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THE ECONOMIC REPORT OF THE PRESIDENT

HEARING

BEFORE THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

ONE HUNDRED FIFTEENTH CONGRESS

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CONTENTS

Opening Statements of Members

Hon. Erik Paulsen, Chairman, a U.S. Representative from Minnesota 1
Hon. Martin Heinrich, Ranking Member, a U.S. Senator from New Mexico 3

Witness

Hon. Kevin Hassett, Chairman, Council of Economic Advisers, Washington, DC 5

Submissions for the Record

Prepared statement of Hon. Erik Paulsen, Chairman, a U.S. Representative from Minnesota 34
Prepared statement of Hon. Martin Heinrich, Ranking Member, a U.S. Senator from New Mexico 35
Prepared statement of Hon. Kevin Hassett, Chairman, Council of Economic Advisers, Washington, DC 37
Article titled "One last time on who benefits from corporate taxcuts" submitted by Representative Maloney 44
Article titled "No, the GPO Tax Plan Won't Give You a $9,000 Raise" submitted by Representative Maloney 47
Response from Dr. Kevin Hassett to Questions for the Record Submitted by Vice Chairman Lee 49
Response from Dr. Kevin Hassett to Questions for the Record Submitted by Senator Heinrich 51
Response from Dr. Kevin Hassett to Questions for the Record Submitted by Senator Klobuchar 53
Response from Dr. Kevin Hassett to Questions for the Record Submitted by Representative Maloney 53
Response from Dr. Kevin Hassett to Questions for the Record Submitted by Representative LaHood 55
Response from Dr. Kevin Hassett to Questions for the Record Submitted by Representative Schweikert 55

THE ECONOMIC REPORT OF THE PRESIDENT

WEDNESDAY, MARCH 7, 2018

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The Committee met, pursuant to call, at 2:00 p.m., in Room 216, Hart Senate Office Building, the Honorable Erik Paulsen, Chairman, presiding.

Representatives present: Paulsen, Beyer, Handel, LaHood, Maloney, Comstock, Adams, Schweikert, and Delaney.

Senators present: Heinrich, Lee, Klobuchar, Cassidy, Hassan, Portman, and Peters.

Staff present: Theodore Boll, Colin Brainard, Gerardo Bonilla, Daniel Bunn, Kim Corbin, Barry Dexter, Alaina Flannigan, Connie Foster, Natalie George, Colleen Healy, Matt Kaido, Allie Neill, and Alex Schibuola.

OPENING STATEMENT OF HON. ERIK PAULSEN, CHAIRMAN, A U.S. REPRESENTATIVE FROM MINNESOTA

Chairman Paulsen. We will call the hearing to order. Good afternoon, and welcome to the Joint Economic Committee's first hearing of 2018. This is my first hearing as Chairman. As Members know, I have worked with many of you before and, as you know, as Senator Klobuchar knows, I'm from Minnesota, where we work hard and we work together.

In that spirit, I look forward to working with Ranking Member Heinrich and Vice Chairman Lee, as well as the other members of the Committee.

I especially want to extend a very warm welcome to our newest member, Representative Karen Handel from the State of Georgia.

And with that, we will begin. We are witnessing a sea change in the American economy, one that is boosting opportunities, supercharging growth, and restoring prosperity to our Nation. For eight years the last Administration struggled to find government-based solutions to a financial crisis that hit American workers hard. But now we have a new Administration with a very different approach, and I think few can deny that things have changed very rapidly.

The job of this Committee is to understand what changed and why. We all want more workers to rejoin the labor force, more businesses to invest, and more wages to rise.

I believe our work here, in gauging the economy's long-term potential, can inform us on the policies that foster that growth.

Chairman Hassett, we welcome you here today. Some very good things have happened since you testified before this Committee in

October of last year. We have passed historic tax reform legislation, the Tax Cuts and Jobs Act, and the response of businesses has been overwhelmingly positive, exceeding expectations.

Consumer confidence is up. Americans are seeing more take-home pay. Many will spend less time preparing their taxes next year, and businesses are paying special bonuses, giving their employees a raise, repatriating offshore earnings, and investing more in the United States again.

The unemployment rate is 4.1 percent, the lowest since the year 2000, and the number of new unemployment claims is the lowest since 1969.

Regulatory reform is cutting back on market-choking regulations, and is encouraging the private sector, and contributing to the surge in business optimism since November 2016, especially for small businesses.

Economic growth in each quarter of last year substantially exceeded growth of the corresponding quarter the year before reaching as high as 3.2 percent in the third quarter, a number that the last Administration had led us not to expect to happen again.

We are in a better place every day, as this economy has moved upwards, and it is not because government fixed it; it's because government finally allowed the American people to fix it.

We are trusting the American people to keep more of their money and to spend it as they see fit, rather than micro-managing their lives. America's economy isn't getting overheated, it's just getting started.

Figure one, which is on the screen, uses the phrase "Constrained Potential." The potential is everyone in the audience here in their capacity as productive members of American society, and the constraint part is, well, unfortunately potentially everyone here on the dais in our capacity as elected officials.

This chart does show something very interesting. The color lines show how the Congressional Budget Office has lowered its projection of the economy's output potential each successive year since 2008.

In other words, this is a graphic representation of the American Government lowering expectations year by year. The black line at the bottom, however, represents actual production as rising, closing in on the bottom potential line only after eight long years.

Potential GDP should not change much from year to year, yet this chart shows constant revision. And why? The answer is: The continuous addition and tightening of policy constraints from 2008 to 2016. Removal of these constraints is a return to normalcy, not an artificial boom.

What happened for the last eight years was a regulatory crackdown that diverted and constrained Americans from their pursuits. And those expectations should never have been that low to start, because we should have had confidence in the American worker.

I would be remiss if I did not mention the President's concerns about our trade policy and discussion in recent weeks about tariffs. We are all deeply concerned about unfair trade practices by bad actors in other countries, and I know American workers want to compete fairly. That is because—and I know the President knows this

as well—our workers are the best in the world. And when they compete internationally, America wins.

I look forward to hearing from you, Chairman Hassett, how these tariffs might be crafted so they address specific distortions caused by unfair trade practices and how we are going to avoid these tariffs simply becoming a tax increase on consumers and American manufacturers.

Chairman Hassett, we thank you again for appearing before the Committee today and extend our thanks, as well, to the Council of Economic Advisers for preparing the Economic Report of the President.

I will now yield to Ranking Member Heinrich for his opening statement.

[The prepared statement of Chairman Paulsen appears in the Submissions for the Record on page 34.]

OPENING STATEMENT OF HON. MARTIN HEINRICH, RANKING MEMBER, A U.S. SENATOR FROM NEW MEXICO

Senator Heinrich. Thank you, Chairman.

Before I get started, I want to welcome our new Chairman, Chairman Paulsen. We have known each other for a few years now, and I am really looking forward to working with him this year.

Chairman Hassett, thank you for being here today to discuss The Economic Report of The President and the State of the Economy. And I wish I were as optimistic as the Chairman about the policies put in place since you came before this Committee in October.

I am going to be pretty direct. The Republican tax bill serves special interests and will cost our children dearly for generations to come. Rushed through with no bipartisan input, the GOP tax law jeopardizes our fiscal position and further tilts the scales in favor of large corporations, and especially wealthy individuals.

While the law's impacts on economic growth are debatable, the impact on inequality is clear. Independent analysis shows that within 10 years more than half of working families will pay higher taxes than they would have before the new GOP tax law. And meanwhile, the wealthiest 5 percent walk away with an astonishing 99 percent of the tax benefits.

Chairman Hassett, you and the President have promised again and again, most recently in The Economic Report of The President, that tax reform will increase average family income by at least $4,000. But that is simply not what we are seeing.

If we wanted to reform the Tax Code to help the middle class, we could have simply cut taxes for the middle class. Pretty straightforward. And it would have directly given working people in New Mexico and around the country much-needed resources to pay the bills, put their kids through college, and save a little something for retirement.

Instead, Republicans chose to cut taxes for large corporations and for the super-wealthy, and left Americans hoping that those cuts would somehow trickle down to workers.

History has shown again and again that is not what happens. And the early evidence this year confirms who the big winners are. So far, corporations have announced more than $210 billion, with

a "b," dollars in stock buybacks, benefiting executives and wealthy shareholders.

While there have been some bonus and wage announcements, they total just $6 billion. Six billion to two hundred and ten billion. A fraction of the money going to executives and the investor class. It is not just the immediate impacts that are concerning. The whole strategy is misguided.

The massive increase in deficits constrains our efforts to tackle the problems that we should have been focused on in the first place, like fixing our broken infrastructure and making more accessible and affordable a whole range of post-secondary education options, from apprenticeships and vocational education, to community college and four-year universities.

Think about how we could have invested $1.5 trillion dollars spent on the tax bill. We could have erased every student loan in this country. Every single one. One recent study shows that canceling student debt for the 44 million Americans who hold it would boost economic output and create up to 1.5 million new jobs in a single year. Of course we could have invested that $1.5 trillion in infrastructure.

The Administration's infrastructure plan commits barely any real money to the cause. They say they want to spend $200 billion in Federal dollars, but its budget makes more than $200 billion in cuts to existing infrastructure programs from transit to highways to water.

In other words, the long-awaited plan invests no new net Federal dollars. The $1.5 trillion hole dug because of the tax bill could have actually funded our infrastructure plan.

Instead, the Administration is hoping that somehow State and local governments and the private sector will pay for roads, for bridges, ports, schools, VA hospitals, and on and on. But the private sector has little interest in investing in sparsely populated low-traffic rural areas that desperately need infrastructure investment. And the tax law further limits already cash-strapped States' abilities to raise new revenues by capping State and local tax deductions.

It is less a plan and more a hope. You often hear that budgets are a reflection of values. That is true. But the massive tax giveaway, maybe even more than the recent White House budget, reveals Republican priorities.

My Republican colleagues could have joined with Democrats to invest in children, to invest in workers, education, our long-term economic success. Instead, they handed out goodies to large corporations and the uber wealthy, and risked our long-term economic health.

Chairman Hassett, my focus is on what we can do now, and moving into the future. I am interested to get your insight today on how the Administration plans to work with us in making the investments that will help families succeed in today's economy.

I look forward to hearing your perspective.

[The prepared statement of Senator Heinrich appears in the Submissions for the Record on page 35.]

Chairman Paulsen. Thank you, Ranking Member Heinrich.

I would now like to introduce our distinguished witness, Chairman of The President's Council of Economic Advisers, Dr. Kevin Hassett.

Dr. Hassett earned his Ph.D. in Economics from the University of Pennsylvania. Prior to joining the Administration, Dr. Hassett was the Director of Research for Domestic Policy with the American Enterprise Institute. He has served as an economic adviser to multiple Presidential campaigns. In addition to prior experience working as a senior economist with the Federal Reserve Board of Governors, Dr. Hassett has been a visiting professor at New York University and as an Associate Professor at Columbia University.

Chairman Hassett, we appreciate you joining us today, and you are now recognized for your testimony.

STATEMENT OF HON. KEVIN HASSETT, CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS, WASHINGTON, DC

Chairman Hassett. Thank you, Chairman Paulsen, and Ranking Member Heinrich, Vice Chairman Lee, and members of the Committee, for inviting me to discuss the Economic Report of The President.

Our Report outlines the economics of an agenda focused on improving growth by reforming the Tax Code, eliminating unnecessary regulations, investing in infrastructure, addressing cyber crime, and improving the conditions that made it hard for America's middle class to recover from the Recession.

First, on taxes and growth. A review of the literature and our own modeling finds that the average household could get a $4,000 wage increase from the new law once the law's full effects get absorbed by the macro economy.

We have already seen that 4.7 million workers have received raises, bonuses, or improved benefits as of today. By our calculations, companies have already announced investments of over $191 billion.

We also have now modeled the effects on the individual side, finding they could increase GDP by 1.3 to 1.6 percent in 10 years. I also want to mention share buybacks.

Monies previously offshore are being sent back to the U.S., a one-time adjustment of the stock of trillions of dollars of old profits that were locked in foreign subsidiaries. One would expect this. No economist would make the case that the American economy would be better off if these monies were still locked offshore.

Share buybacks today are not mutually exclusive to long-run wage gains that accompany American capital formation that will accumulate this year and in the future.

Second, on deregulation and growth. There have been demonstrable harmful effects on the economy of over-regulation. For example, business dynamism has suffered a decline. 2009 marked the first time that more firms died than were born in the United States since the Census Bureau began compiling its Business Dynamics Statistics. It is likely that regulatory zeal slowed both dynamism and overall growth. We find that if the U.S. had OECD product market regulation that was the same as Germany, we would increase annual growth by point one percent per year. If we deregu-

late further to the level of the Netherlands, we could get growth at 2.2 percent per year.

Third, we examined why the middle class cannot seem to get ahead. The labor income of the typical household at the middle of the income distribution is still below where it was at the start of the 21st Century.

The last Administration's tax and transfer policies worsened the wound through their effect on the labor market. The median American's inflation-adjusted household income from working took nine years to recover to its pre-Recession level after the Great Recession, the longest this type of recovery has taken since at least 1979.

Government policies decrease the incentive to work, contributing to the historic decline in Americans participating in the workforce, and the continued stagnation of wages, along with the Baby Boom retirements.

But in the end these government policies hampered the economic success of the very middle class households they are intended to help. Changing course can help address the low labor force participation rate, we believe.

I would also like to touch on immigration. The President's immigration policies focus on a merit or skills-based approach, bringing in immigrants who are highly productive and skilled, as opposed to those who simply arrive through a family relationship and who may have low or no skills, shows why a head count is not the way to think about the impact of immigration on growth.

Former CEA Chairman Eddie Lazear has written about the relationship between the education levels of prospective immigrants and the economic effects their admission could rationally be expected to have. I agree with this analysis.

Looking at infrastructure, another of the President's priorities, in 2014 total congestion cost peaked at $160 billion, wasting 6.9 billion hours in delays, and 3.1 billion gallons of fuel.

A $1½ trillion investment in infrastructure could add .1 to .2 percentage points to economic growth over the next decade, and improve productivity and the quality of life.

The President has focused on the high cost of drugs. Among members of the OECD, Americans pay more than 70 percent of patented biopharmaceutical profits that fund drug innovation. This is very asymmetric. There are also several factors that affect health and health care costs, such as smoking, obesity, and opioid abuse, which have contributed to the decline in American life expectancy for the second year in a row.

We also looked at economic policy issues on the horizon like cyber, as we were charged to do in the Forty-Six Employment Act, Mr. Chairman. Our analysis finds that malicious cyber-attacks inflicted over $100 billion of damage on our economy in 2016, on top of the threat this poses to our national security.

There is a market failure that leads private firms, which we document in the Economic Report, many of which face risks correlated with one another to invest less in cyber security than would be economically optimal, and to not report crimes that are targeted towards them.

And perhaps the topic of the day, which I know that we will go into more in the question and answer period, trade. Trade has been

beneficial, for sure, but it has left some American communities worse off.

The Administration is seeking to improve America's position with respect to international trade. Other countries at times violate market principles and distort the functioning of global markets.

American firms face higher barriers to selling their products abroad, and fewer barriers to selling their own products here in the United States than their peer firms in the group of high-income G–20 countries.

For example, let's just look at cars. We put a 2½ percent tariff on our imports into the U.S. And for countries that we have free trade deals with it is even zero. Whereas, China puts a 25 percent tariff on our cars that we ship to China. And even the EU puts a 10 percent tariff on cars that we try to sell into the EU.

Brazil puts 35 percent tariffs on U.S. cars. Or look at monitors. We have a 2 percent tariff on monitors. China has a 24½ percent tariff, and the EU has a 14 percent tariff on our monitors.

There are lots and lots of examples of these asymmetries that we document in The Economic Report, and I think that that is why the President is right when he emphasizes that our trade deals need to level the playing field.

I would like to conclude with the overall economic outlook—2017 growth and real gross domestic product exceeded expectations and increased to 2½ percent, up from 1.8 percent during the four quarters of 2016.

We are the first Administration, I would add, to miss the forecasts in their first year by having an estimate that was too low in many years. The unemployment rate has fallen to 4.1 percent, the lowest since 2000.

Now our baseline forecast is that we will have 2.2 percent growth through 2028. But if all of the President's policies are enacted, the policy inclusive forecast is that we will have real GDP growth of about 3 percent a year, although it is less than that in the second five years.

So we are conservative relative to previous Administrations that, on average, have had a median forecast of 3.1 percent. And as I have testified before, I believe in the importance of transparency about the forecasting methods. And I know that as we begin our conversation about The Economic Report that we will have plenty of points that we disagree about, but I hope you will agree that we have got a very transparent report; that we describe the model that we use to do the baseline; we describe how we get from the baseline to 3 percent with lots and lots of chapters on economic policies that review economic literatures with something like 60 pages of references, and give you a range of the balance of the predictions from the literature.

With that, I know that there is a long, long history of this Committee and the Council of Economic Advisers working together, and I am pleased that I also have a personal history with this Committee that goes back more than a decade, and I look forward to taking questions from so many of my friends and acquaintances.

Thank you, Mr. Chairman.

[The prepared statement of Dr. Hassett appears in the Submissions for the Record on page 37.]

Chairman Paulsen. Thank you, Chairman Hassett. We will now begin the questioning period. I would just remind members to keep their questions to five minutes.

Chairman Hassett, the Tax Cuts and Jobs Act is the most important economic legislation that we have seen enacted in years. By lowering the corporate, pass-through, and individual rates we have created a more even-handed, simple, and pro-growth tax system.

Can you give a little bit of an expansion, or talk a little bit more about some of the improvements that you believe this legislation is actually bringing to our economy?

Chairman Hassett. Yes, and thank you very much for that question. And it in part allows me to address comments made by Mr. Heinrich that I think that, as an economist, as I modeled the Tax Bill that we just looked at, I think of there being a corporate side and an individual side. And I know the individual side contains small businesses, and so on, too.

But on the corporate side, we got the rate from 35 percent, which was the highest rate in the developed world, down to 21 percent. But also, we introduced a whole bunch of rules, some of them quite technical like deemed tangible income, and I know the members of this Committee have studied them all and know them well, that make it so that firms can no longer reduce their U.S. tax burden easily by moving their activity abroad.

An example that I find really stunning that I studied extensively before as we were debating the Tax Bill, is that if you and I, Chairman Paulsen, had a company that made say hockey pucks, because you're from Minnesota, then if we had been making hockey pucks in the U.S. forever and ever, then what we could do is we could say, hey, let's start making hockey pocks under the old code in Ireland. Then what we would do is we would make our hockey pucks in Ireland, and then sell them to the parent in the U.S. and say we sell a hockey puck for $10. We would pay our Irish sub $11 for the hockey puck. The U.S. parent would post a loss. There would be massive profits in Ireland not taxed by the U.S. And then we would take that loss and carry it back and get a refund on our past taxes from the Paulsen-Hassett hockey pucks.

And so we had created this world where we were subsidizing with tax refunds the offshoring of jobs. And I think that we have fixed that. And I know that President Obama had a proposal that did many similar things in the tax bill that we did. On the individual side, that is the majority of the cost of the tax bill. And I think that about $700 billion of the cost on the individual side is from the refundable child credit.

And I, as an economist, can say that, you know, we can disagree a lot about redistribution perhaps and what the top marginal rate should be and so on, but I think we all agree that our society should equalize opportunity. And I think that the refundable child credit was a very costly thing in the bill, but that it does—it is one of the things that is really targeted towards the best way to address opportunity. And that is to get money to families with kids.

Chairman Paulsen. Chairman Hassett, let me also talk to you a little bit about free trade and tariffs, which are issues that have now dominated the discussion here on Capitol Hill since the President's remarks just last week on possible Section 232 action. Like

many of my colleagues, I am concerned about the proposed tariffs on both steel and aluminum.

I do believe that if these tariffs are implemented with a broad brush it will have the potential to backfire and cost us jobs at home, force consumers to pay higher prices for goods, and ultimately hurt our economy.

Can you talk a little bit about the direct negative effects of these proposed 232 tariffs, as well as the possible downstream effects that could occur depending on how the international community reacts, should these tariffs be applied to all steel and aluminum imports?

Chairman Hassett. You know, Mr. Chairman, you know that my solemn job as Chairman of the Council of Economic Advisers is to provide the President with objective advice about the economics of his decisions. And I can assure you that I take that responsibility extremely seriously, and that we do that.

If we are going to analyze—and, these actions that have been in the news over the last week or so of course are still in development. There is discussion about how to treat Canada and Mexico that is an ongoing discussion.

But looking back at the academic literature, President Bush had steel tariffs that I think the academic literature agreed was a big positive for the steel industry, and then caused some harm to downstream steel-using industries.

I can say that the 232 is a national security matter. I am not a national security expert, but even if you were to take those relatively small net costs to society from the analysis of the Bush steel approach, then it would be easy to envision national security benefits that would exceed those costs. And more importantly, though, I think let's think again about cars.

So we have a 2½ percent tariff on European cars shipped into the U.S. They charge a 10 percent tariff on our cars going over to Europe. That kind of asymmetry is something that has been the focus of I think every trade representative that I've ever known trying to fix it, and they've failed.

President Trump is very, very serious when he says that he is a free-trader, and that he is pursuing symmetry and reciprocity. And, you know, I think that having—taking strong action is a good way to start negotiations and to try to move other countries towards a more free-trade equilibrium. If we could succeed at doing that, then the benefits of that for us and for the global economy could be enormous.

Chairman Paulsen. Thank you. With that, I now recognize Senator Heinrich for a period of five minutes.

Senator Heinrich. Thank you, Chairman.

I am just going to jump off your question there. I am curious if the President is interested in reciprocity and proportionality, so much of our challenge there in terms of abuse has been with China not with Canada. Why make the first move with regard to Canada, instead of tackling the problems that we all have recognized exist in our trade relationship with China?

Chairman Hassett. You know, I am not the person who sets the schedule for which moves that we make when. I can assure you, as you can see in The Economic Report, that the Council of Eco-

nomic Advisers has taken very seriously our responsibility to measure things like the intellectual property theft from the U.S. by Chinese firms and the Chinese Government, and quantify it. So we've got numbers in there of more than $100 billion.

And as you know——

Senator Heinrich. Prioritize where we have seen the worst abuses. Going on to wages, the Council of Economic Advisers has estimated that the corporate tax cuts just passed by my Republican colleagues would lead to a $4,000 increase in average household income.

We have seen a few companies that have announced one-time $1,000 bonuses, but we have not seen anything really approaching a $4,000 permanent wage increase that's been predicted. So, Chairman Hassett, if you want to guarantee families $4,000 in their income, why not just cut out the middle man and give them a $4,000 tax cut in their income taxes?

Chairman Hassett. You know, I think that the problem from the point of view of modeling the economy is that ultimately you have to have a theory of where wages come from.

If wages are being supported by high productivity, then we can give people a pay raise and sustain it for many, many years. Productivity basically only comes from two places. One is that we give workers more capital to use. Or, two, we give them training so that they have more human capital.

And by chasing our hockey puck firm overseas to Ireland, what we basically did is we removed capital from the economy. And we mentioned in the report, by the way, that capital deepening's contribution to wage growth in the second four years of President Obama's term actually went negative for the first time in U.S. history, back to the Second World War. And it wasn't a policy that President Obama pursued. It was the absence of a tax reform that fixed this problem where everybody was moving everything offshore.

And so I think if we want workers' wages to go up—and you know that I do—then we have to either train them better, or give them more capital to use. And what we were doing before we changed the tax law is we were chasing the capital offshore. And without capital there was no productivity growth. And without productivity growth, there was no wage growth.

Senator Heinrich. So talking about tax reform, for years we heard the mantra of tax reform being about lowering corporate taxes, but broadening the base. This certainly lowered corporate taxes. It's why it comes with a $1.5 trillion price tag. Where was the broadening of the base?

Chairman Hassett. Oh, on the corporate side, Mr. Heinrich, I think that the net cost after the international changes was about $300 billion. And so imagine if we started with a 35 percent rate and moved it down to 21 percent, if we didn't have any base broadening then we would have lost a heck of a lot more revenue than $300 billion.

Senator Heinrich. I am looking forward to seeing how this models out over time, or how the models match up to reality.

As you know, shareholders are receiving about 30 times as much as workers through stock buyback. That is just from the public

numbers of what has been released with regard to the ratio of bonuses, the ratio of raises to actual buyback announcements.

Is there anything the Administration is planning to do to encourage that corporations use more of this new windfall to build that capital in their workers?

Chairman Hassett. Yes, thank you very much for that question because this is a very, very important thing to have clear in all of our minds. There was a whole bunch of previously earned profits sitting offshore. Some estimates were as high as $3 trillion, but say $2- to $3 trillion that was offshore, and was offshore in December.

And now that $3 trillion is coming home. And a lot of that money is for firms like Apple, and Microsoft that have enormous profitability. And, you know, they just had it parked in their foreign sub and they're bringing it home. The wage growth that the models put out, that we talk about in The Economic Report, comes over time from capital formation.

Now some of that money coming home will be turned into investment. Some of it will be turned into bonuses. Some of it will be put in the bank. But there is a cumulative stock of about $3 trillion that is coming home right now. And it is better that it is home than we leave it over there.

But the wage growth comes from the capital investment. But not just the firms that made profits in the past made, but the firms that are going to make profits in the future make as well.

Senator Heinrich. I am over my time, Mr. Chairman, but I would just make the point that I think Apple is seeing that real money. My constituents are still waiting for their real increase in wages.

Chairman Paulsen. Vice Chairman Lee, you are recognized for five minutes.

Vice Chairman Lee. Thank you very much, Mr. Chairman. And thank you, Mr. Hassett, for being with us again today. It is always a pleasure to have you in front of the Committee.

In your report, one of the many things that you discuss that I think is interesting and helpful is that a mounting body of academic and economic research indicates that excessive regulation negatively affects productivity growth by misallocating labor and creating restrictions on entry.

These are things that weigh heavily on the economy. When I first started following this a couple of decades ago, the drain on the economy was about $300 billion annually. It is up to $2 trillion annually now. So this has not simply grown with inflation. There has been a very significant uptick in the burden imposed on the economy by the Federal regulatory system.

The Administration has made some significant strides to roll back ineffective, duplicative, and intrusive otherwise excessively burdensome regulations. In fact, Director Mulvaney has announced that OIRA accomplished a staggering ratio of 22 regulations removed or rescinded for every new one promulgated, which I think is a fantastic development and one that I hope will continue throughout this Administration and moving forward into the future.

Shrinking the regulatory footprint of our Federal Government, and encouraging agencies to spend their money more wisely is

something I have long cared a lot about, and it is something I have focused on ever since I came to the Senate over seven years ago.

In the 114th Congress, I introduced the Regulatory Budget Bill that would have required the President to submit in his annual budget request an analysis of the cost of compliance with Federal regulations that each agency is in charge of implementing and enforcing. And also to do that with regard to proposed regulations.

My bill also would have prevented agencies from issuing certain guidance documents setting out policies or interpretations of statutes unless they had provided adequate notice and opportunity for comment, as is required under existing law. And it would have required the GAO to provide reports and estimates for specified regulations.

Tell me, Mr. Hassett, how could improved agency-wide cost/benefit analysis help the economy to continue to grow? And how could it provide more opportunities for more business owners to invest in hiring new workers, rather than in spending so many resources on complying with existing regulations?

Chairman Hassett. Thank you for the question, Mr. Lee. You know, I think that one of the surprising things for me about the movement in consumer and business sentiment last year was how quickly it went up really, really fast and enormously, even though it wasn't even clear that the tax bill would pass and so on.

And digging around, I understood better than I have in the past, because I'm not a regulatory economist, how regulations squash innovation and entrepreneurship. And one of the main problems is that when you have new regulations, then firms have to sort of stop what they are doing and hire a bunch of lawyers and engineers to figure out how are we going to comply with this new regulation? And it can be really quite costly. One estimate from Doug Holtz-Eaken's think tank suggested that there were literally millions and millions of man-hours that were saved last year because people were not looking at all these new regulations and figuring out what to do.

But old regulations, firms figure out how to deal with them. But then it becomes kind of a barrier to entry. And so if you are a big rich firm, then your guys figured out how to deal with the regulations; but somebody who might want to enter and compete with you has to navigate this really complicated thing where maybe there's 10 regulations in your space, and half of them disagree with one another. And so I think the benefit from deregulation are clear.

And regulations were growing—it is really hard to measure regulations, but I would say over the last decade about 8 percent a year. In other words, faster than the economy. And so if you are wondering why people were depressed about the future of the regulatory costs that they might be facing, it was because there were so many more regulations.

Now of course many regulations are important, and they are good, and we want clean air and clean water, and so we have to expose them to, as you say, the cost/benefit analysis.

Vice Chairman Lee. But they are not cost free, and the costs that they impose, as you point out, some regulation is appropriate and indeed necessary, but it is not as if those regulatory costs can simply be deemed to be borne by big, wealthy corporations.

Chairman Hassett. It is the startups that don't happen very often that you can think of as bearing the costs of those.

Vice Chairman Lee. The startups that don't happen. The jobs that do not arise, since we know that most if not all net job growth occurs within startups. But it also gets paid for by consumers. Disproportionately speaking, we are talking about poor and middle class consumers who pay higher prices on everything they buy.

Thank you.

Chairman Paulsen. Thank you. And now Representative Beyer, you are recognized for five minutes.

Representative Beyer. Thank you, Mr. Chairman, very much. And, Chairman, thanks for being here.

In both the CEA Report and in your testimony you stressed the benefits of deregulation for growth, per your conversation with Senator Lee. But I want to focus slightly different. Because we know from both historical and unfortunately recent events that very few factors can impact growth negatively more than a financial crisis. Hence, the downturn—that's upside down here, I've got to get it rightway up—that dark black line was the financial crisis.

Is there any evidence that the deregulation of the financial sector improves the stability of the financial sector?

Chairman Hassett. You know, you are right to point to the fact that there is a big academic literature on the history of financial crises. Rineheart and Rogoth looked at 700 years of that and found that it is typical for economies to grow slowly after that for up to a decade.

If you dig into their data a little bit more, which I have done, then you see that a lot of big, negative growth comes in the first half. And that usually by, you know, seven or eight years in you start to go back to normal growth.

That did not happen in the U.S. And we have to look at the causes for why growth started to disappoint, and we did not go back to the old normal. And I think that one of the factors is—and this is something that I think there is bipartisan support for, is that our financial regulations made it a little bit too hard on community banks. A lot of community bank closures, and the community banks tend to be the ones that are financing the entrepreneurship and so on.

So I think that financial regulation to preserve stability is important to avoid the next financial crisis. But after we have done it, it is important to study the costs and benefits of those regulations. And again I think that there is, very much bipartisan support, for the current measures to try to help the community banks.

Vice Chairman Lee. You talked a lot about buybacks already. It is increasingly clear that firms are using, as Senator Heinrich said, almost 30 to 1. And I confess, massive stock buybacks weren't part of the Administration's messaging on this tax cut bill. I appreciate your notion that it is better to have the $30 trillion home.

But if it is not being used for R&D, and it is not being used for investment, and it is not being used for worker things, and in fact I think most of what we see is that they are used to artificially inflate the value of the shares, both by competing for share price and restricting the number of shares. And the person that helps the most are the CEOs whose pay plans are based on stock price and

overall market value. Aren't we really in trouble here with a great leap of faith that somehow putting a lot more money in the share buybacks is going to lead to greater wage growth?

Chairman Hassett. You know you and I agree about a lot of stuff, but on this buyback thing I just disagree. I wrote a paper with Alan Auerbach who has come as a Democratic witness I think before this Committee in the past, on what drives buybacks. And we have this very special one-time thing going on where there are at least trillions of dollars offshore that are suddenly—they're suddenly able to bring them home, and firms are investing them. They are giving bonuses. They are putting money in the bank, and they are buying back shares and increasing dividends. And that is how capital markets work.

But imagine if I own a share, and then a firm buys it back. It says if they gave me a dividend, they're giving me some money and it's coming because I made an investment in their firm, well then I as an investor will presumably go out and buy some other equity in some other firm. And so what that will do is that if you have a big firm like Apple say that has already done all of the investment plans that it plans to, and does not need the money that it is sending home to build a new factory, then it might buy back the shares. And then the people who owned Apple will go out and buy equities in firms that are new and innovative. That is how capital markets work, but churn in capital markets is what drives growth.

Vice Chairman Lee. Let me try one more question. The President keeps talking about, he has repeatedly recently claimed that there is a $17 billion trade deficit with Canada. And yet your report talks about actually a new trade surplus with Canada and with Singapore.

So can you educate him on our Canadian trade surplus, please?

Chairman Hassett. The President is very well educated on these matters. He, I think—I haven't looked at his specific reference that you're talking about, but some people for some purposes emphasize the goods trade deficit, and some people emphasize the goods and services trade deficit. And I think in The Economic Report to the President we looked at both.

Vice Chairman Lee. Is a good surplus or deficit more important than the services surplus?

Chairman Hassett. I think it depends on, you know, what the conversation is about; that it is pretty common for jobs producing goods to have higher salaries than jobs producing services. And so there are definitely many conversations where the goods surplus is the more relevant metric.

Vice Chairman Lee. Mr. Chairman, I yield back.

Chairman Paulsen. Thank you. Representative Handel, you are recognized for five minutes.

Representative Handel. Thank you very much, Mr. Chairman. And thank you, Chairman Hassett, for being here.

I would like to go back to the tax cut bill, if possible, because I think I need to get some clarity from you. I hear the critics saying that the lower tax rates are going to disproportionately benefit the most wealthy earners out there. Yet what I hear in my District in the Sixth District of Georgia is something quite different.

Kim, a single mom who works for a construction company, she is actually seeing an additional $260 a month. That is more than $3,100 a year in her paycheck. And for a single mom with her daughter in college, that is really significant.

So can you give some clarity around how the tax cuts really are affecting in a real-life scenario across the different income brackets, particularly for low- and middle-income earners?

Chairman Hassett. Sure. I think that I have already addressed one thing that I think is very important, which is the big increase and refundability of the child credit. Also, the Treasury was really quite efficient at changing withholding, so that already in February people saw their take-home pay go up.

The individual side of the tax cuts affected almost every taxpayer, and there are many, many of them. And I think one reason why the polling about the tax cuts changed so much in February and March is that people began to see what is real money to them.

I think that we have to remember that the tax bill just passed in December, and our estimate of the wage effect is really something that happens after the investment, the capital accumulation has occurred, and that is something that will be spread out over years.

I think that if history is a guide, then as popular as the tax cuts are now because people saw their take-home pay go up, they are going to be even more popular in a few years because of all the new capital that has come online pushing up productivity and pushing up wages.

Representative Handel. Great. Thank you. I want to move to something that you said in your testimony about the real need to educate and train better the U.S. workforce so that we will have enough people to fill these jobs.

As you know, about 6 million jobs are left unfilled here in the U.S. and employers really are very concerned that applicants lack the necessary skill sets. So what is your perspective about the balance between the emphasis of a traditional four-year college degree versus vocational and technical education, and how we can better marry that up to meet the demands of this growing economy?

Chairman Hassett. Well I know that this is something that is a big focus of many in the Administration, especially Secretary DeVos, and I think that as an economist what I would always side with, you know, markets should speak and people should choose the professions that they want to do, and that we should help them finance their investments in human capital. But that we shouldn't pick winners and losers.

And, you know, I think that you might choose to have a low-paying job because it is something that you love. And one of the beauties of America is that we don't assign people to this or to that. But I think that our education policy could do a much better job at helping people acquire specific technical skills. And, you know, there are ways that one could think of to help encourage that, by making more monies available for such investments.

Representative Handel. Thank you. Let me move very quickly to the debt and get your quick thoughts about the impact of the pro-growth policies in the Tax Cuts and Jobs Bill to help us be on a better fiscal footing.

Chairman Hassett. I think that the President prioritized the tax bill in the first year, understanding that the game that we played with our hypothetical hockey puck example was harming America's workers, and that they desperately needed their help, our help.

Then, you know, in the fullness of time I think every economist will tell you that the entitlements are exploding and that we haven't, you know, in present value we haven't yet worked out a way to pay for them.

I in my prior life even testified before this Committee on fiscal consolidation and the potential growth benefits of that. But I think the President and the team were right to prioritize the tax bill because we had this gaping wound that was harming American workers that we had to fix.

Representative Handel. Alright, thank you so much, Mr. Chairman. I yield back.

Chairman Paulsen. Thank you. Senator Klobuchar is recognized for five minutes.

Senator Klobuchar. Thank you very much, and congratulations, Mr. Chairman, and welcome, Mr. Chairman.

I wanted to follow up on the last questions from the Congresswoman. We have a relatively low unemployment rate in our State, in Minnesota, and the Economic Report shows that even with overall low rates across the country the prime age male participation rate remains still lower. But the Federal Reserve noted earlier this year that there was a shortage of qualified workers across job sectors, particularly in manufacturing.

Last year, 68 percent of our manufacturers in Minnesota said they were having trouble finding workers. And I know you just responded that it would be good to try to encourage different education programs to do that so we have people going into these areas. But could you comment on that lower number with men, and then what you think we should do about it?

Chairman Hassett. Sure. I think that one point that we try to emphasize in The Economic Report, Senator, is that the retirement of the Baby Boomers is not the whole story. There are many reasons why labor force participation, especially from prime-age males, has declined. Some of those involve higher marginal tax rates discouraging work especially among older people.

We talk about the prevalence of substance abuse. I think you might have seen our reference in the report to our big study in the fall of the impact of opioids on the U.S. And I think that there are many, many things that we are going to have to do to improve labor force participation.

But the thing that I thought was a good news part that was really bipartisan or nonpartisan good news in that part of The Economic Report was that labor force participation does respond some to policy. And so when we see potential GDP estimates that were sort of doomed for low growth for a really long time, they often come from the fact that the decline in labor force participation is expected to continue, and we in The Economic Report highlight a number of things that we think we can do to help with that.

And I am not trying to filibuster you, I promise——

Senator Klobuchar. We do that in the Senate——

[Laughter.]

Chairman Hassett [continuing]. But I think that the biggest thing that will do that is just the wage increases.

Senator Klobuchar. Okay——

Chairman Hassett. If they happen the way we say, then that will draw people back to the labor force.

Senator Klobuchar. On the opioid side, I just hope—I was there when the President signed the Order, and Senator Portman and Whitehouse and a few others and I have introduced the CARA Bill, and I just hope that the Administration gets behind some of these solutions. Senator Manchin has an idea of funding treatment with a per milligram tax on opioids. We have issues with prescription drug monitoring and other things. So that would be helpful if we get action, in addition to the report.

Chairman Hassett. We have all hands on deck on that problem.

Senator Klobuchar. Okay, good. Okay, then a second topic I want to focus on was just immigration reform. Again as I look at this low unemployment rate, the Administration's decision to end DACA has created tremendous uncertainty for dreamers.

In looking at states across our Nation, one recent study estimated that ending this policy would cost the country over $400 billion over the next 10 years. I was part of the Common Sense Caucus Group that came up with what we thought was a solution. I would prefer just to pass the Dream Act, get this done, and then we would not have the economic impact of having all of these hundreds of thousands of kids have to leave, 97 percent of them who work or are in school.

Could you talk about the economic repercussions of losing this part of our workforce?

Chairman Hassett. Well, Senator, as you know my job is to objectively advise the White House on the economics of things. And I know that there is an ongoing negotiation now——

Senator Klobuchar. There is, but there are still economic hard facts about dreamers holding jobs, or in school.

Chairman Hassett. Right. And I think that the economic literature is clear that immigration has in many ways been a big benefit to the economy; that immigrants are often more likely to be entrepreneurs——

Senator Klobuchar. Twenty-five percent of all U.S. Nobel Laureates were foreign born.

Chairman Hassett. But I think that also—and this is something before I joined the Administration that I wrote extensively about—and yet because of perhaps the bad enforcement of existing laws, and the existing chain migration as opposed to skills-based migration, we're probably not getting the maximum bang for the buck out of immigration.

Senator Klobuchar. I know but I was just specifically asking about dreamers and their economic impact, and the fact that they are here in a different category and have been working legally.

Chairman Hassett. And I have not done a specific estimate of the economic impact of dreamers, but I would be happy if you would let me table it to get back to you——

Senator Klobuchar. That would be wonderful.

Chairman Hassett [continuing]. With specifics.

Senator Klobuchar. I would really appreciate that. Thank you.

Chairman Paulsen. Congressman LaHood, you are recognized for five minutes.

Representative LaHood. Thank you, Chairman Paulsen, and congratulations on your Chairmanship.

Chairman Hassett, thank you for being here today. I think you bring a valuable voice to this Administration when it comes to the free enterprise system, the support of capital markets and for free trade. I want to read a quote that you had last year regarding the economy of the U.S.:

"The success of the United States has come not from our natural resources or its large population, but from its free market system. Liberalized trade in broadly multilateral, regional, and bilateral agreements is a key ingredient in the recipe for prosperity."

How does pulling out of NAFTA coincide with that statement?

Chairman Hassett. You know, I think—thank you for the question—and I think that the President has said over and over that he believes in free trade, and that he wants to negotiate better trade deals. I am not participating in the negotiations over NAFTA, but I know that there is a great deal of hope that NAFTA—that the negotiations will be successful. And I think that you would agree that if you look at like the asymmetries that I mentioned, for example, for autos, that it would be great if we could fix that.

And the President is a very good negotiator, and he is intent on making the trade deals more symmetric than they are.

Representative LaHood. And you mentioned earlier your job is to give advice. I mean do you think pulling out of NAFTA is a recipe for prosperity?

Chairman Hassett. I think that there are a lot of benefits that can be had from improving the symmetry of the treatment of all of our—we have about the lowest, almost the lowest tariffs and nontariff barriers on earth, and our trading partners very often do not. And it would benefit American workers, and also the global economy if people would just move towards American policies. If they copied our policies, it would be a much better economy. And I think you would agree with that.

But previous Presidents have tried to move foreign trading partners in that direction and failed, and I think the President is intent on trying to do that.

Representative LaHood. And it seems to me there is obviously a strong debate going on on these issues, and we had Secretary Mnuchin before the Ways and Means Committee and asked him this, and he thought it was a good idea to renegotiate and not pull out.

I know Secretary Purdue has said the same thing at the Department of Agriculture. Gary Cohn had said the same thing. Ambassador Branstad in Iowa. Do you have an opinion on that?

Chairman Hassett. I think that the best possible outcome is a reciprocal symmetric trade deal that increases the freedom of trade. Yes, so I think that is correct.

Representative LaHood. And then you mentioned earlier in your statement about the President supports free trade. When we look at the last 14 months here, what can we look at in terms of policies or things put forth that support free trade?

Chairman Hassett. Well I think that what is happening now is that there is a massive amount of work negotiating trade deals and trying to improve them, and to make them more symmetric and reciprocal. If those deals are successful, then they would certainly improve free trade.

Representative LaHood. Well again, with all due respect, I look back over the last 14 months. And when Ambassador Lighthizer came in he talked a lot about bilateral trade agreements. And I think we are all in agreement those are positive for the U.S.

But as we sit here today, we have not seen a model or a format or a mechanism for bilateral trade agreements. And that is very frustrating as somebody that represents a strong agriculture district, where Caterpillar tractors are made, and John Deere equipment. And 40 percent of the corn and soybeans grown in my District go somewhere else around the world.

And here we are with not one bilateral trade agreement put forth.

Chairman Hassett. Well I think that if you and I were negotiating trade deals that we would have no difficulty writing a deal right away. We would have a two-sentence trade deal that says we are going to have free trade between our countries. The trade deals that are being negotiated have thousands and thousands of pages, and it takes a long time to fix them. But we are intent on doing so.

Representative LaHood. And I guess two other points. I know you mentioned particularly on steel and aluminum that this is a national security issue, and that is what it has been categorized as. But I know Secretary Mattis has disagreed with that and said it's not national security, so I would just point that out.

And I know you referenced President Bush and his steel tariffs that had gone on. But again, back when that happened, I'm quoting from an article here in Business Insider, "Manufacturers that depended on cheap steel during that era for their supply chain were hurt. The Institute for International Economics estimated that as many as 26,000 jobs were lost in this country after those were inputted."

And I guess my last comment would be: Who wins in a trade war?

Chairman Hassett. I think that the global economy will function better if everybody—if our trading partners move their trade policies towards ours. And I think that American workers would be better off if the high tariffs on our products, like the 25 percent tariff on U.S. autos shipped into China, the 35 percent tariff on autos shipped into Brazil, if those are brought down. And the President is very serious about being a tough negotiator and putting America's workers first.

Representative LaHood. Thank you for your service.

Chairman Paulsen. Representative Maloney, you are recognized for five minutes.

Representative Maloney. Thank you, Mr. Chairman, and congratulations on your appointment.

And, Mr. Hassett, welcome back.

Chairman Hassett. Thank you. It's great to be here.

Representative Maloney. As Chairman of the Council of Economic Advisers, you have to straddle two very different worlds, the economic profession and the Trump Administration. And I would like to build on the question of my colleague on the other side of the aisle.

You said in an interview that was published on January 30th, and I quote, "Everybody in the Trump Administration believes in free trade." End quote.

As a free market conservative economist, do you agree with the President's policy of putting large tariffs on imported steel and aluminum? Yes or no?

Chairman Hassett. My job in the White House has been to provide objective analysis to the President on those policies, and I have done so. In the end, the 232 judgment is one that's a national security judgment. I am not a national security expert. You mentioned that Secretary Mattis had disagreed, but ultimately the President was elected by the American people to protect them and to make judgments about national security, and I support the Constitution and his right to do that.

Representative Maloney. What are the likely economic effects? Who pays the price?

Chairman Hassett. I think that the likely economic effects of say a steel tariff would be that we would have more steel production in the U.S. that would benefit steelworkers and steel firms here in the U.S. And to the extent that steel prices are higher, then the steel-consuming industries might find that their costs and profits—costs have gone up and profits have gone down.

Representative Maloney. And in your report you repeat a claim you made many times that was a major selling point for the tax cut legislation. You write that, and I quote, "The corporate tax changes alone are expected to increase annual income for families by an average of $4,000." End quote.

And in a September report, you call this a very conservative estimate. Now is this based on mainstream opinion in the field of economics about the incidence of the benefits of corporate tax cuts on labor?

Chairman Hassett. Thank you very much for that question, because, yes, it is. And in fact in The Economic Report we have a chart, which I would completely be unable to find right now sitting here at this stage, but I would be happy to do so and send it to you, where we go over all of the academic literature in this area and provide estimates of the wage effects from corporate tax cuts from any number of papers, including some published in The American Economic Review, which is like The New England Journal of Medicine of economics.

And so critics of our analysis have asserted, falsely, that this analysis is not mainstream. But it is mainstream. It is citing academic peer-reviewed research in the top economic journals, including one by myself.

And the paper that I wrote had a much bigger effect than the one that the economic report honed in on. And I think that that also shows my commitment to letting the staff decide what they think the literature says. I didn't put my finger on the scale and tell them to use my opinion.

Representative Maloney. I would like to request to place in the record alternative opinions from economist Paul Krugman who had an analysis where he called it "boneheaded," and your predecessor economist Jason Furman said it was "implausible" and a little more than far-fetched. And Larry Summers wrote also a statement in opposition to this economic determination.

Now if I could put it in? Thank you.

[The information referred to appears in the Submissions for the Record on page 44.]

And following the passage of the Republican tax cut legislation, major corporations have authorized an eye-popping $200 billion in stock buybacks. And of course this drives up stock prices, benefiting stockholders and CEOs, but how does this $200 billion figure compare to the total amount of wages and bonuses you believe are a result of the tax cut? What is the ratio? How does $200 billion in stock buybacks benefit the American worker?

Chairman Hassett. I think again, Mrs. Maloney, to return to the buyback issue, the buybacks right now that are coming from the repatriated monies that were previously offshore are a one-time thing.

If the—the papers I cited, which are not boneheaded, are peer-reviewed in top journals are correct, which they might not be. It's economics, right? Economics is an imperfect science. Then after the capital formation happens, workers will get $4,000 in say about five years from now, and then the year after that they'll get even more.

The buybacks, the $200 billion, are a one-time thing that's based on the trillions of dollars that were offshore in the past. In the future, if the capital formation happens then wages will go up and they will continue to go up over time. And again, in a question for the record I would be happy to run through some calculations to show you what the present value of those wage increases might be and how they would relate to these buybacks. But I can assure you that it is going to be many, many times the value of the buybacks.

Representative Maloney. My time is up.

Chairman Hassett. Thank you. Representative Comstock, you are recognized for five minutes.

Representative Comstock. Thank you, Mr. Chairman. I appreciate the opportunity to be here today.

I wanted to focus on—I was very pleased you included this in the report—cyber security and the economic cost of not having the top cyber security workforce, as well as being aware of the threats.

So I am noting in The Report you talk about 75 percent of the cyber threat being from the outside coming in, hacking in; 25 percent being on the inside, the people who are trying to get in and then are opportunists there.

And then while we often hear a lot about the state actors—and that is 18 percent or so—51 percent is organized crime. So The Report indicates that the government can create education programs to ensure a pipeline of domestic employees for the cyber security workforce. Could you address some of the things we are doing there? And do we need to maybe have some—given the need for that within the government to protect against this, how do we compete for the cyber security workforce that we need on the inside,

given this very active growth area on the outside? So how do we make sure that we have these high-end workers to deal with this very, as you pointed out, big economic threat?

Chairman Hassett. Thank you very much for the question. And I think that the cyber chapter in The Economic Report broke a lot of new ground. I was very proud of the economic team that did that analysis, because it allowed us to quantify the impact of cyber crime in the U.S. in a way that has not been done before, by doing things like looking at announcements of cyber attacks on firms, and then estimating the share price response to the cyber attack.

And I think that The Economic Report of The President serves a useful function for policymakers like yourselves when we provide analysis that quantifies things and helps you understand the stakes. And I think that I was surprised to see that the cost of cyber crime annually in the U.S. is north of $100 billion. I was astonished to see that the cost of opioid abuse in the U.S. is north of $500 billion a year. These are extremely pressing problems.

Some of the solutions will involve training cyber security professionals. But other solutions certainly are the topic of future discussion and research.

Imagine if pirates were attacking port cities and stealing $100 billion a year, how we would respond. And it seems like this cyber cost that we discuss in the economic report has received a much smaller response than that. And our hope is that by quantifying the numbers that we help people prioritize their own thinking about future policies.

Representative Comstock. Thank you. And then you actually mentioned my second question on the opioid abuse and that cost being so significant. And I know as I travel throughout my District, inevitably whether I am at a Rotary Club or a Chamber or a business talking about their needs, I hear certainly about workforce development that we have addressed here and I appreciate hearing, but part of the workforce development problem is the opioid abuse and the drug abuse, and not being able to get employees who can pass drug tests.

So if you might address that, on some of the best ways that we can deal with this economic threat. I mean obviously we have task forces and we are working on this a lot, but maybe if you can just highlight the intersection of all the problems created by that on the economic side?

Chairman Hassett. Right. I think that so far in The Economic Report what we have done on opioid abuse is to dig deeply into quantifying the problem.

There is an ongoing effort I know on the Hill, but also in the White House, that is a massive effort to come up with solutions. On a personal level, I can say that my home town, Greenfield, Massachusetts, was the feature of one of those Anthony Bourdine's "On The Road" shows. And he was talking about how such a beautiful town could be a center of opioid abuse, where there was a massive amount of suffering and death because of it.

This is very personal for me, and I can assure you that there are going to be focused solutions to the problem rolled out this year by a big task force that is working on this at the White House.

Representative Comstock. Thank you. And I really appreciate on both of those fronts that you have incorporated that and put them on the economic costs, because I think it is very important for us to be incorporating into our thinking. Thank you.

Chairman Paulsen. Thank you, Ms. Comstock. Representative Adams, you are recognized for five minutes.

Representative Adams. Thank you, Mr. Chairman. And thank you, Chairman Hassett, for being here.

The Trump Administration is allowing states to impose work requirements on Medicaid beneficiaries. Once again, in my opinion we are not showing a lot of support for our low-income citizens, assuming that they are not working and they are not working by choice.

Most Medicaid recipients who can work already work. Sixty percent of adults on Medicaid are working, and nearly 80 percent are in working families. Of those not working, more than half are family care givers, some in school who are already looking for work. All work requirements will accomplish is kick people out who need Medicaid the most.

So my question is: What impact will taking Medicaid from America's working families have on our country's health, productivity, and economic growth?

Chairman Hassett. Thank you for the question, and I think that we all agree that, that having a job and earning success is an objective that is worthy for every citizen, and that there are definitely citizens that have difficulty accomplishing that for many reasons, including the opioid abuse that we mentioned.

I have not reviewed the literature on the impact of work requirements on job labor force participation, but I would be happy to do a technical analysis for you in a response.

I think in The Economic Report of The President chapter on health we talk a lot about the focus of economic policy and thinking on health, and how we might not have done the best job of doing that. And that in recent years, for example, in the U.S. the mortality has increased. The expected lifespan has gone down. We have become less healthy I think mostly because of the opioid abuse.

But having a policy that measures health and focuses on improving it is something that I think that we should all agree is a worthy objective of policy. And I think the chapter on health in The Economic Report should help us do that because we come up with and focus on measures of health.

Representative Adams. There have been some evaluations of programs that impose work requirements on welfare recipients, and they found that, for example, within five years employment among recipients not subject to work requirements was the same as or higher than employment among recipients subject to work requirements in nearly all of the programs that were evaluated. So I will be happy to share some information with you, as well.

You know, before I move on to my next question I want to just take a second to just express my concerns about the Administration's repeated attacks on State and local budgets. First, the GOP tax scam handicaps State and local budgets. I am a former member of the North Carolina House, so I understand when things are

passed down. We call them "unfunded mandates," but budgets that drastically reduce the State and local tax deductions.

Then we have these work requirements and so forth. So the Administration is, in my opinion, hurting our working families by making our State and local governments pay for that.

One thing I want to ask in terms of African American employment, unemployment, and I heard the President say at the State of the Union that African American unemployment rose to 7.7, one of the largest increases in years.

So what specific policies—first of all I've got to tell you that over the past few years the largest increases in African American unemployment, we can see that. But what specific policies is the President considering to address— regarding the rise in African American unemployment? And it has risen.

Chairman Hassett. In the last month, that's right. There was a reversal of an enormous amount of progress that had been made over the past couple of years.

This is something that, going back to even the peak of the financial crisis I testified about. Because back then when I reviewed the literature it was clear that in good times the good news is that society has made an enormous amount of progress, and the odds of African Americans and Caucasians being hired are about the same. But that in bad times, there was still clear evidence that African Americans disproportionately bore the brunt of layoffs. And going back into during the financial crisis. I testified about policies that I would advise that we pursue back then because I saw this thing coming.

And I think the fact that we made so much progress is basically the result of the boom, and it is normally what one would expect to see when the unemployment rate is low, that they would make a lot of progress. Because the asymmetry in the job market for African Americans, which is still a very big problem in the U.S., tends to be that when there is a downturn that they are the ones, the first to lose their jobs.

Representative Adams. Thank you very much. I'm out of time.

Chairman Paulsen. Senator Cassidy, you are recognized for five minutes.

Senator Cassidy. Thank you for testifying. My understanding is that the aluminum and steel tariffs will not apply to finished products, rather just upon the sheets of steel and aluminum themselves, or the aluminum bars. Is that correct?

Chairman Hassett. As far as I know on that, Dr. Cassidy, that everything is still being finalized. I have not read the final order on that, and so I would have to get back to you on that. I think it will all be visible shortly, but it is not something that—that specifically is not something I got briefed on.

Senator Cassidy. And Senator Portman mentions to me piping, which is important in the oil and gas industry. In that case you may not be able to answer the rest of these, because my question was—or my series of questions are around the fact, has the Administration modeled the effect of these tariffs upon companies shifting manufacturing overseas so as to make a finished good, and then to bring it back across the border, raising their import price if you

will, so therefore it is more profitable to construct overseas. Are they modeling that?

Chairman Hassett. At the Council of Economic Advisers, and in the Commerce Department, and at the USTR's office there's an enormous amount of modeling capability that we provide analysis.

Senator Cassidy. Do you know the results of that? What I would like to know really is if it has been modeled, what is the expected effect of businesses offshoring to use lower——

Chairman Hassett. I am not aware of the CEA staff having modeled the offshoring part. We have modeled the impact on the steel industry.

Senator Cassidy. Then let me ask—I don't mean to be rude, I just have a short period of time.

Chairman Hassett. I understand.

Senator Cassidy. Then I have a friend back home in Morgan City, Louisiana, who has a fabrication shop, and he is competing against Koreans who have lower labor costs, and probably subsidized steel from China. And they will just ship modular units into Southwest Louisiana to be put into a petrochemical plant.

So he is competing directly with a foreign competitor. His labor costs are high, but he's closer and transportation costs are lower. But now with steel costs going up 25 percent. Has that been modeled? The effect upon our domestic fabricators and manufacturers who are directly competing with those who will not suffer from such a tariff?

Chairman Hassett. You know, without referencing specific deliberative work that CEA has done for the President, I can say that the economics literature has looked at previous episodes like this and found that there are upstream or, you know, instream benefits to the steel industry, and downstream harm; that the downstream harm has been cited in some of the previous questions. But again, this 232 is a national security judgment by the President——

Senator Cassidy. I accept that, and earlier it was commented that General Mattis suggests it's not the case, and that we actually have adequate domestic steel production for our defense industry should we ever have to have a problem like that. But I am also—you mentioned the previous effect. I am told that under—when George W. Bush put in such a tariff, that another effect was that dockworkers around the Nation, in the Port of New Orleans, by tonnage, a major product shipped is steel. And I was told that when George W. Bush put his tariffs in, that there was just loss of employment in our ports, specifically the Port of New Orleans, the one I am most familiar with.

Can you comment on that? Is that something——

Chairman Hassett. I can get back to you on that. I certainly have read the literature. Gary Hufbauer is an economist who worked on the Bush steel tariffs and has published papers. But the specific question of dockworkers and the experience back then is not something that I have studied.

But it would take me just a moment and I would be happy to get back to you.

Senator Cassidy. And then you mentioned that there is upstream benefit for the steelworkers, and then downstream benefit for many others. If you could reflect on when George W. Bush did

this, the net effect upon employment in the United States, was it positive or negative? Were more jobs created because of the tariff? Or were more jobs lost downstream?

Chairman Hassett. The academic literature found very small net negative effects back then. And, you know, I would say that if we were going to do a full economic analysis of this, we would—I'm not a national security expert and so how it affects national security is not something I have studied or necessarily could quantify—but I think that we should also recognize that American workers in just about every industry are disadvantaged by the broad asymmetries that we highlight in The Economic Report of The President where again if we try to sell a car in Europe, they charge a 10 percent tariff. And if we try to sell a car into China, they charge us 25 percent tariff.

And if we can envision a world where our trade negotiators can do a better job negotiating reciprocal trade deals, then the benefit from that reciprocity would be enormous for American workers, and much bigger than any of the negative costs that would come——

Senator Cassidy. I am out of time, but it would be nice if that were—I don't mean to be offensive when I say this—more than conjecture, but actually have been modeled. And in some of the stuff I am listing, it seems like it should be modeled before something so broad is put in place.

I thank you very much and I yield back.

Chairman Paulsen. Senator Hassan, you are recognized for five minutes.

Senator Hassan. Well thank you, Chairman Paulsen. And thank you, Chairman Hassett, for being here this afternoon.

Mr. Hassett, your report highlights the importance of training and retraining efforts to ensure that workers have the opportunity to gain skills and earn a living wage. We all know that the effectiveness of these kinds of programs is imperative to employers' success as they look to fill positions with qualified workers.

In New Hampshire and around the country we often see that the individuals most in need of these kinds of programs face a number of additional barriers to success, like accessing child care, transportation, and mental health supports.

In February I introduced the Gateways To Career Act. It would address this challenge by supporting individuals engaged in career pathway programs. Grants created in this bill would support workforce partnerships like those between community colleges and State workforce development boards by removing these types of barriers for students and, in turn, help individuals earn industry-recognized credentials.

As you promote workforce training programs to help individuals upskill, do you think it is important that we address how to help students overcome these kind of barriers?

Chairman Hassett. I very much—and apologize that I haven't in advance studied the Gateways proposal—but I very much look forward to reading it and giving a detailed analysis of it. I can say that since we finished The Economic Report and it gives me something of an appreciation for childbirth. This is a very big effort in a very short amount of time.

[Laughter.]

Senator Hassan. Be careful about saying that——

Chairman Hassett. Yes. But as we—yes, I know—but I think that one thing that we have focused a lot of staff time on lately is studying these training issues and focusing on increasing labor force participation in communities that are most at risk, including prisoners, and so on. And so I very much look forward to studying the Gateways To Career Paths proposal and comparing it to what we have been learning on our work over the last few weeks.

Senator Hassan. Well I would love to work with you on that. I also have another bill that I want to bring to your attention you also get at one of these issues in your Report. You mention in your Report that the number of young people starting businesses is down, which is something I have been hearing about in my State of New Hampshire.

Many times these young adults have large amounts of student loan debt standing in their way from starting a new business, and at times from accessing capital that is already a challenge for new businesses to acquire.

So the first bill I introduced in the Senate was the Reigniting Opportunity for Innovators Act, or the ROI Act. It would pause student loan interest and payments for entrepreneurs at the start of their businesses. And in cases where the business is started in a distressed area, allow for some cancellations. Would you agree that relieving the burden of student loan debt would help to encourage young entrepreneurs to start new businesses?

Chairman Hassett. I think that you are correct to focus on this problem, the fact that the Millenials are the least entrepreneurial generation that we have ever measured and is a policy challenge that we need to take seriously. Because ultimately if we don't have entrepreneurs driving the economy forward, then what kind of an economy are we going to have 20, 30 years from now?

In that literature, it is certainly hypothetically possible that one reason why is that people are capital-starved, more capital-starved because of student debt. It is not something I'm aware—I haven't read a paper that has connected the two, but it is certainly economically sensible that if you are capital starved because of high student debt you would be less likely to start a business.

Senator Hassan. I would be happy to introduce you to some of the students I have talked with who are studying business and want to start their own businesses, and then faced with the student debt they have. We used to say to people, "Go into business early. You don't have a mortgage yet." Right? But if you have student debt at the level of a mortgage, you can't.

I want to touch on one last thing that Representative Comstock talked about, and certainly you have talked about in terms of the economic impact of the opioid epidemic. I come from a State that has about the third highest mortality rate from this epidemic. And today over 100 Americans will die from a drug overdose, most of that from opioids.

It is over a $500 billion epidemic impact in 2015 nationally in my home State of New Hampshire of 1.3 million people. It was a $2 billion economic impact in 2014.

So when I heard you say the White House is undertaking a massive effort, I have to tell you that to my constituents and to me we have not seen it. We saw a President's Commission on the opioid epidemic come up with recommendations that every governor in the United States is working on already through recommendations they developed at the National Governors Association.

We do not need a task force to reinvent the wheel here. We need resources on the front lines for health care professionals, to law enforcement, to treatment and recovery providers, and we need this Administration to stop trying to undermine Medicaid, which is where most people get substance misuse treatment and behavioral health treatment right now who desperately need it. So I hope you will take that message back to the White House.

Chairman Hassett. Thank you.

Senator Hassan. Thank you, Mr. Chair.

Senator Paulsen. Senator Portman, you are recognized for five minutes.

Senator Portman. Thank you, Mr. Chairman. So much to ask you, Kevin, and thanks for being here and for your willingness to step up and serve in this capacity.

On the Tax bill, I know you talked a little bit about that in The Economic Report, and your projections on growth. Two questions.

One, there is concern about the deficit that might be created. And we had to use, as you know, an economic growth number of 1.9 percent. That is the Congressional Budget Office's official average over the next 10 years. And the one way to look at it is to say if you had .04 percent more growth than the 1.9 percent, then you would have enough revenue coming in because you're going to get about $2.7 trillion for every one point of economic growth.

What is your projection on economic growth, specifically? And then more generally, how do you think the tax bill will end up in terms of its impact on the deficit?

Chairman Hassett. Well thank you, Senator. And thank you also for agreeing to introduce me at my confirmation hearing. It seems like a long time ago. But that was very gracious of you.

I think that you are right to think about it that if you go out to the 10th year and we have—on the baseline of a $28 trillion economy, that if you imagine growth of half a percent a year higher, or one percent a year higher if you like to divide by 10, then you can see that it is very easy to envision this tax bill generating enough growth so that it doesn't have a negative effect on revenue.

I think that the Joint Tax Committee gave a dynamic score of $1 trillion, but I think they really underestimated the growth effect. I think that if we get the growth that we project in The Economic Report to The President, and again I think in a very transparent way, then that will add almost $3 trillion to the baseline level of GDP at the end.

And that's, you know, American money, and some of it can be paid back in taxes, but all of it will contribute to welfare of the American citizens.

Senator Portman. Which means the tax reform will actually end up reducing the deficit relative to what it would have been. And with regard to what is most important in the tax bill, you talk about productivity. When I talk to companies back home, of course

we're talking about bonuses and increases and contributions to 401Ks, which is great, and of course individuals are getting more tax relief, and withholding tables have been changed. People are finding, you know, $40, $50 in their paycheck they didn't expect.

What is the most important single thing in this tax bill for long-term growth in wages?

Chairman Hassett. The most important single thing in this tax bill for long-term growth in wages is to make the corporate rate 21 percent. Because we have ended the kind of scam, the tax scam, where you could get a tax refund to locate a factory offshore and to increase demand for foreign workers and reduce demand for domestic workers. We fixed that really heinous policy error. And the signs of its damage to the economy are all around us and all throughout this Economic Report.

And again, think about it. Capital formation's contribution to productivity growth went negative for the first time in U.S. history at a time when we were not in a recession, because we were chasing all of our capital offshore. And I think that we fixed that.

Senator Portman. And that will result in more investment, which results in higher productivity, which results in higher wages. And to me that is the most exciting part of this bill, and we have yet to see all the benefits of that and won't for many years, but it ultimately will make the biggest difference for my constituents, I believe.

With regard to opioids, we talked a lot about it today. I focused a lot on this notion that we don't really have 4.1 percent unemployment, as good as that sounds, when we look at what the new numbers are on Friday, and they are probably going to be good for the month of February, and again we're seeing good economic growth. But if you go back to the labor force participation rate before the Great Recession, the unemployment number today would be 8.9 percent. Think about that.

People are shocked to think about really we're living in kind of a 9 percent unemployment environment, even though we say it is closer to 4 percent, and who are these people who are outside of the workforce? And when you do those studies, as you know, you find out that opioids play an amazingly large role.

I appreciate you raising that issue, and the Brookings study by you colleague, Mr. Kruger, is one of course, but also BLS has its own study out there that's very similar saying that roughly 47—43 to 47 percent of men who are currently of prime working age, able-bodied men, are taking pain medication on a daily basis. And his conclusion is that about 31 percent of those people who are out of the workforce are related to opioids based on his further questions on whether it's a prescription drug or not.

This is shocking to people. And we look at the economic impact in many ways, but one we have to look at is this lack of opportunity for access to a workforce that we desperately need. Do you agree with that?

Chairman Hassett. Yes, I agree with that. And you mentioned Alan Kruger, who was my predecessor as the Chairman of the Council of Economic Advisers. I have spoken at length with Dr. Kruger, Professor Kruger, about his study. It is filled with really

interesting food for thought and helpful insights that will help us address this problem as we move forward.

And so I think you are right to mention that work. It is extremely important work and very well done, and I have spoken with Dr. Kruger about it.

Senator Portman. I hope it encourages us to do even more on the opioid crisis. We've got the funding now and we've got to make sure it is well spent. WeCare 2.0, my colleague, we talked earlier to sponsor that.

I thank you, Mr. Chairman, and thank you, Dr. Hassett.

Chairman Hassett. Thank you, Senator Portman.

Chairman Paulsen. Thank you, Chairman Hassett. If you don't mind, we would like to just give members a second round of questions. This will be a lightening round, so we will limit members' questions to three minutes per member, if you will.

I will just begin. You just mentioned, we just had a conversation about the lower unemployment rate. Job creation has actually been fairly strong recently. Economic growth has improved over the last year and was a lot better than expected not long ago.

If the Administration is undertaking various initiatives to stimulate the economy even further, can you comment a little bit on the effectiveness of different approaches to stimulate the economy? And I am thinking purely of the supply side versus the demand side stimulus.

Chairman Hassett. Yes, thank you. This is something that I have studied at length throughout my career. The one thing that I think we know from a massive amount of work both studying the U.S. economy and the variation across states and the variations across countries is that if we have an attractive corporate tax code, then it fosters higher growth, higher capital formation, and especially higher wage growth, which is something that has disappointed enormously in recent years.

And so I would say that the growth from the tax bill is going to be front and center. It is going to be something that we are going to experience. It is the reason why, you know, many Wall Street firms are now forecasting what used to be impossible, that we would have growth above 3 percent this year. But moving forward, the President has a very aggressive agenda on infrastructure and other things that also have positive growth effects. And I think that if the agenda is adopted, that it is extremely defensible that we could turn away from the new normal of low growth to just normal.

Chairman Paulsen. Thank you. Member Heinrich, you are recognized for three minutes.

Senator Heinrich. Chairman, I am going to go back to this graph that the Chairman provided for us. You know, we've got two different groups of lines here. We've got lines that are just projections that are not real data, and then we have got the line that really concerns me.

The part of this line that really concerns me is this part here [indicating], which is the financial crisis from a few years ago. And I think we probably do all agree that there is huge bipartisan support for a reduction in over-regulation to small community banks, to credit unions, small community credit unions. But this week the

Senate is considering banking legislation that would also roll back some important safeguards that protect consumers and Main Street from risky behavior by large banks.

Large banks are earning record profits. They just had their tax rate slashed, as you know. Why is now the right time to expose consumers again to the kinds of systemic risk that got us into this financial crisis in the first place?

Chairman Hassett. I would have to study the specifics of the bill that you are talking about, and it is not something that I have done. So——

Senator Heinrich. You haven't followed the bank deregulation bill that's on the floor?

Chairman Hassett. I would have to read carefully where it is right now. I have not been updated on that. There's been a lot of other stuff going on.

Senator Heinrich. If, God forbid, that—you know, I hope I am wrong—but if this banking bill were to lead us into another financial crisis, would this Administration want to oppose any public bank bailouts for banks that took on too much systemic risk?

Chairman Hassett. I have not discussed that with the President.

Senator Heinrich. Well the legislation is on the Floor this week. That is why I am asking these questions, because now is the time to get it right. If we wait until it is passed, then the words are what the words are on paper. So I would look forward to your input.

Chairman Hassett. I would be happy to get that to you.

Senator Heinrich. Thank you.

Chairman Paulsen. Representative Handel, you are recognized for three minutes.

Representative Handel. Thank you. I want to touch on infrastructure since we have not really heard from you on that. There are a lot of different viewpoints on the subject, that we should spend more and do so while the interest rates are low. The Administration isn't spending enough. The Federal Government shouldn't borrow more. It is no longer the right time, with near full unemployment.

So can you share with us your thoughts and give us some clarity to the debate, and what you recommend, and what your thinking is on how we should move forward on infrastructure funding?

Chairman Hassett. Right. And thank you for that, because we have a big chapter on infrastructure here, and the President has a very ambitious plan. And I think that we have not been able in the U.S. to attract much private capital into the infrastructure space in part because of the obstruction of government regulation and the fact that it can take, as the President has emphasized, up to 10 years to get a project approved.

And I think there are many things we can do to draw more capital into the infrastructure space. Some of it is direct government spending, but some of it is also streamlining regulation and making it so that, you know, if you could get approval say in two years, and if there was one government agency that was a single point of contact, then it would be a lot easier to convince investors to invest in expanded infrastructure projects in the U.S. But right now I

think the regulatory and government policy uncertainty around those investments is so high that it is just very, very hard to get investors to decide to participate in such projects.

Representative Handel. Thank you.

Chairman Paulsen. Well with that, I would like to thank Chairman Hassett again for testifying before the Committee today, and remind members that should they wish to submit questions for the record the hearing record will remain open for five business days.

And with that, this hearing is adjourned.

Chairman Hassett. Thank you, Mr. Chairman.

[Whereupon, at 3:33 p.m., Wednesday, March 7, 2018, the hearing in the above-entitled matter was adjourned.]

SUBMISSIONS FOR THE RECORD

PREPARED STATEMENT OF HON. ERIK PAULSEN, CHAIRMAN, JOINT ECONOMIC COMMITTEE

Good afternoon and welcome to the Joint Economic Committee's first hearing of 2018.

This is my first hearing as Chairman. I have worked with many of you before, and as you know, I'm from Minnesota, where we work hard and we work together.

In that spirit, I look forward to working with Ranking Member Heinrich and Vice Chairman Lee, as well as the other Members of the Committee. I especially want to extend a warm welcome to our new member, Representative Karen Handel, from the State of Georgia.

We are witnessing a sea change in the American economy, one that is boosting opportunity, supercharging growth, and restoring prosperity to our Nation.

For eight years, the last Administration struggled to find government-based solutions to a financial crisis that hit American workers hard. Now we have a new Administration with a very different approach, and I think few can deny that things have changed rapidly.

The job of this Committee is to understand what changed, and why. We all want more workers to rejoin the labor force, more businesses to invest, and more wages to rise. I believe our work here, in gauging the economy's long-term potential, can inform us on the policies that foster that growth.

Chairman Hassett, we welcome you here. Some very good things have happened since you testified before this Committee in October of last year. We have passed historic tax legislation—the Tax Cuts and Jobs Act—and the response of businesses has been overwhelmingly positive, exceeding expectations.

Consumer confidence is up, Americans are seeing more take-home pay, many will spend less time preparing their taxes next year, and businesses are paying special bonuses, giving their employees a raise, repatriating offshore earnings, and investing more in the United States again.

The unemployment rate is 4.1 percent, the lowest since the year 2000, and the number of new unemployment claims is the lowest since 1969.

Regulatory reform is cutting back on market-choking regulations and is encouraging the private sector and contributing to the surge in business optimism since November 2016, especially for small businesses.

Economic growth in each quarter of last year substantially exceeded growth of the corresponding quarter the year before reaching as high as 3.2 percent in the 3rd quarter, a number the last Administration had led us not to expect again.

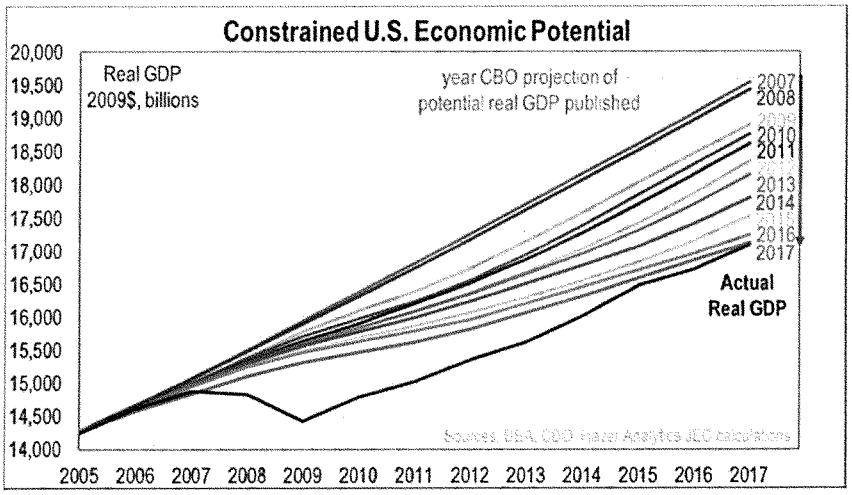
We are in a better place every day as this economy has moved upwards, and it is not because "government" fixed it. It's because government finally allowed the American people to fix it.

We are trusting the American people to keep more of their money, and to spend it as they see fit, rather than micromanaging their lives. America's economy isn't getting overheated. It's just getting started.

Figure 1, which is on the screen, uses the phrase: "Constrained potential." The potential is everyone in the audience here in their capacity as productive members of American society. The constrained part is, well, unfortunately, potentially everyone up here on the dais in our capacity as elected officials.

This chart shows something interesting. The color lines show how the Congressional Budget Office lowered its projection of the economy's output potential each successive year since 2008. In other words, this is a graphic representation of the American government lowering expectations, year by year.

The black line at the bottom, however, represents actual production as rising, closing in on the bottom potential line only after eight long years.



Potential GDP should not change much from year-to-year, yet this chart shows constant revision. Why?

The answer is: The continuous addition and tightening of policy constraints from 2008 to 2016.

Removal of these constraints is a return to normalcy, not an artificial boom. What happened for the last eight years was a regulatory crackdown that diverted and constrained Americans from their pursuits. Those expectations should never have been that low to start with, because we should have had confidence in the American worker.

I would be remiss if I did not mention the President's concerns about our trade policy, and discussion in recent weeks about tariffs. We are all deeply concerned about unfair trade practices by bad actors in other countries, and I know American workers want to compete fairly. That's because, and I know the President knows this, our workers are the best in the world, and when they compete internationally, America wins. I look forward to hearing from you, Chairman Hassett, how these tariffs might be crafted so they address specific distortions caused by unfair trade practices, and how we are going to avoid these tariffs simply becoming a tax increase on consumers.

Chairman Hassett, we thank you again for appearing before the Committee today and extend our thanks as well to the Council of Economic Advisers for preparing the Economic Report of the President.

PREPARED STATEMENT OF HON. MARTIN HEINRICH, RANKING MEMBER, JOINT ECONOMIC COMMITTEE

Before I get started, I wanted to welcome our new chairman. Chairman Paulsen, I'm looking forward to working with you this year.

Chairman Hassett, thank you for being here today to discuss the Economic Report of the President and the state of the economy.

I wish I were more optimistic about the policies put in place since you came before this Committee in October.

I'm going to be direct: the Republican tax bill serves special interests and will cost our children dearly for generations to come.

Rushed through with no bipartisan input, the GOP tax law jeopardizes our fiscal position and further tilts the scales in favor of large corporations and wealthy individuals.

While the law's impacts on economic growth are debatable, the impact on inequality is clear.

Independent analysis shows that within 10 years, more than half of working families will pay higher taxes than they would have before the new GOP tax law.

Meanwhile, the wealthiest 5 percent walk away with an astonishing 99 percent of the tax benefits.

Chairman Hassett, you and the President have promised again and again—most recently in the Economic Report of the President—that tax reform will increase average family income by at least $4,000. But, that is not what we are seeing.

If we wanted to reform the tax code to help the middle class, we could have simply cut taxes for the middle class.

Straightforward.

And it would have directly given working people in New Mexico and around the country much needed resources to pay the bills, put their kids through college, and save a little something for retirement.

Instead, Republicans chose to cut taxes for large corporations and the super wealthy, and left Americans hoping that those cuts would somehow trickle down to workers.

History has proven—again and again—that's not what happens.

And the early evidence this year confirms who the big winners are.

So far, corporations have announced more than $210 billion in stock buybacks, benefiting executives and wealthy shareholders.

While there have been some bonus and wage announcements, they total just $6 billion—a fraction of the money going to executives and the investor class.

It's not just the immediate impacts that are concerning; the whole strategy was misguided.

The massive increase in deficits constrains our efforts to tackle the problems we should have been focused on in the first place—like fixing our broken infrastructure and making more accessible and affordable a whole range of post-secondary education options—from apprenticeships and vocational education to community college and 4-year colleges.

Think about how we could have invested the $1.5 trillion spent on the tax bill. We could have erased every student loan in the country.

Every single one.

One recent study shows that canceling student debt for the 44 million Americans who hold it would boost economic output and create up to 1.5 million new jobs in just one year.

Of course, we could have invested that $1.5 trillion in infrastructure.

The Administration's infrastructure plan commits barely any real money to the cause. They say they want to spend $200 billion in Federal dollars, but its budget makes more than $200 billion in cuts to existing infrastructure programs—from transit to highways to water.

In other words, the long-awaited plan invests no new net Federal dollars. The $1.5 trillion hole dug because of the tax bill could have actually funded our infrastructure plans.

Instead, the Administration is hoping that somehow State and local governments and the private sector will pay for roads, bridges, ports, schools, VA hospitals and on and on.

But the private sector has little interest in investing in sparsely populated, low-traffic rural areas that desperately need infrastructure investment.

And the tax law further limits already cash-strapped states' abilities to raise new revenues by capping SALT deductions.

It's less a plan, and more a hope.

You often hear that budgets are a reflection of values.

That's true. But the massive tax giveaway—maybe even more than the recent White House budget—reveals Republican priorities.

My Republicans colleagues could have joined with Democrats to invest in children, workers, education and our long-term economic success. Instead, they handed out goodies to large corporations and the uber-wealthy and risked our long-term economic health.

Chairman Hassett, my focus is on what we can do now, and in the future. I'm interested to get your insight on how the Administration plans to work with us on making the investments that will help families succeed in today's economy. Thank you for your testimony. I look forward to your perspective.

The 2018 Economic Report of the President
Testimony before the Joint Economic Committee
By the Council of Economic Advisers Chairman Kevin Hassett
March 7, 2018

Chairman Paulsen, Ranking Member Heinrich, Vice Chairman Lee, and Members of the committee, thank you for inviting me to discuss the 2018 *Economic Report of the President* with you today. In the testimony that follows, I will discuss the contents of the *Report*, and I will highlight some of the observations that I believe should be of greatest interest to policymakers.

As I am sure you know, President Harry S. Truman transmitted the first *Economic Report of the President* in 1947, fulfilling the mandate of the newly enacted Employment Act of 1946. The Employment Act created both the Council of Economic Advisers and the Joint Economic Committee along with the mandate for an annual report. All were codified into law in response to the particular economic concerns of Truman's era: employment, the standard of living, the postwar transformation, and so on. Similarly, *Reports* prepared in landmark years by Presidents Ronald Reagan and John F. Kennedy each distinguish themselves today as a vision and roadmap for navigating the economic problems that defined those eras—they are, unmistakably, documents of and for their time. We hope that our 2018 report is as well.

The *Report* is intended to help policymakers make sense of our precise moment in history. To fulfill its purpose, it must be responsive to its era. To this end, our *Report* focuses on explaining our present economic conditions by analyzing the recent history of policies and circumstances that have affected them; we identify areas of vulnerability that are or will become pressing areas of concern; and we assess a variety of policy options.

In brief, our *Report* outlines the economics of an agenda intended chiefly to improve growth and end the so-called "secular stagnation" of low growth that has plagued our nation since the Great Recession. This Administration has worked to boost growth by cutting taxes and reforming the tax code and by eliminating unnecessary regulations, thereby encouraging higher wages. This Administration also stands poised to modernize infrastructure, address healthcare issues, and fight malicious cyberattacks.

Growth in 2017 exceeded expectations, and we remain optimistic that growth will continue to surprise to the upside even as data may have some noise in the short-run. Plenty of work remains to be done to get economic growth up to the rate that this Administration believes the American people deserve, and the 2018 *Report* contains a great deal of analysis on that topic. Growth in the economy can be a somewhat abstract concept, with discussions of tenths of a point converting to billions of dollars. Thus, in the abstract, it often has little meaning to average Americans. But fundamentally, greater economic growth enables Americans to find and pursue greater opportunities.

Because growth strengthens our nation through prosperity and opportunity, we are focused on creating and implementing policies that history suggests can lead to 3 percent growth each year.

The United States has done it before and we aspire to do it again. In the 2018 *Economic Report of the President*, we write transparently about the policies that can help achieve this goal.

The *Report* is comprised of the following chapters: Taxes and Growth, Deregulation that Frees the Economy, Labor Market Policies to Help the Middle Class, Infrastructure to Boost Productivity and Growth, Enhancing U.S. trade in a Global Economy, Innovative Policies to Improve All Americans' Health, and Fighting Cybersecurity Threats to the Growing Economy. It then closes with The Year in Review and the Years Ahead. I will provide a brief synopsis of each chapter and then I look forward to your questions.

Taxes

The 2018 Report begins by examining recent changes to United States tax policy and how this will benefit the economy.

For years, other developed countries have been attracting business from outside their shores, and enjoying higher wages by lowering their tax rates to levels below our own. As Chapter 1 of the 2018 Report shows, since the year 2000, the OECD average tax rate trended downward while the rate in the United States remained the same as it had been. Given this reality, we simply couldn't compete—our corporate taxes were the highest among the community of economically developed nations, and this incentivized our companies to move jobs and factories to lower-taxed countries. For a long time, lowering the corporate rate was seen by both parties as something that needed to be done. The Tax Cuts and Jobs Act (TCJA) has definitively made America more competitive.

Our analysis in the *Report* of taxes and growth includes the modelling done previously by our staff to identify the effect of the corporate component of the TCJA on American economic growth and wages, finding that a household could get a $4,000 wage increase from the new law once the law's full effects get absorbed by the macro economy in their entirety. While this is detailed in the 2018 *Report*, CEA generated its $4,000 estimate in a paper released in October 2017.[1]

We include a new estimate of the effect of the TCJA's changes to the individual tax code on growth, which we had waited to model until we knew the parameters: the changes could increase GDP by 1.3 to 1.6 percent after 10 years, according to the analysis presented in Chapter 1 of the Report. This will increase spending power for families. If the tax cuts are made permanent, the Report's analysis shows, the boost to GDP will add another $4.7 trillion to $7.4 trillion to the economy in the next decade. As Chapter 1 shows, the TCJA has already delivered benefits to America's workers and businesses. Almost 4.6 million workers received raises, bonuses, or improved benefits as of last week, by our calculations. Companies have already announced investments of over $190 billion, investments likely to increase growth and wages.

I would also add that that a variety of misconceptions have been stubbornly perpetuated by opponents of the tax bill. One misconception that has been the focus of recent debate is that share buybacks attributable to the TCJA undermine the claim that the majority of the TCJA's corporate tax reforms benefits will accrue to workers. The buybacks are happening because monies that were

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[1] "Corporate Tax Reform and Wages: Theory and Evidence," White House Council of Economic Advisers, October 2017. https://www.whitehouse.gov/sites/whitehouse.gov/files/documents/Tax%20Reform%20and%20Wages.pdf

previously offshore are being sent back to work here in the U.S. This is a one-time adjustment of the stock of trillions of dollars of "old profits" that were locked in foreign subsidiaries by our misguided former tax law. One would expect firms to invest this money back home in capital and even bank accounts, use it for wage increases, and use it for dividends and buybacks. No economist would make the case that the American economy would be better off if these monies were still locked offshore, which makes this line of criticism spurious. Share buybacks today are not mutually exclusive to long-run wage gains that accompany American capital formation that will accumulate this year and in the future.

Deregulation

Tackling both tax reform and regulatory reform was central to the Administration's economic agenda in the first year. Just as a backward tax code harms economic growth, overregulation drags down the economy. Chapter 2 of the Report documents the ways in which regulations stifle productivity and prevent the creation of new businesses. Regulations also give older, more established businesses an unfair advantage against upstart competitors and may be one of the reasons business dynamism has suffered a decline since the recession. The year 2009 marked the first time that more firms died than were born in the United States since the Census Bureau began compiling its Business Dynamics Statistics in 1978.[2] Recent research shows that fewer younger Americans are becoming entrepreneurs, an ominous development.[3] The previous Administration's tendency to regulate the economy excessively likely slowed overall growth for a number of reasons documented widely in the economic literature on the subject. In this chapter, we review the explanations that emerge from the literature. As the Trump Administration has reversed this trend in regulation, the depressed growth rate has turned itself around, too.

Of course, not all regulations are bad, and the type of changes envisioned by this administration will not threaten the environment or worker safety. To put our overregulation into perspective, CEA finds that if the U.S. regulatory environment were such that the U.S. had the same OECD Product Market Regulation value as Germany, we would increase annual growth by 0.1 percent per year. If we deregulate further, to the level of the Netherlands according to the OECD Product Market Regulation index, we could get growth at twice that rate: 0.2 percent per year. In spite of what you may think about European countries having a heavier regulatory hand, many in fact recognize, as this administration does, that the key to a healthy economy is to let the private sector create jobs with less red tape.

The Middle Class

One of the most definitive problems of our era is the stagnation of America's middle-class. The third chapter in the *Report* lays this out in detail.

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[2] Hathaway, Ian and Robert E. Litan. "Declining Business Dynamism in the United States: A Look at States and Metros." 2014. Brookings Institution. https://www.brookings.edu/wp-content/uploads/2016/06/declining_business_dynamism_hathaway_litan.pdf

[3] Economic Innovation Group. "Millennials & Entrepreneurship." 2016. http://eig.org/wp-content/uploads/2016/09/Millennials-Entrepreneurship.pdf

Government policy under the previous Administration bears some responsibility, but not all of it. The labor income of the typical household at the middle of the income distribution is still below what it was at the start of the 21st century, and one explanation for this historical slowdown, the Report's analysis shows, is that the Obama Administration's tax and transfer policies worsened the wound through their effect on the labor market. Based on CEA estimations using Census Bureau data, the median American's inflation-adjusted household income from working took 9 years to recover to its pre-recession level after the Great Recession – the longest this type of recovery has taken since at least 1979.

Although these tax and transfer policies softened the blow of the recession by partially making up for lost income, they also had the unfortunate effect of decreasing the incentive to work, contributing to the historic decline in Americans participating in the workforce and the continued stagnation of wages. In the end, these policies hampered the economic success of the very middle-class households they were intended to help.

Although much has been written about the retirement of the Baby Boomers as one of the main causes of the reduction in labor force participation, that explanation is only one piece of the puzzle. Demography is not destiny when it comes to economic growth, and the *Report* explains why the Administration believes that reducing work disincentives and rising wages, which we are finally starting to see, will bring people off the sidelines. A combination of policies and economic conditions that return the prime-age participation rate to the level in 2007 (still well below the rate apparent in 2000) would return about 1.7 million U.S. workers to the labor force over 10 years and raise the overall participation rate by 0.065 percentage point per year, resulting in a 0.1-percentage-point increase per year in the rate of GDP growth over the next 10 years, according to CEA's estimates.

Related to workforce participation, I would like to add a note about the President's immigration policies, which focus on a merit- or skills-based approach. There has been a discussion about immigration being a headcount exercise. But the economics of human capital tells us that bringing in immigrants who are highly productive and skilled as opposed to those who simply arrive through a family relation and who may have low or no skills shows why a headcount is not the way to think about the impact of immigration on growth. For instance, a predecessor of mine at the Council of Economic Advisers, Edward P. Lazear, has written about the importance of understanding the relationship between the education levels of prospective immigrants and the economic effects their admission could rationally be expected to have.[4] It does not simply boil down to the number of people who arrive on our shores.

Infrastructure

Investing in infrastructure via the stimulus and its shovel-ready projects was expected to be a major factor in our recovery to the Great Recession, but – as Chapter 4 of the *Report* shows –this type of investment ended up as only a fraction of what was promised, with only 3.5 percent of the over-$800 billion plan going to highway transportation infrastructure. Improving infrastructure should have wide bipartisan agreement, and polls show it is highly popular among the American

[4] Lazear, Edward. "Why Are Some Immigrant Groups More Successful Than Others?" October 2017. NBER Working Paper No. 23458. http://www.nber.org/papers/w23548

people, with 84 percent in support and 76 percent believing it should be funded as the president has suggested: a combination of public funds, bonds, and public-private partnerships. As the *Report* notes, sources indicate that in 2014 total congestion costs peaked at $160 billion, wasting 6.9 billion hours in delays and 3.1 billion gallons of fuel.

Bureaucracy has built up over decades, creating years-long obstruction on many projects. The President's infrastructure plan focuses on streamlining the permitting process and eliminating red tape that has stymied infrastructure projects from being efficiently developed and managed to enable projects to get off the ground faster. The plan also calls for a $1.5 trillion investment in infrastructure, which we find could add 0.1 to 0.2 percentage points to economic growth over the next decade, saving Americans precious time by alleviating traffic congestion and enabling them to connect to opportunities that create more prosperity.

Our report lays out additional steps such as enacting targeted user fees, facilitating public-private partnerships, and ensuring that infrastructure funding goes towards the most-valuable infrastructure projects.

Trade

Another defining problem of our era is the need to improve trade deals that are nonreciprocal and asymmetric. CEA, in Chapter 4 of the *Report*, documents that American firms face higher barriers to selling their products abroad and fewer barriers to selling their own products here in the United States than their peer firms in the group of high-income G20 countries. This holds true when looking at tariffs or non-tariff barriers, which have grown in importance as tariff rates have trended down.

CEA also notes that in recent decades, trade has left some American communities worse off. When you look at the data, it is not hard to see why this Administration is seeking to improve America's position with respect to international trade. Additionally, the global trade system has come under strain due to the influence of countries, such as China, that violate market principles and distort the functioning of global markets. When America's businesses and workers can compete in the global economy on a level playing field, our underlying dynamism will allow our economy to flourish. A priority of the Administration is to create the conditions that would maximize the free trade benefits accruing to the United States—and produce gains for our trading partners as well.

Health

To continue our assessment of economic issues that define our era, we turn in Chapter 6 to examining the status of Americans' health and the options available to them to live longer, healthier lives.

The Administration is focused on policies that would improve healthcare outcomes and lower healthcare costs for all Americans. CEA's analysis calls attention to several factors that affect health

and healthcare costs, such as smoking, obesity, and opioid abuse, which have contributed to the decline of American life expectancy for the second year in a row.[5]

CEA highlights how competition and choice could improve health insurance as well as lower American drug prices—without undermining American pharmaceutical innovation. Our government can also pursue policies that lead to other countries paying their fair share for innovations. CEA estimates that, among members of the OECD, Americans pay more than 70 percent of patented biopharmaceutical profits that fund drug innovation.

Cyber

Another definitive problem of our time, and one poised only to grow in importance over time, is the issue of cybercrime and its impact on our economy.

CEA finds that malicious cyber actors inflicted over $100 billion of damage on our economy in 2016, on top of the threat this poses to our national security. The economic risks of cyber vulnerabilities have grown as information technology has increased in its importance to the U.S. economy. CEA finds evidence suggesting that there is a market failure that leads private firms, many of which face risks correlated with one another, to invest less in cybersecurity than would be economically optimal. Cybersecurity matters for the economy now more than ever. The Administration is advocating for better cooperation between the public and private sectors, which is vital to managing these risks going forward.

Outlook

We conclude our 2018 *Report* by examining the year in review and offering our projections for the years ahead.

CEA documents that the U.S. economy experienced a strong and notable acceleration in 2017, with growth in real gross domestic product exceeding expectations and increasing to 2.5 percent, up from 1.8 percent during the four quarters of 2016, and the unemployment rate falling 0.6 percentage point to 4.1 percent, the lowest since 2000. Economic growth is important because it allows Americans more spending power, more take-home pay and a better quality of life. The Administration's baseline forecast for the longer term is for output to grow by an overall average annual rate of 2.2 percent through 2028, excluding the effects of the December 2017 Tax Cuts and Jobs Act. The policy-inclusive forecast, which assumes implementation of the Administration's agenda —tax reform, deregulation, infrastructure and addressing disincentives to work—is for real GDP to grow by 3.0 percent a year, on average, through 2028.

The current Administration's long-run, policy-inclusive forecast is conservative relative to previous administrations, and is in fact slightly below their median of 3.1 percent. The baseline forecast is exactly in line with the long-run outlook given in the Obama administration's last *Economic Report of the President* (2017), reflecting our view that not implementing the Administration's policy

[5] "Mortality in the United States, 2016." December 2017. National Center for Health Statistics Data Brief No. 293, Center for Disease Control." https://www.cdc.gov/nchs/data/databriefs/db293.pdf

objectives would simply result in a reversion to the lower growth expectations of the Obama years. In this chapter, we seek to provide greater transparency about our methods for forecasting growth than many have in the past. We feel this is important knowledge to provide to policymakers, and we hope it will inspire a trend of greater transparency in the future.

I hope that you find this *Report* to be a document that identifies and responds to the most pressing economic issues of our time, just as was intended when CEA was given this charge during Harry Truman's presidency. I appreciate your time today, and I look forward to taking your questions.

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The Washington Post

One last time on who benefits from corporate tax cuts

By Larry Summers
October 22, 2017

I recently asserted that Kevin Hassett deserved a failing grade for his "analysis" projecting that the Trump administration proposal to reduce the corporate tax rate from 35 to 20 percent would raise the wages of an average American family between $4,000 to $9,000. I chose harsh language because Hassett had, for what seemed like political reasons, impugned the integrity of people like Len Burman and Gene Steuerle who have devoted their lives to honest rigorous evaluation of tax measures by calling their work "scientifically indefensible" and "fiction." Since there have been a variety of comments on the economics of corporate tax reduction, some further discussion seems warranted.

The analysis from Hassett, chief of the White House Council of Economic Advisers (CEA), relies heavily on correlations between corporate tax rates and wages in other countries to argue that a cut in the corporate tax rate would boost returns to labor very substantially. Perhaps unintentionally, the CEA ignores our own historical experience in their analysis. As Frank Lysy noted, the corporate tax cuts of the late 1980s did not result in increased real wages. Actually, real wages fell. The same is true in the United Kingdom, as highlighted by Kimberly Clausing and Edward Kleinbard. These examples feel far more relevant to the corporate tax issue analysis than comparisons to small economies and tax havens like Ireland and Switzerland upon which the CEA relies.

There has been a lot of back and forth, but notably no one has defended the $4,000 claim as a "very conservatively estimated lower bound," let alone endorsed the plausibility of the $9,000 claim. In fact, the Wall Street Journal op-ed page published two very optimistic versions of what the wage increase could be, which were below CEA's lower bound.

Casey Mulligan and Greg Mankiw also do not defend CEA's numbers, but do make use of simple academic abstract models that do not capture the complexities of a policy situation to argue that wage increases could be larger than the tax cut. The inadequacy of their analyses illustrate why well-resourced, team-based institutions with a strong culture of attention to detail like the Congressional Budget Office, the GAO, the Joint Tax Committee Staff or the Tax Policy Center are so important.

Mankiw's blog is a fine bit of economic pedagogy. It asks students to gauge the impact of a corporate rate reduction on wages in a so called "Ramsey" model or equivalently in a small fully open economy, with perfect capital mobility. Even with these assumptions, he does not get answers in the range of the CEA's estimates.

As a device for motivating students to learn how to manipulate oversimplified academic models, Mankiw's blog is terrific as one would expect from an outstanding economist and one of the leading textbook authors of his generation. As a guide to the effects of the Trump administration's tax cut, I do not think it is very helpful for three important reasons.

President Trump spoke about tax reform in front of hundreds of truckers in Harrisburg, Pa. (The Washington Post)

First, a cut in the corporate tax rate from 35 to 20 percent in the presence of expensing of substantial or total investment has very little impact on the incentive to invest. Imagine the case of full expensing. If a company is permitted to deduct all of its investment costs and then is taxed on all of its investment profits, the tax rate has no impact at all on the investment incentive. If investments are financed in part with deductible interest, as would be true even under the Trump plan (where expensing would be total), a reduction in the corporate tax rate could easily reduce the incentive to invest. Mankiw assumes implicitly that capital lasts forever and companies take no depreciation and engage in no debt finance. This is not the world we live in.

Second, neither the Ramsey model nor the small open economy model is a reasonable approximation for the world we live in. In the Ramsey model, savings are infinitely elastic, so the real interest rate always returns to some fixed level. In fact, real interest rates vary vastly through space and time, and generations of economic research show that the savings rate rather than being infinitely sensitive to the interest rate is almost entirely insensitive to the interest rate.

The United States is not a small open economy. If it were, the effect of an effective investment incentive would be a major increase in the trade deficit as capital inflows forced an excess of imports over exports. I imagine that President Trump at least feels that a greatly augmented trade deficit is not good for American workers.

Third, a big cut in the corporate rate does not happen in isolation as a break for new investment. Mankiw's model does not recognize the possibility of monopoly profits or returns to intellectual capital or other ways in which a corporate tax cut benefits shareholders without encouraging investment. It means either increases in other taxes or enlarged deficits, both of which have adverse effects on households. It also means that capital moves out of the noncorporate sector into the corporate sector, tending to hurt workers in the noncorporate sector.

Mulligan accuses me of rejecting the results of my 1981 paper on Q Theory which he claims to like and teach. I'm flattered that he appreciates my paper, but am fairly confident he draws the wrong conclusions from it.

One central aspect of this paper was the recognition that the corporate tax rate is, contrary to Mulligan and Mankiw's assumption, not a sufficient statistic for assessing the impact of the corporate tax system. As I explained above, the paper emphasizes that to examine the impact of a corporate tax change, it is necessary to build in assumptions about depreciation

allowances, debt finance and so forth, even if these are being held constant. If Mulligan did this, he would get a very different answer.

The main point of my paper, which Mulligan entirely ignores, was that because of slow adjustment costs, the impact of tax changes was felt primarily on asset prices for a long time. This meant that as my paper showed, the primary impact of a corporate tax cut would be to raise after-tax profits and the stock market. This in turn, as I noted, primarily benefits wealthy individuals. Note that because a corporate rate cut benefits investments already made, this conclusion does not depend on assumptions about depreciation allowances and the like which are important for new investment.

Mulligan also fails to recognize that a corporate rate cut benefits capital and hurts labor outside the corporate sector because it draws capital out of the noncorporate sector, raising its marginal productivity and reducing that of labor. It is true that if the corporate sector is small, this effect is small in terms of return, but by assumption it is large in total because it applies to a large quantity of capital and labor.

It is worth noting that Larry Kotlikoff and Jack Mintz's response to criticisms of the Trump tax plan suffers from the same deficiencies as Mulligan's. The authors include no corporate tax detail, no recognition of the impact of the tax proposal on asset prices, and no treatment of the budget consequences of tax cuts.

The newest boldest bit of claim inflation regarding the tax bill comes from the Business Roundtable: "a competitive 20 percent corporate tax rate could increase wages sufficient to support two million new jobs." This would, coupled with job growth projected even in the absence of a corporate rate cut, take the unemployment rate well below 3 percent! I would be very interested to see the underlying analysis. I would be surprised if it is convincing.

By far the highest quality assessment of corporate tax issues has been provided by Jane Gravelle, writing under the auspices of the Congressional Research Service. It looks at all the literature. It recognizes that the issues are complex and cannot be captured by a single model or regression equation. It does not start with a point of view. Unfortunately it provides little support for claims that corporate rate cuts will raise revenue, help the middle class or spur rapid wage growth.

During my years in government, I served with 7 CEA chairs — Martin Feldstein, Laura Tyson, Joe Stiglitz, Janet L. Yellen, Martin Baily, Christy Romer and Austan Goolsbee. I observed all of them fighting with political figures in their Administrations as they insisted that CEA analysis had to be of a kind that would be respected and validated by outside economists. They refused to cheerlead for Administration policies at the expense of their professional credibility. I cannot imagine any of them releasing an estimate as far from the professional mainstream as $4000 to $9000 wage increase from a corporate rate cut claim. Chairman Hassett should for the sake of his own credibility, that of the Administration he serves and the institution he leads, back off.

THE WALL STREET JOURNAL.

No, the GOP Tax Plan Won't Give You a $9,000 Raise

By Jason Furman
Oct. 22, 2017

The White House Council of Economic Advisers claimed in a report released last week that the cuts to the corporate tax rate contained in the Republican tax-reform proposal would raise average annual household incomes by more than $4,000. They called this a "very conservative" estimate. A well-designed business-tax reform has the potential to raise productivity and wages. But this proposal is not well-designed, and flawed analysis only makes achieving well-designed reform less likely.

On the individual side, the Republican plan offers almost no direct benefit to the middle class. Many details are still missing, but from what we know so far it would largely be a wash for most households. A larger standard deduction and child tax credit would roughly offset the elimination of personal exemptions and the increase in the lowest bracket from 10% to 12%.

The net effect would be some simplification and fewer distortions, like the mortgage interest deduction, but not much of a decrease in the taxes paid by most households. Those households with the highest incomes would get large benefits from reductions in the top rate, repeal of the estate tax, and a new preferential rate for certain types of income.

The bigger debate is about who benefits from a reduction in the corporate rate from 35% to 20%, which would reduce federal annual revenue by about $200 billion. An important economic lesson about taxes is that the one who writes the check is not necessarily the one who bears the cost. The Treasury Department and the Joint Committee on Taxation operate under the assumption, informed by decades of research, that about 25% of the corporate tax bill is ultimately paid for by workers in the form of lower wages. Recent peer-reviewed research has found labor's share of the corporate tax burden ranging from lower than 25% to as high as 50%.

Economists are likely never to agree on who pays the corporate tax because the true answer is . . . it depends. In the long run, mobile capital can avoid taxes while immobile labor cannot, so labor pays a higher share. On the other hand, much of the corporate tax increasingly falls on returns to monopoly power and other rents, putting a growing slice of the burden on shareholders.

The White House claims that the average household would see between $4,000 and $9,000 more in its paychecks every year. But if all 125 million households got a raise like that, it would amount to an annual increase in total wages of between $550 billion and $1.1 trillion. That's between 275% and 550% of the total cost of the $200 billion corporate tax cut—implying a supply-side effect that's more than a little far-fetched.

Although the White House makes much of the importance of peer-reviewed research, their estimates of the wage effects from a cut to the corporate tax rate are based on parameters from a few papers written a decade ago, none of which were peer-reviewed, and most of which were never published. One of the authors of the paper used to justify the $9,000 claim took to Twitter to say that the CEA report "misinterprets" his findings, which found that labor paid 45% to 70% of the corporate tax, not 550% as claimed by the White House.

Moreover, the parameters used by CEA are based on estimates for U.S. states or much smaller and lower-income countries. North Carolina and Estonia might get much more inbound investment with a lower rate, but the trick would not work nearly as well for an economy as big as America's. Many companies need to be in the U.S. for reasons quite apart from taxes. The United Kingdom, an advanced and relatively large economy, is a more relevant example. Its experience of a 0.3% annual real wage decline since 2007, following its cutting its corporate rate from 30% to 19%, does not inspire much confidence in claims about large wage effects.

According to my calculations, the White House methodology yields the absurd conclusion that eliminating the corporate tax altogether would boost annual household wages by up to $20,000. In their analysis, the administration counts only the purported benefits from tax cuts without factoring in the costs of higher deficits due to lost revenue. But the need to raise revenue to finance government spending and avoid large-scale borrowing is the reason we have taxes in the first place.

Absent significant spending cuts, lower government revenue will lead to higher deficits. This, in turn, will either reduce capital formation and thus long-term growth, or it will maintain investment levels at the cost of skyrocketing foreign borrowing. The empirical results cited by the White House ignore this issue, basing their estimates either on assumptions that tax cuts are paid for with new lump-sum taxes on all households or on the experience of countries like the U.K. and Germany, which paid for corporate rate reductions with higher value-added taxes and other base broadeners.

Well-designed business-tax reform would include permanent expensing, elimination of the corporate interest deduction, a more robust and competitive international system, and fully paid-for reductions in the corporate rate. Such changes could help boost wages modestly over time. But the current plan falls short on all of these counts—and it is workers who will ultimately bear the cost of the White House's wild claims.

Mr. Furman, a professor of practice at the Harvard Kennedy School, was chairman of the White House Council of Economic Advisers, 2013-17.

Appeared in the October 23, 2017, print edition.

RESPONSE FROM DR. KEVIN HASSETT TO QUESTIONS FOR THE RECORD SUBMITTED BY VICE CHAIRMAN LEE

James Madison said in Federalist No. 10 that different economic interests arise in every society and often have sharply conflicting views on government policy. History has shown that reciprocal international trade promotes prosperity for American consumers and producers. In the "Economic Report of the President," you point to the fact that the manufacturing and mining sectors lost 9,000 and 98,000 jobs, respectively, in 2016. These statistics, no doubt, have influenced the President's intention to levy tariffs on steel and aluminum imports under Section 232. However, research published by the Trade Partnership Worldwide finds that these proposed tariffs could result in net job losses of nearly 146,000 jobs, notwithstanding any employment increases in the steel and aluminum industries. Meanwhile, the Tax Foundation estimates that implementation of these tariffs could cost U.S. firms nearly $9 billion—a cost which will undoubtedly be paid for by American consumers. In your opinion, Dr. Hassett, do the benefits of these proposed tariffs outweigh the costs to the broader economy? Could these new taxes actually counter the positive effects of the historical tax cut we just passed in December?

CEA provides objective economic analysis based on the best available evidence, and assists with the evaluation of the economic tradeoffs implied by a set of current or prospective policy decisions. The purpose of the present Section 232 actions is to prevent imports from impairing U.S. national security [by "weakening our internal economy"]. That determination by its nature requires, in addition to the economic costs and benefits intimated in the question, the consideration of national security concerns. But national security consideration are not CEA's core expertise, and it is ultimately up to the President to weigh both the economic and national security implications of policy choices as he formulates policy.

In the long-run, however, the distinction between national security and economic concerns can blur more than in the short-run. It is tough to understand the history of the U.S. economy since World War II, for instance, without some reference to the Cold War and its aftermath. But CEA is not well-positioned to assess impacts of the Section 232 that accrue through national security driven channels at this point in time.

The Opioid crisis has taken not just a social and medical toll on the country but has been an economic drain as well. In November 2017, the Council of Economic Advisers calculated the cost of opioid overdose, abuse, and dependence in 2015 at $504 billion. A nonprofit group estimated that the Opioid Crisis has cost the United States more than $1 trillion since 2001. That number is likely to increase by $500 billion in 2020. The crisis continues to grow unabated across the country. How has this crisis affected labor-force participation, productivity, and overall economic output?

The likely direction of the effect of the opioid crisis on economic activity seems unambiguous: it is likely to be negative, and drag down labor-force participation and economic output. Its effect on productivity is less easy to develop an intuition for, but also likely to be negative.

That said, the paucity of high-quality data on the subject complicates attempts to discern the magnitudes as well as the direction of this effect. But one empirical analysis on this subject comes from Alan Krueger of Princeton University and former CEA Chair under President Obama. Using data from 2010, 2012 and 2013, Krueger estimates the number of Americans aged 25–54 who took pain medication on the previous day, separately by gender. Pain medication includes opioids, but is not limited to opioids as it also includes over-the-counter pain medications. These rates are far higher than that for illicit drugs. (Pain medication also is not an illicit drug if it is accompanied by a valid prescription.) These numbers show less variation across labor market status. Nearly 50 percent of men who were not in the labor force took pain medication on the previous day over these years and nearly 20 percent of employed and unemployed men did the same. For women, the rates are higher among the employed and unemployed, but lower for those not in the labor force. Krueger's estimates imply that 862,000 prime-aged persons (aged 25 to 54) were out of the labor force in 2015 as a result of opioid dependence growth. We note that these estimates should be considered as first approximations with a large standard deviation.

In the chapter of the Report that focuses on the labor market, the Council of Economic Advisers notes a shift in the way that teens and young adults are spending their time outside of work and school—notably, a reduction in time teens spent on "organizational, social, and religious activi-

ties" and an increase in time spent on activities less important to human capital development, such as "personal care activities, which include sleeping and grooming." Even though the data cannot specifically answer whether time spent on social media and the internet might play a factor, would you infer that this shift in teen time use over the past decade is connected to the rise of smartphone and social media use, and what implications might that have on how adolescents form connections and relationships pertinent to developing social capital and engaging in associational life?

As noted in the question, one cannot infer the effect of smartphones or social media from the data we have. Nor does there seem to be research that allows one to make a causal inference about the effect of the use of smartphones or social media on labor market outcomes. The intuition that the increasing attraction of activities like smartphones and social media competes for limited time and attention with activities that increase engagement in associational life does seem fair. And there is interesting research on the effects of social media in disciplines beyond economics, which are beyond CEA's area of expertise.

Evidence on the effect of increasing time spent on smartphones and social media that meets the standards of the economics profession for causal inferences about its effect on outcomes like those in the labor market, then, does not yet exist. But CEA will continue to follow the cutting-edge of research on this and other topics in order to provide the best possible analysis of this important topic.

In the chapter focusing on the labor market, the Council of Economic Advisers notes geographic immobility as a factor in labor force participation rates, whereby workers are unable to move to stronger job markets due to issues like occupational licensing requirements, land use regulations, or inability to sell a home. For those mired in high unemployment areas and lower levels of labor force participation, do you believe that there may be a "brain drain" effect taking place as well, whereby those going on to receive higher education aren't coming back?

There is some evidence for a "brain drain" of the type described. The data do suggest that Americans with more education are more likely to move. This relationship between education and probability of moving manifests in the data both between 2001–2010 and between 1981–1990, even as the overall rate of migration for all education groups has fallen over time.

But the relationship between geographic mobility and economic prospects is one for which it is easy to imagine many possibilities. For instance, one would also imagine that those who are most-distressed in a given area would be the most-motivated to want to move.

There is some evidence for the "brain drain" described, and CEA looks forward to continuing to analyze the important issue of geographic variation in economic outcomes as well as geographic mobility in particular.

In the chapter focusing on health, the Council of Economic Advisers identified five "determinants of health in industrialized countries: health behaviors, genetics, social circumstances, environmental and physical influences, and medical care" in the context of poor health and premature death. Scholars Anne Case and Angus Deaton note in their research on "deaths of despair" that premature deaths such as these are "about much more than economic circumstances" focusing on " ... the decline in labor force participation, the decline in marriage rates, the rise of cohabitation, the rise in out of wedlock births, and of parents living apart from children that they barely know. We discuss the decline in the quality of jobs, the increasing lack of opportunity for people without a bachelor's degree, as well as changing religious practices." Would you agree that social factors and shifts in work and family life among more vulnerable Americans have played a significant role in their declining health trends?

The economics literature documents that economic factors, like unemployment, can have non-trivial effects on health outcomes. Sullivan and Von Wachter (2009), for instance, is just one of the economics papers that employs a methodology with the econometric rigor you need to make causal inferences about the effect of economic fluctuations on health outcomes at the individual level. And they document that such effects can exist: for instance, one of the effects documented is the effect of job displacement on the probability of suicide. Though job displacement may seem like an economic rather than social factor, job displacement's consequences (including the probability of suicide) are such that the effects documented in the paper are plausibly also interpretable as relevant to the relationship between social factors and suicide as well.

But, unlike Sullivan and von Wachter (2009), the seminal Case and Deaton research on the increase in "deaths of despair" does not come from any attempt at causal inference. Instead, Case and Deaton have identified and described a trend that previously was not documented. The social value of the documentation in trends in "deaths of despair" by Case and Deaton is difficult to overstate. But the task of documenting a trend in society is different in nature from the task of identifying its underlying causes through a methodology that allows causal, rather than only descriptive, inference. And Case and Deaton have documented the trend rather than identified its cause.

That said, the type of causal econometric analysis epitomized by Sullivan and von Wachter (2009) suggests the possibility that the social and economic causes identified can explain some nonzero fraction of the trend identified by Case and Deaton. But Case and Deaton's findings are fairly new, and research has so far failed to identify explanations for the trends in mortality in a particular place (the United States) across particular moments in history (the last few decades) that have been so meticulously documented by their path-breaking work. Given the gravity of the issue, it is important that research correctly identify the causes of the trend rather than proceed on the assumption that the types of social and economic mortality effects identified in other contexts is necessarily what explains the particular phenomenon Case and Deaton documented.

RESPONSE FROM DR. KEVIN HASSETT TO QUESTIONS FOR THE RECORD SUBMITTED BY SENATOR HEINRICH

1.) As discussed in the final minutes of the hearing, the Economic Growth, Regulatory Relief, and Consumer Protection Act (S.2155) is making its way through the Senate and is expected to be taken up by the House soon. The bill would exempt many banks with $250 billion or less in assets from stricter regulations, even though many banks in this asset range received taxpayer bailout money during the financial crisis and some, such as Countrywide and IndyMac, were even at the center of the crisis.

As a senior economic advisor to the President, do you believe there is no risk in unwinding these regulations that have kept our financial system safe?

As an economist evaluating a prospective change in regulation, it seems unwise to reduce the question of whether the costs outweigh the benefits on a net (rather than gross) basis to the question of whether any particular gross cost or benefit is zero. As an economist, there is no reason to think S.2155 would be an exception to this framework. Even in a world with risks to repealing regulations that exceeded zero, the benefits to repeal could still very plausibly outweigh the costs.

In the context of banking regulation, the tradeoff tends to be between compliance and other costs of regulation on the cost side and financial stability and other intended goals of risk-reducing legislation on the benefit side. It is important to get this tradeoff right. As the Treasury Department wrote in their recent report "A Financial System That Creates Economic Opportunities: Banks and Credit Unions," financial regulations should be tailored to accomplish the objectives of clear and transparent standards that do not impose undue burdens and that are based on the size and complexity of the bank's balance sheet and businesses. Insufficient tailoring results in bank regulators misallocating staff time and resources by focusing on firms that do not present the greatest risks to the financial system. Further, the magnitude of regulatory requirements applicable to regional, mid-sized, and community banks that do not present risks to the financial system requires such banks to expend resources on building and maintaining a costly compliance infrastructure, when such resources would be better spent on lending and serving customers.

2.) In 2007, banks with less than $250 billion in assets collectively held more than $1.6 trillion in assets. Collectively, these small and medium sized banks were larger than all but one bank at the time, and received more than $46 billion in bailout funds.

In your opinion, what sort of risk does $1.6 trillion in assets pose to the financial system and the economy if those assets suddenly become junk?

The failure of smaller banks, while potentially having an impact on local economies, typically does not pose a risk to the financial system. The focus of banking regulations for many decades has focused on such institutions applying proper prudential standards to their business. The proposed legislation does not change this focus. In addition, the proposed legislation contains measures that would attempt to target regulation such that only banks which pose a risk to the financial system bear the additional costs of additional regulatory compliance. And as an economist,

targeting regulation such that the incidence of any additional costs correspond with an increase in expected benefits is difficult to oppose.

3.) You recently acknowledged that corporations are using repatriated earnings to buy back more of their stock and increase dividends to shareholders, not investing in their workers as you had previously predicted would occur right away. While testifying before the Joint Economic Committee you suggested this is a one-time buy back that will eventually translate to downstream wage increases. However, history has confirmed that this is not the case. Moreover, in a recent survey, only two percent of workers surveyed have received a raise, bonus, or additional benefits attributed to the tax bill.

How do you reconcile what history has confirmed and what workers are saying with what you have promised working families?

First, tax cuts are being used for wage increases and investments in the workforce. As of April 3, 2018, employee bonus announcements attributable to the TCJA affected almost 5.5 million workers, according to Administration tabulations.

Second, the TCJA passed only months ago. As the economy adjusts to the new long-run equilibrium, then, you'd expect the benefits to grow.

To the extent that you would expect to observe the effects of the TCJA in a new long-run economic equilibrium within a few months—and there is no economic reason to think this would be the case—you would expect only a fraction of the effect to yet be visible in the data. The developments since the TCJA's passage, if anything, are what you would expect to see if the long-run equilibrium was what CEA described: the effects appear to be in the expected direction, and their full magnitudes will take more than a few months to appear in the data.

Third, it is a mistake to think of the wage and investment effects of the TCJA as mutually exclusive: investment effects complement wages, as increased investment today is a harbinger of higher wages in the future. Chapter 1 of the Economic Report of the President (2018), along with other research from CEA, documents the mechanism that relates investment to wages: productivity. Testifying to the relationship between capital and wages, the link that runs through productivity, the Report also documents the historic slowdown in capital deepening that has accompanied the historic slowdown in wage growth observed in recent years. In the light of the complementary relationship between investment and wages, the $201 billion in new corporate investments announced since the passage of the TCJA attributed to the legislation seems like a harbinger of TCJA-induced wage gains in the future—not evidence of their absence.

Finally, I would note that it is not clear that there is much of a historical analogue for the Tax Cuts and Jobs Acts (TCJA). There were other instances of changes to tax legislation enacted under George W. Bush that are sometimes invoked as parallels similar to this question but that differ economically from the TCJA

4.) In the hearing, you mentioned that immigration and immigrants play a significant role in growing the economy, emphasizing the importance of immigration on entrepreneurship in America. Yet, the 2018 Economic Report of the President remains completely silent on the matter.

As Chairman of the Council of Economic Advisers, and as an objective source to the President, please outline the economic benefits of both high and low skilled immigration and its importance to the economy in great detail.

There are as many ways to discuss the effects of immigration on economic activity as there are ways to measure economic activity.

In the U.S., the debate about immigration has tended to focus on the volume of immigration rather than the skill-level of prospective immigrants. But a look at immigration systems around the world suggests that the skill levels of prospective immigrants are one topic that could, from the perspective of the U.S., appear as an interesting area for analysis.

In comparison to other countries, the U.S. does not maintain a skills-based immigration system. DHS data show that, of the 1.2 million green cards issued in 2016, 60,000 (5 percent) were "employment-based" and granted on the basis of the recipient's future labor market contributions. Foreign-born U.S. residents contribute less, on average, to U.S. GDP than the average for native-born Americans, although the gap has been shrinking over time. In contrast, Australia maintains a skills-based immigration system in which more than two-thirds of visas were awarded based on recipient skills and their potential contribution to the Australian economy. A shift in U.S. immigration policy towards a more skill-based approach would provide a boost to U.S. GDP and reduce any pressure incoming, lower-skilled migrants might place on the incomes of lower wage Americans.

RESPONSE FROM DR. KEVIN HASSETT TO QUESTIONS FOR THE RECORD SUBMITTED BY SENATOR KLOBUCHAR

Over 97% of all Deferred Action for Childhood Arrivals (DACA) recipients are currently working or attending school. One recent study from the Center for American Progress estimated that ending DACA would cost the United States over $400 billion over the next 10 years. At your hearing, you stated that you have not conducted an estimate of the economic impact of ending DACA but would be happy to conduct such a study and report the results.

Please provide an analysis of the likely economic impact of ending DACA and terminating work authorization for DACA recipients.

The net economic effect of any change to the status quo with regards to DACA and work authorizations depends on the policy that follows the change to the status quo. It is all but impossible, then, to forecast the effects of a scenario that entails the end of a specific policy but offers no information on the policy regime that follows the end of the status quo.

Nonetheless, any analysis involving DACA illustrates the complexity of the economic analysis of immigration, and the importance of the composition as well as the volume of immigration in determining the expected economic effects of immigration.

RESPONSE FROM DR. KEVIN HASSETT TO QUESTIONS FOR THE RECORD SUBMITTED BY REPRESENTATIVE MALONEY

1) In the Economic Report of the President, you project real GDP growth over 3.1 percent in 2018 and above 3 percent annually through 2020. In contrast, the President has said many times that he expects GDP growth over 4 percent, and on Dec. 6, 2017, he said at a Cabinet meeting that "I see no reason why we don't go to 4, 5, even 6 percent." Do you think this is realistic? You said at the hearing that your job is to give the President objective advice. What objective advice did you provide or would you provide to the President about his statement?

Historically, when the economy achieves growth of 3.0 percent over the four quarters of a calendar year, very rarely does that occur through repeated quarterly observations of 3.0 percent annualized growth. Rather, in any given quarter, we tend to observe growth rates that are higher or lower than 3 percent in a given quarter. If growth rises to 3.0 percent at an annualized rate, then, it seems very likely growth in some quarters will exceed 3 percent. There is no reason to doubt that growth in such a year could rise to the values the President mentioned in at least one quarter. That said, however, growth would have to be lower than 3 percent in at least one other quarter of the year if it were higher than 3 percent in at least one quarter in order for it to average to 3 percent for the year as a whole.

2) During the campaign last year, Donald Trump said that the U–3 unemployment rate published by the Bureau of Labor Statistics is "phony," "false," "fake," "a complete fraud," and "total fiction." Do you agree with him that the U–3 is a bogus indicator of unemployment in the United States? A year later, he now takes credit for the same U–3 unemployment rate—pointing to the fact that it continued to drop during his Administration to 4.1 percent. Which time was he wrong about whether the U–3 is a reliable indicator?

Reasonable people can disagree on when the U–3 is an appropriate measure of labor market performance. There are good arguments in favor of using it in some circumstances, and good arguments against U–3's relevance in other circumstances. It is not the case, then, that there is any contradiction of logic that necessarily arises by doubting the U–3's relevance as a metric of labor market health at one point in time but not at another. No labor market statistic is a perfect measure in every set of circumstances.

To dive into the weeds: the U–3 measure of unemployment is defined as (number of unemployed) divided by (the number of unemployed plus the number of employed). This measure misses a potentially important part of the population who are "not currently looking for work" but, under certain conditions, could and would work. So in that sense it has some limitations in measuring tightness in the labor market—during recessions it fails to show the importance of movements out of the labor force from employment by discouraged workers. And, during recoveries, it fails to acknowledge the potential movement back in the labor force of these discouraged workers to employment. Looking solely at U–3 unemployment rates, then, misses these "discouraged workers" and the true impact of the Great Recession on employment. Likewise, the low current unemployment rates that have resulted from our

long but slow recovery may understate the number of "potential workers" who are currently on the sidelines but who are likely to come back in the labor force by "looking for work" and/or finding it and becoming employed.

3) In the Economic Report the President, you write extensively about the economic benefits of deregulation. I'd like to consider the case of the Consumer Financial Protection Bureau, which has written new rules concerning predatory payday lenders, established new mortgage standards, banned forced arbitration, written rules to protect users of pre-paid cards, and proposed regulations to protect consumers against other predatory practices. Is there an economic rationale for such regulations? What is the cost to consumers and to businesses that don't prey on their customers when there is a lack of such regulation? How do fair and strong regulations help markets and the economy as a whole? Which of the regulations listed above would you roll back?

There can be a rationale for regulation in most sectors of the economy, including consumer financial regulation. But the possibility of a rationale for regulation does not preclude the possibility that the costs of a regulation exceed its benefits. As an economist, the task at hand when it comes to any specific regulation promulgated by the CFPB or another agency is figuring out whether the benefits in fact outweigh the costs in practice, rather than to imagine circumstances in which the benefits in principle could outweigh the costs.

The economic rationale for any regulation depends on whether the benefits, in aggregate, outweigh the costs, in aggregate. CEA would demur from commenting on specific CFPB regulations. But CEA would point out that, even abstracting away from the distinction between producers and consumers, even a regulation that harms some consumers could benefit other consumers. Regulations, in consumer finance as elsewhere, have unintended costs in addition to the intended benefits intimated in the questions. And, from an economic perspective, as the Economic Report of the President explains, the challenge is to weigh the totality of these costs and benefits in order to ensure only those regulations for which the intended and unintended benefits exceed the intended and unintended costs remain in place.

4) Nearly years ago, we experienced what former Federal Reserve Chair Ben Bernanke called the "the worst financial crisis in global history, including the Great Depression." This led to a devastating recession that Barack Obama inherited from his predecessor.

From the worst of that recession until the end of the Obama administration:

- **Unemployment dropped almost in half from its recession peak of about 10 percent to under 5 percent.**
- **African-American unemployment was cut nearly in half, from over 16 percent to approximately 8 percent.**
- **Hispanic and Latino unemployment was cut more than in half, from approximately 13 percent to under 6 percent.**
- **We experienced 80 consecutive months of private-sector job growth, and saw the creation of over 15 million jobs.**
- **Household wealth increased by more than $35 trillion**
- **Housing prices recovered overall, and**
- **The Dow rose 12,000 points.**

How would you compare the economy Donald Trump inherited from his predecessor to the economy Barack Obama inherited from his predecessor? Do you agree with President Trump's claim that the economy was a disaster at the end of the Obama administration?

One reasonable way to benchmark the performance of the economy under any President is to look at how their policies influenced the performance of the economy relative to a counterfactual in which the President's policies did not happen. Invoking statistics that show declines from recession peaks to make an inference about the positive the impact of President Obama's policies, however, does not seem to be an exercise that is grounded in the economics literature. The economics literature shows that deeper recessions tend to be followed by faster recoveries. And so statistics documenting the upturn in the economy relative to recession troughs, it seems, do not necessarily show that Obama's policies had a positive impact on the recovery. In fact, in the Economic Report of the President (2018), we find that Obama's policies in fact slowed growth in the recovery years relative to what it would otherwise have been.

Chapter 3 of the Economic Report of the President (2018) focuses on two indicators of macroeconomic performance and their trajectory during the course of the recovery period under Obama: GDP per capita, and median income. More importantly,

in measuring longer-term trends in economic growth, the economics profession focuses on a peak to peak measure of a given business cycle rather than fluctuations (peak to trough to peak) within it. Doing so, the growth rate of real GDP from the beginning of this business cycle until President Trump took office (2007–2016) averaged 1.4 percent per year, the slowest growth of any post-World War II business cycle. The same is the case for GDP per capita. Moreover, the post-recession recovery in the median American's total household income after the 2008 downturn was the slowest on record. It is this slowness in the economic growth of this business cycle and the lack of progress of the "middle class" as measured by median income that includes years when both President Bush and President Obama held office which motivated President Trump's economic policies in his first year.

It is worth noting that the evidence that Obama's policies slowed growth appears the strongest for the years towards the end of President Obama's second term.

RESPONSE FROM DR. KEVIN HASSETT TO QUESTIONS FOR THE RECORD SUBMITTED BY REPRESENTATIVE LAHOOD

According to NOAA, the 2017 Atlantic hurricane season was the first time that three Category 4 hurricanes—Harvey, Irma, and Maria—made landfall in the United States and its territories in one year. It was estimated earlier this year that the insured losses from these three hurricanes came in at $100 billion.

In terms of the tragic California wildfires from last fall, Aon Benfield estimated insured losses at $8 billion late last year.

While it is not discussed a lot, our property and casualty insurance sector and our State-based insurance regulatory regime has been very effective in terms of having solvent insurance companies pay out the promises made via their insurance contracts with their policyholders. We all remember the 2007–2008 housing bubble burst and the negative impact of that bubble bursting on homeowners and the Federal Government's response through creation of TARP and enactment of Dodd-Frank. The conservative solvency-based regulatory regime here in the U.S. does a pretty good job in terms of ensuring that property and casualty insurance companies have the wherewithal to pay out claims as a result of a hurricane, wildfire, or other covered loss.

Chairman Hassett, would you care to comment on the importance our domestic property & casualty insurance sector plays in terms of playing the role of an economic "shock absorber" in a post-natural disaster scenario and any suggestions for improving our insurance regulatory regime?

The U.S. insurance industry is the largest, most competitive, and most diverse in the world. The industry provides important retirement planning tools for individuals, and its products allow both commercial and individual policyholders to obtain protection for a range of risks. Relying on the financial security provided by this risk transfer, policyholders are able to direct resources that they otherwise would have to reserve for such uncertainties to productive economic activity, such as capital investment.

The complexity of the tradeoffs involved in insurance policy seem difficult to overstate, and property & casualty insurance seems to be no exception to this rule. Regulations to increase the ability of insurers to withstand "extreme" scenarios, for instance, may have the unintended consequence of harming consumers who are among the most-vulnerable and least able to withstanding property damage by raising premiums to levels they would find difficult to afford.

As you point out, the domestic property & casualty insurance markets in the U.S. appear to have withstood recent events without experiencing distress at the industry level. Policyholders received what they were promised in exchange for their premium payments. Given the implications that the affordability of property and casualty insurance can have for households, and the nonrandom distribution of households' ability to absorb financial shocks, an assessment of expected costs and benefits that does justice to the complexity of the subject at hand would be required before—as an economist—it would make sense to offer recommendations to improve a system that appears to be functioning well in the status quo.

RESPONSE FROM DR. KEVIN HASSETT TO QUESTIONS FOR THE RECORD SUBMITTED BY REPRESENTATIVE SCHWEIKERT

How will uncertainty in the access to foreign markets affect the ability for U.S. companies to plan long term, specifically in the circumstance of

NAFTA, where companies are having to build and plan for complicated capital investment intensive cross border supply chains? Given the environment of uncertainty surrounding the NAFTA renegotiations, what are the short-term consequences to the economy of companies being unable to plan for the future? With major portions of the economy unable to plan long term, what is the potential for this instability to freeze up capital investments domestically?

The economics literature documents that, holding everything else constant, policy uncertainty decreased economic activity across a range of margins of adjustment. One of these margins is capital investment. But, in a historic trade negotiation, focusing on the short-term effects of the negotiation itself is tantamount to focusing on a transaction cost while ignoring the intended long-run consequences of the transaction itself.

While I cannot comment on any specific ongoing trade negotiation, the President intends to deliver long-term benefits by reducing the asymmetries between U.S. trade barriers and those of our foreign counterparts. And the economics literature would certainly support the notion that there would be long-run benefits to the U.S. economy if foreign counterparts lowered their barriers to U.S. exports. It would be difficult to make much sense of the net effects of any ongoing trade policy issue, however, without situating the short-term costs in the context of the long-term benefits the trade policy in question is intended to deliver.

Tariffs on aluminum and steel based on Section 232 of the Trade Expansion Act of 1962 (19 U.S.C. 186c) could lead to the protection of several thousand jobs, at the expense of tens of thousands of jobs being lost. How would a trade dispute that cost tens of thousands of American jobs affect the U.S. economy and economic growth?

CEA provides objective economic analysis based on the best available evidence, and assists with the evaluation of the economic tradeoffs implied by a set of current or prospective policy decisions. The purpose of the present Section 232 actions is to prevent imports from impairing U.S. national security [by "weakening our internal economy"]. That determination by its nature requires, in addition to the economic costs and benefits intimated in the question, the consideration of national security concerns. But national security considerations are not CEA's core expertise, and it is ultimately up to the President to weigh both the economic and national security implications of policy choices as he formulates policy.

In the long-run, however, the distinction between national security and economic concerns can blur more than in the short-run. It is tough to understand the history of the U.S. economy since World War II, for instance, without some reference to the Cold War and its aftermath. But CEA is not well-positioned to assess impacts of the Section 232 that accrue through national security driven channels at this point in time.

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