All Urban Consumers: All Items in U.S. City Average [CPIAUCNS]."

[31] Council of Economic Advisers (CEA), *Economic Report of the President* (The White House, 2024): 167, https://www.whitehouse.gov/wp-content/uploads/2024/03/ERP-2024.pdf; CEA, *Economic Report of the President*, 234.

[32] Federal Motor Carrier Safety Administration, "Extension of the Modified Emergency Declaration 2020-002 Under 49 CFR § 390.25," U.S. Department of Transportation, November 29, 2021, https://www.fmcsa.dot.gov/emergency/extension-modified-emergency-declaration-2020-002-under-49-cfr-ss-39025-november-29-2021; The White House, "Remarks by President Biden on the Nation's Supply Chains," December 1, 2021, https://www.whitehouse.gov/briefing-room/statements-releases/2021/12/01/remarks-by-president-biden-on-the-nations-supply-chains/.

Box 1-2: Biden Administration's Oil and Gas Policy

The Administration's policy on oil and gas production too speaks to its reactive supply-side policy framework. From the outset, its rhetoric and regulatory actions created policy uncertainty, likely raising costs for oil and gas production and refining firms. From issuing an Executive Order that revoked the Keystone XL pipeline, to pausing leases on Federal lands and offshore waters, to the implementation of a costly methane rule and reversing a Trump Administration Executive Order aimed at accelerating energy infrastructure projects, the Biden Administration has taken an oppositional stance to the oil and gas industry.[33] Then, as oil and gas prices rose in late 2021, surpassing $100 per barrel and $5 per gallon by the summer of 2022, respectively, instead of reversing course and reducing regulatory restrictions, President Biden authorized several releases from the Strategic Petroleum Reserve (SPR) in an ill-fated attempt to temporarily lower gas prices.[34] Research suggests that the 2022 unprecedentedly large SPR

[33] JEC Republicans, "Supply and Demand Set Gas Prices, Not Corporate Greed," July 26, 2022, https://www.jec.senate.gov/public/_cache/files/fa3599ea-b1cc-4edf-805d-bd7c1a092210/supply-and-demand-set-gas-prices-not-corporate-greed.pdf.

[34] The White House, "President Biden Announces Release from the Strategic Petroleum Reserve As Part of Ongoing Efforts to Lower Prices and Address Lack of Supply Around the World," Press Release, November 23, 2021, https://www.whitehouse.gov/briefing-room/statements-releases/2021/11/23/president-biden-announces-release-from-the-strategic-petroleum-reserve-as-part-of-ongoing-efforts-to-lower-prices-and-address-lack-of-supply-around-the-world/; U.S. Energy Information Administration (EIA), "Crude Oil Prices: West Texas Intermediate (WTI) - Cushing, Oklahoma [DCOILWTICO]," retrieved from FRED, Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/DCOILWTICO; EIA, "US Regular All Formulations Gas Price [GASREGW]," retrieved from FRED, Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/GASREGW.

drawdowns did not have a statistically significant impact on lowering prices.[35]

As evidenced, the Biden Administration has pursued a policy of fiscal excess and regulatory glut, while failing to pursue adequate supply-side solutions. Not coincidentally, inflation remains far above the Federal Reserve's target, notwithstanding notable interest rate hikes, and consumer sentiment remains below pre-pandemic levels.

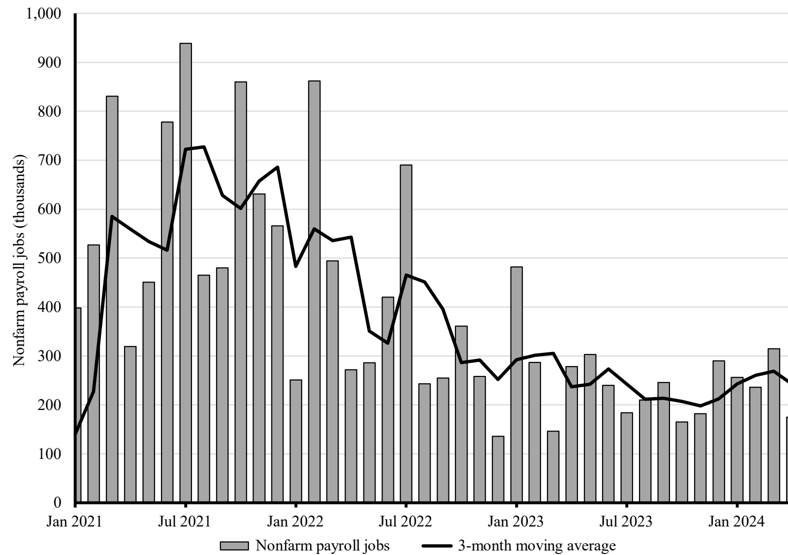
Labor Market Policy

The Biden Administration—in large part due to its inflation-fueling fiscal excess—has overseen a strong labor market recovery from the pandemic. Over the past year, the labor market has remained robust, continuing the post-pandemic job trend that began in the previous Administration. In the face of rising interest rates intended to rein in inflation, there are now indications that the job market may be cooling.[36] Figure 1-3 displays the monthly nonfarm payroll jobs added each month as well as the three-month rolling average. Strong jobs numbers from January 2021 through mid-2022 have moderated, but overall job growth has been consistent over the past four years.

[35] EIA, "Weekly U.S. Ending Stocks of Crude Oil in SPR," https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=WCSSTUS1&f=W; Noha Razek, Valentina Galvani, Surya Rajan, and Brian McQuinn, "Can U.S. strategic petroleum reserves calm a tight market exacerbated by the Russia–Ukraine conflict?", *Resources Policy* 86, Part B (2023), https://doi.org/10.1016/j.resourpol.2023.104062.

[36] BLS, "Unemployment rate inches up during 2023, labor force participation rises," Monthly Labor Review, May 2024, https://www.bls.gov/opub/mlr/2024/article/unemployment-rate-inches-up-during-2023-labor-force-participation-rises.htm.

Figure 1-3: Monthly Nonfarm Payroll Jobs since January 2021



Source: U.S. Bureau of Labor Statistics, April 2024 Employment Situation

Despite strong growth, many Americans remained on the sidelines for far too long after the pandemic. It took until February 2023 for prime-aged labor force participation to return to pre-pandemic highs.[37] The overall labor force participation rate has not recovered to pre-pandemic levels.[38] This slow recovery likely put upward pressure on inflation and depressed the pace of the post-pandemic economic rebound.

As expressed in Chapter 1 of the *Report*, the Biden Administration is particularly attentive to the concept of hysteresis, or the cost of not being at full employment to the supply side of the economy. If

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[37] BLS, "Labor Force Participation Rate - 25-54 Yrs. [LNS11300060]," retrieved from FRED, Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/LNS11300060.

[38] BLS, "Labor Force Participation Rate [CIVPART]," retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CIVPART.

workers remain on the sidelines, they risk sacrificing productivity-enhancing experience that is associated with remaining gainfully employed. This can reduce overall productivity, negatively impacting the growth rate of the economy.[39] Unfortunately, their policy choices following the pandemic did not align with this concern and instead depressed the labor recovery. While the economy had largely recuperated from the pandemic recession by early 2021, the Biden Administration passed the ARP, which included an extension to the emergency unemployment benefits originally implemented in the Coronavirus Aid, Relief, and Economic Security (CARES) Act, passed in the depths of the COVID-19 recession in March 2020.[40] Research suggests that such policies depressed employment by keeping potential workers on the sidelines, hampering the recovery and potentially contributing unnecessarily to inflation.[41] Similarly, the Biden Administration proposed a change to the Child Tax Credit that was estimated to result in 1.5 million fewer workers in the labor force.[42] Furthermore, at the onset of the pandemic, work

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[39] CEA, *Economic Report of the President*, 48.

[40] Coronavirus Aid, Relief, and Economic Security Act, S. 3548, 116th Cong. (2020); The White House, "American Rescue Plan," https://www.whitehouse.gov/american-rescue-plan/.

[41] Bill Dupor, Iris Arbogast, "Employment Effects of Pandemic Emergency Unemployment Benefits: Incentives Matter," Federal Reserve Bank of St. Louis, August 4, 2022, https://www.stlouisfed.org/publications/regional-economist/2022/aug/employment-effects-pandemic-emergency-unemployment-benefits; Ben Bernanke and Olivier Blanchard, "What caused the US pandemic-era inflation?", Hutchins Center on Fiscal & Monetary Policy Working Paper (June 2023), https://fondazionecerm.it/wp-content/uploads/2023/09/What-caused-the-US-pandemic-era-inflation-.pdf.

[42] Kevin Corinth, Bruce Meyer, Matthew Stadnicki, and Derek Wu, "The Anti-Poverty, Targeting, and Labor Supply Effects of the Proposed Child Tax Credit Expansion," University of Chicago Becker Friedman Institute for Economics Working Paper no. 2021-115 (October 2021), https://doi.org/10.2139/ssrn.3938983.

requirements for the Supplemental Nutrition Assistance Program (SNAP)—which mandate that non-disabled recipients without children must work or volunteer 80 hours per month to receive benefits—were waived. The Administration did not reinstate the work requirements until May 2023, almost two years after the unemployment rate fell below 5 percent, likely keeping many workers disengaged from the labor force.[43]

Instead of pursuing policies that discourage work, the Administration should pursue the proposals set forth in Chapter 5 of last year's *Response*. These include occupational licensing reform, tax reform to allow for expensing of worker training, and allowing greater flexibility for independent and contract workers. These would increase both the supply and productivity of labor.[44] The result would be a faster growing economy with more, higher productivity workers which would improve the fiscal situation.

Housing Policy

Housing affordability has diminished because of the Biden Administration's policies. The excess fiscal stimulus it enacted led to elevated inflation, to which the Federal Reserve responded by raising the Federal Funds Rate from 0.0–0.25 percent to 5.25–5.5 percent since March 2022. This increase in interest rates contributed to pushing mortgage rates up from less than 3 percent in early 2021 to approximately 7 percent as of May 2024, reducing

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[43] Kevin Corinth, "It's Time to Link Work and Food Stamps Again," *Deseret News*, February 17, 2023, https://www.deseret.com/2023/2/17/23598056/food-stamps-work-requirements-worker-shortage/; BLS, "Unemployment Rate [UNRATE]," retrieved from FRED, Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/UNRATE.

[44] JEC Republicans, *Response*, 93-114.

housing affordability.[45] It is estimated that the average household in the United States must spend $227 more per month on shelter costs than they did in January 2021.[46] Because this calculation includes rented housing, and rent prices are not as sensitive to interest rate fluctuations, this amount is much lower than the additional costs new homebuyers face. New homebuyers face the highest monthly mortgage payments in over 30 years.

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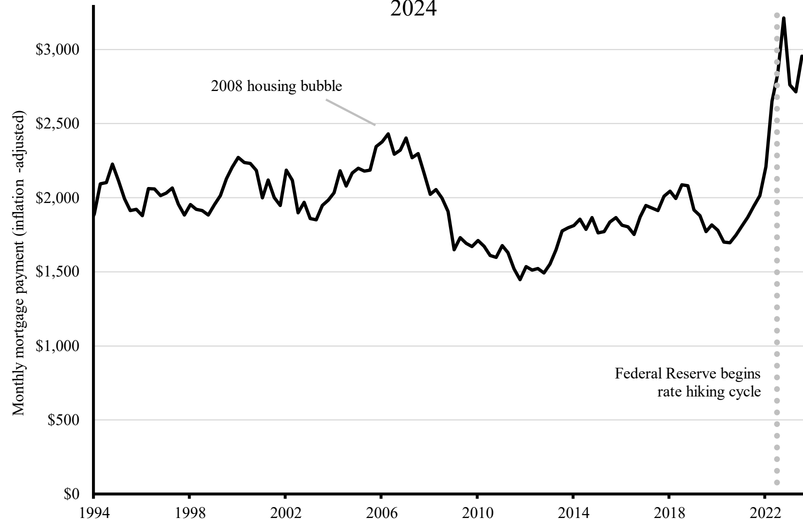
[45] Natalie Newton and James Vickery, "The Pandemic Mortgage Boom," Federal Reserve Bank of Philadelphia, 2022, https://www.philadelphiafed.org/-/media/frbp/assets/economy/articles/economic-insights/2022/q3-q4/eiq3q422-the-pandemic-mortgage-boom.pdf; Eric Milstein and David Wessel, "What did the Fed do in response to the COVID-19 crisis?," *Brookings*, January 2, 2024, https://www.brookings.edu/articles/fed-response-to-covid19/; Freddie Mac, "30-Year Fixed Rate Mortgage Average in the United States [MORTGAGE30US]," retrieved from FRED, Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/MORTGAGE30US; Board of Governors of the Federal Reserve System, "Federal Funds Effective Rate [FEDFUNDS]."

[46] JEC Republicans, "JEC Republicans State Inflation Tracker," https://www.jec.senate.gov/public/index.cfm/republicans/state-inflation-tracker.

Figure 1-4: Inflation-adjusted Monthly Mortgage Payment, 1994 - 2024



Note: assumes a 20% down payment
Source: U.S. Census Bureau, "New Residential Sales, Median Sales Price of Houses Sold;" Freddie Mac, "Primary Mortgage Market Survey"

While the Biden Administration's policies have contributed to rising housing unaffordability, its proposals to lower prices fail to address the root of the problem—supply—and may instead exacerbate it. It is estimated that regulation accounts for nearly a quarter of the cost of a new single-family home.[47] For multi-family units like apartment buildings and condominiums, regulations are estimated to account for 40.6 percent of development costs.[48] The proposals cited in the *Report* are largely demand-side and include

[47] Paul Emrath, "Government Regulation in the Price of a New Home: 2021," National Association of Home Builders, May 5, 2021, https://www.nahb.org/-/media/NAHB/news-and-economics/docs/housing-economics-plus/special-studies/2021/special-study-government-regulation-in-the-price-of-a-new-home-may-2021.pdf.

[48] Paul Emrath, "Regulation: 40.6 Percent of the Cost of Multifamily Development," National Association of Home Builders, June 9, 2022, https://www.nahb.org/news-and-economics/press-releases/2022/06/new-research-shows-regulations-account-for-40-point-6-percent-of-apartment-development-costs.

many subsidies, such as a proposed mortgage payment relief tax credit for first-time homebuyers, subsidies for low-income housing construction, and block grants to state and local governments to fund affordable housing development, which if enacted could further push up housing prices.[49] Failure to address the underlying problem of housing availability risks creating a perpetual subsidy demand cycle. In housing, as in other areas, the Administration fails to adequately address supply.

The Federal government can pursue policies that would have a positive impact on supply without overstepping its legislative authority. In 2022, Senator Mike Lee introduced the HOUSES Act, which would authorize state and local governments to nominate tracts of land within their jurisdictions for conveyance by the U.S. Department of the Interior.[50] JEC Republican estimates suggest that an additional 4.7 million Americans would be able to afford an average home in their state under this bill.[51] Reforms to the Davis-Bacon Act could also increase supply. Federal rules provide that workers on Federal public works projects be paid prevailing wages. Labor should instead be paid at the rate that is agreed upon by worker and employer. Market-

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[49] U.S. Census Bureau and U.S. Department of Housing and Urban Development, "Median Sales Price of Houses Sold for the United States [MSPUS]," retrieved from FRED, Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/MSPUS; "Home Ownership Affordability Monitor," Federal Reserve Bank of Atlanta, https://www.atlantafed.org/center-for-housing-and-policy/data-and-tools/home-ownership-affordability-monitor.

[50] Helping Open Underutilized Space to Ensure Shelter Act of 2022, S. 4062, 117th Cong. (2022).

[51] JEC Republicans, "The HOUSES Act: Addressing the National Housing Shortage by Building on Federal Land," August 2022, https://www.jec.senate.gov/public/_cache/files/efdd0c37-af95-40cd-9125-e80f8a11504b/the-houses-act---addressing-the-national-housing-shortage-by-building-on-federal-land.pdf.

oriented rules make labor more competitive for Federally funded low-income housing construction projects, increasing supply.

Trade Policy

In the modern American economy, trade remains a vital tool to bolster national economic well-being. It is critical that the Administration remains committed to a policy that prioritizes American interests in the long term, without being sidetracked by short-term political motivations. The U.S. should maintain a policy goal of free trade while simultaneously addressing national security concerns. From an economic perspective, the case for free trade is unambiguous.

Free trade grows the economy and places downward pressure on consumer prices by enabling the most efficient allocation of resources. Subjecting domestic producers and consumers to global supply and demand pressures clears the world market at a lower price and results in a higher quantity of goods and services. Restrictions on trade distort consumer and producer surpluses, causing dead-weight losses in the economy.

Furthermore, keeping the domestic market as open as possible to global markets allows American firms to take advantage of lower average costs. Competition with global firms necessitates innovation, building an economy comprised of the most productive possible firms in each industry. Contrastingly, protectionist policies create an incentive structure whereby firms chase opportunities for government protection and rent seeking in protected industries over innovation to compete with imports, making American consumers worse off and reducing American dynamism in the long run.

The economic benefit due to expanded trade from 1950 to 2016 is estimated to be $2.1 trillion (in 2016 dollars), which translates to an increase in GDP per capita of approximately $7,000, or $18,000 per household.[52] American consumers gain from lower prices, and producers gain from access to the global market and cheaper intermediate goods.[53]

Arguments against free trade often cite negative distributional impacts on wages and employment, for instance by attributing job losses in the manufacturing sector to import competition. Employment in the manufacturing sector has been relatively stable over the past 85 years, while imports have risen drastically (see Figure 1-5).

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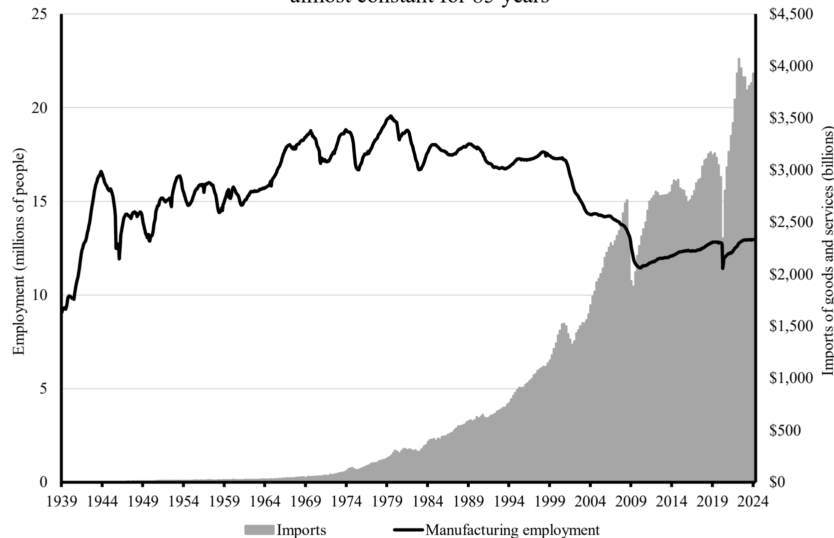
[52] Gary Clyde Hufbauer and Zhiyao Lu, "The Payoff to America from Globalization: A Fresh Look with a Focus on Costs to Workers," Peterson Institute for International Economics Policy Brief, May 2017, https://www.piie.com/publications/policy-briefs/payoff-america-globalization-fresh-look-focus-costs-workers.

[53] Scott Lincicome and Alfredo Carrillo Obregon, "The (Updated) Case for Free Trade," Cato Institute Policy Analysis no. 925, April 19, 2022, https://www.cato.org/policy-analysis/updated-case-free-trade.

Figure 1-5: Employment in manufacturing has remained almost constant for 85 years



Source: U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics

The Heckscher-Ohlin trade model suggests that some job losses would be expected in industries that intensively use scarce factors of production.[54] These goods are most likely to face substantial import competition from countries where that factor is abundant. Though this likely explains some job losses in American manufacturing, the data suggests that the impact is not nearly large enough to wholly explain the persistent stagnation. Rather, significant improvements in technology have increased manufacturing productivity and the marginal productivity of labor, therefore the manufacturing sector can employ fewer people to produce greater output.[55]

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[54] Bertil Ohlin and Eli F. Heckscher, *Heckscher-Ohlin Trade Theory*, translated by Henry Flam and M. June Flanders (MIT Press, 1991).

[55] Stephen J. Rose, “Do Not Blame Trade for the Decline in Manufacturing Jobs,” Center for Strategic & International Studies Report, October 4, 2021, https://www.csis.org/analysis/do-not-blame-trade-decline-manufacturing-jobs.

Much of the Biden Administration's pushback against free trade is predicated on the difficulty for labor to move across sectors.[56] However, the appropriate response to reduce the small and concentrated downside of trade is to improve labor mobility and the ease of doing business. The best solutions are domestic supply-side approaches, while anti-trade policies aimed at protecting specific groups risk instilling large losses that are borne nationwide.

The Administration has unfortunately taken steps to increase barriers to trade by raising tariffs on steel, aluminum, semiconductors, electric vehicles, and battery components.[57] Protectionist measures create market distortions and inefficiencies that compromise American growth and overall welfare. In industries that are already unable to meet high demand with current supply, protectionist measures further inhibit supply while many of the Administration's new policies stimulate demand.[58] This interaction creates intense upward price pressure, effectively eroding the purchasing power of the Administration's spending. Moreover, these polices produce incentives for rent seeking, which disincentivizes innovation and further raises prices in an already inflationary environment.[59]

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[56] CEA, *Economic Report of the President*, 207.

[57] The White House, "FACT SHEET: President Biden Takes Action to Protect American Workers and Businesses from China's Unfair Trade Practices," May 14, 2024, https://www.whitehouse.gov/briefing-room/statements-releases/2024/05/14/fact-sheet-president-biden-takes-action-to-protect-american-workers-and-businesses-from-chinas-unfair-trade-practices/.

[58] Anna B. Mikulska and Michael D. Maher, "Red Light, Green Deal, Yellow Light: Biden's Energy Roadmap," Rice University's Baker Institute for Public Policy Center for Energy Studies Issue Brief, October 5, 2022, https://www.bakerinstitute.org/research/red-light-green-deal-yellow-light-bidens-energy-roadmap.

[59] Robert E. Baldwin, "Rent-Seeking and Trade Policy: An Industry Approach," NBER Working Paper no. 1499 (November 1984),

Instead, the Administration should avoid a slide into further protectionism by considering a supply-side approach that improves labor mobility. As discussed earlier in this Chapter, the Administration should reform occupational licensing and other labor-inhibiting regulations to facilitate mobility across geographies and segments of the economy. To reduce average costs, it should also review and modernize regulations. For example, environmental regulations are found to stifle investment and productivity in the manufacturing sector.[60] The Administration should evaluate alternatives to current regulatory frameworks that utilize emerging technologies.

Furthermore, states and municipalities should take action to increase the supply of housing. Relaxed zoning restrictions better allow low-skilled workers to geographically sort into areas with higher marginal labor productivity, increasing wages and decreasing regional inequality.[61]

Domestic supply-side policies are the ultimate determinant of investment, growth, and industrial concentration. It is critical that the Administration not impede the ability of American firms to

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https://doi.org/10.3386/w1499; Daniel Brou and Michele Ruta, "Rent-seeking, market structure, and growth," *The Scandinavian Journal of Economics* 115, no. 3 (2013): 878-901, https://doi.org/10.1111/sjoe.12014.

[60] Charles Dufour, Paul Lanoie, and Michel Patry, *Regulation and Productivity in the Quebec Manufacturing Sector* (Centre Interuniversitaire de Recherche en Analyse des Organisations, 1995); Michael Greenstone, John A. List, and Chad Syverson, "The Effects of Environmental Regulation on the Competitiveness of U.S. Manufacturing," NBER Working Paper no. 18392 (September 2012), https://doi.org/10.3386/w18392.

[61] Don Jayamaha, "Land-Use Restrictions: Implications for House Prices, Inequality, and Mobility" (New York University, 2020), https://donj26.github.io/donjayamaha.com/Jayamaha_JMP.pdf.

compete by implementing protectionist policies that hurt the American worker.

Clean Energy Policy

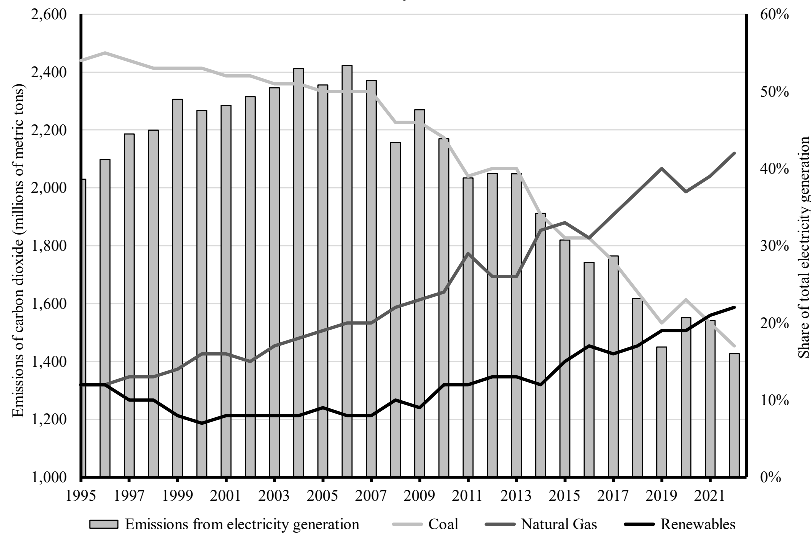
Given the precarious state of its fiscal affairs, policymakers should question whether the U.S. should deficit-finance expenditures—specifically, subsidies—to accelerate clean energy technologies, particularly if the result is slower economic growth or higher prices for consumers. Taking a demand-side approach by issuing tax credits or subsidizing select clean energy projects will be more costly and less efficient than reducing regulatory burdens. Already, the environmental tax credits in the IRA are forecasted to cost significantly more than originally projected. Prior to passage of the bill in August 2022, CBO projected they would cost nearly $400 billion over the 10-year budget window.[62] A revised forecast by the Joint Committee on Taxation projected that they would cost nearly $100 billion more than CBO's calculation.[63] Even more concerning, a private estimate from Goldman Sachs pins the 10-year cost of clean energy subsidies at $1.2 trillion.[64] While subsidizing investment may accelerate clean energy adoption, recent trends in greenhouse gas emissions (GHGs) from electricity production suggest a continued decline (see Figure 1-6), largely as a result of the organic transition that has occurred with the shift from coal to natural gas.

[62] CBO, "Estimated Budgetary Effects of H.R. 5376, the Inflation Reduction Act of 2022," August 3, 2022, https://www.cbo.gov/publication/58366.

[63] The Joint Committee on Taxation, "Estimated Revenue Effects Of Division A, Title III Of H.R. 2811, The 'Limit, Save, Grow Act Of 2023,'" April 26, 2023, https://www.jct.gov/publications/2023/jcx-7-23/.

[64] Travis Fisher, "The Inflation Reduction Act's Energy Subsidies Are More Expensive Than You Think," Cato Institute, September 5, 2023, https://www.cato.org/blog/iras-energy-subsidies-are-more-expensive-you-think.

Figure 1-6: U.S. CO_2 Emissions from Electricity Generation, 1995 – 2022



Source: U.S. Energy Information Administration (EIA), "U.S. Energy-Related Carbon Dioxide Emissions 2023"

Natural gas is a cleaner source of energy than coal.[65] The increase in renewable energy as a share of total electrical power output began as emissions were already decreasing, mainly due to the decline in coal power. As there was already a clear reduction in GHGs, it is not unreasonable to question whether the significant Federal expenditures supporting clean energy infrastructure are worth the benefit in the current fiscal environment.

As the Biden Administration has spent extensively on clean energy, it has failed to reduce restrictions constraining supply that currently make such projects more difficult and costly. For example, in May 2024, it raised tariffs on solar imports from 25 to 50 percent.[66] Increasing the price of solar panels inhibits their

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[65] EIA, "Natural gas explained," https://www.eia.gov/energyexplained/natural-gas/natural-gas-and-the-environment.php.

[66] The White House, "FACT SHEET: President Biden Takes Action to Protect American Workers and Businesses from China's Unfair Trade

adoption by American consumers, while at the same time the Administration has taken steps to exacerbate demand for them using tax credits.[67] Furthermore, immediately after taking office, President Biden issued Executive Order 13990, which revoked many of the National Environmental Policy Act (NEPA) reforms implemented by the Trump Administration that were designed to reduce bureaucracy and wait times for permits and environmental impact statements.[68] The repealing of this policy could significantly inhibit clean energy projects. As of 2021, 42 percent of the Department of Energy's active NEPA projects requiring an environmental impact statement (EIS) were related to clean energy, transmission, or environmental conservation, while only 15 percent were related to fossil fuel projects. Moreover, the same study finds that 24 percent of Bureau of Land Management EISs were related to clean energy projects, while only 13 percent were for fossil fuels.[69]

While the Administration has recently proposed a replacement regulatory framework called NEPA Phase II, it faces bipartisan opposition due to its unequal treatment of projects and a perception that it will increase rather than decrease bureaucracy.

Practices," https://www.whitehouse.gov/briefing-room/statements-releases/2024/05/14/fact-sheet-president-biden-takes-action-to-protect-american-workers-and-businesses-from-chinas-unfair-trade-practices/

[67] U.S. Environmental Protection Agency, "Summary of Inflation Reduction Act provisions related to renewable energy," https://www.epa.gov/green-power-markets/summary-inflation-reduction-act-provisions-related-renewable-energy.

[68] Diane Katz, "Biden's Repeal of Permitting Reforms Hinders Infrastructure Improvements," The Heritage Foundation Report, August 29, 2022, https://www.heritage.org/government-regulation/report/bidens-repeal-permitting-reforms-hinders-infrastructure-improvements.

[69] Philip Rossetti, "*Addressing NEPA-Related Infrastructure Delays,"* R Street Institute, 2024, https://www.rstreet.org/wp-content/uploads/2021/07/FINAL_RSTREET234.pdf.

Several members of Congress have since proposed a Congressional Review Act resolution to strike down the policy.[70]

Instead of pursuing large stimulus packages to reduce carbon emissions when they were already on a declining trajectory, the Biden Administration should work to make investment in energy projects and innovation easier. Trade restrictions on components needed in domestic energy production should be lifted. Furthermore, the Administration should work to pass comprehensive permitting reform. H.R. 1, the Lower Energy Costs Act, which passed the House of Representatives in March 2023, would accomplish this objective in a manner that is neutral to the type of energy production. S. 3814, the Revitalizing the Economy by Simplifying Timelines and Assuring Regulatory Transparency (RESTART) Act, introduced by Senate Environment and Public Works Committee Ranking Member Capito, would also similarly reduce permitting burdens.

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[70] Senate Committee on Energy & Natural Resources, "ICYMI: Manchin, Graves, Sullivan to Introduce Bipartisan, Bicameral CRA Resolution on NEPA Phase II Final Rule," May 8, 2024, https://www.energy.senate.gov/2024/5/icymi-manchin-graves-sullivan-to-introduce-bipartisan-bicameral-cra-resolution-on-nepa-phase-ii-final-rule.