

Chairman Whitehouse, Ranking Member Grassley, and Senators of the Committee,

Thank you for the opportunity to testify today on the enormous benefits the American people realize from having a pro-growth tax code. I have been a finance professor for more than twenty years and had the privilege of serving as the Assistant Secretary for Economic Policy at the Department of Treasury from 2019 to 2021. In that role, I worked on the economic projections included with the administration's budget submission, including research on the historic prosperity that was generated following enactment of the Tax Cuts and Jobs Act (TCJA).

Today, the American people are suffering from the harmful effects of inflation and declining real wages. As a result of excessive federal spending and an onerous regulatory approach, the American people have struggled with [average price increases](#) exceeding 19% since President Biden took office. Over that same period, [average weekly earnings](#) have risen just 14.6%. For the average household, their hard work buys \$2,300 less per year than it did just four years ago.

This shock to family budgets is before one incorporates the impact of higher interest rates on the ability of particularly young households who are looking to upgrade their car or purchase their first home. According to [recent work by former Clinton Treasury Secretary and former Obama NEC Director Larry Summers and co-authors](#), the inflation rate over the past couple of years would have been more than twice the stated number if one were to include borrowing costs in the inflation calculation, as was done before 1983. When President Trump left office, the mortgage payment on a loan that would buy the [median priced house](#) in this Nation was approximately \$1,390.¹ At the end of last year, the median priced home would now have a monthly payment of more than \$2,900.

Better policies can reduce inflation. As we saw during the Trump Administration, a focus on American energy dominance, lower federal spending, reigning in the unnecessary regulatory red tape, and pro-growth tax reform are policies that have proven incredibly successful in generating shared economic prosperity.²

The solution is not to raise taxes even further on the American people. [President Biden's Twitter account posted about TCJA](#) "That tax cut is going to expire. If I'm reelected, it's going to stay expired." At the America First Policy Institute, we have estimated that for a family of four making \$100,000, full expiration of TCJA means a tax increase of \$2,275. For a young couple just starting out making a combined \$60,000 who are trying to save for their first home, it means a tax increase of \$700 or more. It's no wonder that [91% of Generation Z](#) consider housing affordability to be a top issue for them.

Today's hearing is about finding new taxes – such as a financial transactions tax -- that would further reduce American's wages, savings, and investment income, all to fund even larger government.

¹ This monthly payment is calculated as the fully amortizing principal and interest payment on the entire purchase price using the [average 30-year mortgage rate](#) in the corresponding quarter.

² For a complete review of the impacts of fiscal policy on inflation, see John Cochrane's "[The Fiscal Theory of the Price Level](#)".

Let's start with setting the facts straight about the tax environment after TCJA was implemented. In fiscal year 2022, [federal receipts](#) were the equivalent of 19 percent of the aggregate economic output of our nation, the second highest since World War II. Between [fiscal year 2017](#) (pre-TCJA) and [fiscal year 2022](#), corporate income tax payments rose from \$297 billion to \$425 billion, an increase of 43%. Personal income tax collections rose from \$1.587 trillion in 2017 to \$2.632 trillion in 2022, an increase of 66%. Over that same five-year period, inflation was 20% (primarily in 2021 and 2022) so these revenues to the federal government grew much faster than inflation.

We do not have a revenue problem; we have a spending problem. Federal outlays between fiscal year 2017 and fiscal year 2022 have grown from \$3.98 trillion to \$6.27 trillion over that same five-year period. According to the Congressional Budget Office's latest ten-year [Budget and Economic Outlook](#), spending for the next ten years will continue to be in the 23% to 24% of GDP range, far in excess of the 20.3% it averaged in the fifty years before the pandemic. While a national emergency may necessitate significant, temporarily elevated spending, such deficit-causing high spending in times of a 4% unemployment rate and moderate economic growth will be inflationary. Running large budget deficits to fund more subsidies for housing, energy, and higher education will just cause prices to rise even further. That is why [Larry Summers](#) characterized the economic policies of this administration as "the least responsible macroeconomic policies we've had in the last 40 years."

Moving to who pays taxes, according to [recent data issued by the Internal Revenue Service](#), in fiscal year 2021 (the latest year for which the data has been made publicly available), the top five percent of households realized 42% of the aggregate adjusted gross income in our country yet paid 65.6% of total federal income taxes. For the top one percent of households, they earned 26.3% of total adjusted gross income but paid 45.8% of total federal income taxes. The bottom 70% of households earned 23.3% of aggregate income but post-TCJA, they are responsible for just 8.2% of federal income taxes. The United States has one of the most progressive income tax codes in the developed world and TCJA made it more progressive. The question each of you have to ask yourself is does paying your fair share mean handing over more than half of every extra dollar earned to the IRS?

On the corporate tax side, our tax code was internationally uncompetitive prior to the changes that were made by TCJA. As stated in the [2018 Economic Report of the President](#), "[i]n 2016, the average top statutory corporate tax rate (combined subnational and national) in OECD countries excluding the U.S. was 24.2 percent, and corporate tax revenue totaled 3.0 percent of GDP. In comparison, the combined (State and Federal) top statutory corporate tax rate in the U.S. was 38.9 percent, while corporate tax revenue was only 2.2 percent of GDP." TCJA lowered the marginal tax rate to 21% and created immediate expensing of new capital equipment purchases (Bonus Depreciation). It also moved the U.S. toward a territorial tax system while imposing limits on the ability of multinationals to move taxable income abroad, and it capped certain deductions. Instead of the U.S. having the highest corporate income tax environment in the industrialized world, TCJA aligned the corporate tax rate with what corporations were paying in much of the rest of the world, further incentivizing economic activity to take place and be

recognized here. The [result](#) was that capital investment accelerated well above what was projected prior to its enactment, more than \$1.7 trillion of foreign capital has been repatriated, and tax inversions have essentially ended.

Allowing many of the pro-growth TCJA provisions to expire and raising the corporate income tax rate would reverse the gains that we have made. While one may think that the higher tax rates would generate greater tax receipts for the government, the Laffer Curve explains that higher rates deter economic activity, so a higher tax rate is paid on less income, potentially resulting in less income for the government, not more. Less economic activity and the same or lower revenue to the government will not solve our budget, inflation, or growth challenges.

Tax reform that is pro-growth is also pro-worker. While some of the changes in corporate tax rates pass through to investors, lower corporate taxes also result in lower prices for consumers and higher wages for working families. [Research by Desai, Foley, and Hines \(2007\)](#) relies on wage data for U.S. multinationals to assess the relative share of the corporate tax burden borne by labor. They find that between 45% and 75% of corporate taxes flow through to employees, implying that the TCJA benefitted American workers directly by lowering their personal tax rates and indirectly by increasing their weekly earnings. [Other recent work](#) finds evidence that consumers likewise bear a significant percentage of increased tax rates through changes in the cost of the goods they rely upon.

This academic work is consistent with the economic prosperity our nation realized immediately following the Trump Administration's enactment of the 2017 Tax Cuts and Jobs Act (TCJA). [Wage growth](#) was faster among workers with lower incomes and those with less than a college degree than among college graduates and those with the highest incomes. Overall, inflation-adjusted income for the typical American family [rose by 10 percent](#) between 2016 and 2019, with incomes jumping a record \$4,400 in 2019 alone. Contrast that with greater government spending, regulation, and ongoing threats of higher taxation from the Biden administration that have resulted in [inflation-adjusted household incomes](#) falling \$2,080 since the year 2020. Excessive taxation at all levels of the income distribution slows down economic activity.

In addition, the economy grew faster after TCJA passage, realizing the longest economic expansion in our Nation's history. During the Obama Administration, growth in [Real Gross Domestic Product](#) averaged 2.0%. During the first three years of the Trump Administration, it rose to 2.8%. What is particularly remarkable about this result is that it occurred toward the end of the expansion. Normally, higher growth would be seen on the front end of an economic expansion when emerging from a recession.

Some are proposing a wealth tax to punish successful entrepreneurs who have created transformational businesses that improve the lives of millions of their fellow Americans. Currently, owners pay income and capital gains taxes when they are liquidating a portion of their ownership stake in their business. When all the capital stays in the business and is reinvested to expand the benefits of their venture for their customers and workers, taxes on the growth in value are deferred and their ownership of their business is unchanged. Taxing unrealized capital gains

would drive away long-term venture capital investments in leading industries like life-saving biotechnology and low-cost, reliable energy where cash flows often are not realized for ten years. To maintain American competitiveness and to continue leading the world in innovation, long-term capital investments should continue to be taxed when earnings are realized, not when it is speculated that they might one day materialize.

Likewise, some are looking to enact a financial transaction tax, which is essentially a fee on trading that will get passed along to the American people. The reason we like low costs on trading financial assets is because it improves price discovery in markets. As new information arises, informed traders alter their portfolio to quickly reflect these changes in economic circumstances. This means that when average Americans who accumulated savings while working and invested that money until they needed it are more likely to be able to originally buy those assets and later sell those investments at efficient prices. Recent work by [Buss and Dumas \(2019\)](#) “incorporate trading fees into a dynamic, multiagent general-equilibrium model” and find that “welfare decline[s] with trading fees, while risk premia and volatilities increase.” Several countries have [enacted and then quickly repealed](#) a Financial Transactions Tax. [Sweden, for instance](#), enacted a financial transactions tax in 1984, after which trading volume declined precipitously. When the tax was finally repealed in its entirety in 1991, trading volumes began growing rapidly once more.

Consistent with these findings, [it was announced last week](#) that a set of investors are looking to open a new stock exchange in Texas to compete with New York. Onerous taxes are one reason why a number of financial firms are looking for alternative places to do business. Higher corporate tax rates, personal tax rates, and financial transactions taxes at the national level will just encourage capital to relocate outside of our shores. Adding higher taxes on top of the growing regulatory burden coming from the SEC would just accelerate the movement of innovation offshore and further degrade our position as the financial capital of the world.

Such a move has serious implications for our national security, not just our economic security. As the world’s reserve currency home to the most liquid, highly capitalized financial markets in the world, we have enormous leverage around the world to monitor financial flows that fund illicit activities such as terrorism, arms dealing, drug smuggling, sex trafficking, and tax evasion. Congress should not erode one of our most important foreign policy tools – the use of sanctions – by creating an environment that encourages financial activity to move outside our jurisdiction.

Yet many of the same people calling for higher corporate and personal income tax rates are advocating that we repeal the cap on deductions for state and local income tax (SALT) payments. Before TCJA, wealthy Americans in states like New York and California faced lower federal income taxes than people earning the same income in other states because the federal income tax code subsidized high-tax state and local governments. The SALT cap meant that well-off individuals in all states had similar federal tax obligations. It also meant that the federal government was no longer offering a perverse incentive to grow state government through this implicit subsidy. According to a [2021 study by the Tax Policy Center](#), “Seventy percent of the benefit [of repealing the \$10,000 federal cap on the state and local tax (SALT) deduction] would

go to those making \$500,000 or more. At the same time, 96 percent of middle-income households, those making between about \$52,000 and \$93,000 annually, would get no tax reduction at all.” Another [2021 study](#) found that over 50 percent of the benefit would accrue to just four states.

Our Nation needs to address the staggering budget deficits that have put us on an unsustainable fiscal path. Rather than raising taxes and taking even more money out of the productive side of our economy, the American people would benefit by repealing the [trillion dollars of green corporate welfare](#) in the IRA, stop the Biden Administration’s illegal student loan forgiveness activities, return non-defense discretionary spending to pre-pandemic levels, and reverse the regulatory burden that has caused inflation and high interest rates that have made debt service costs now larger than what we spend on defense or Medicare.

Hardworking American families deserve federal policies that reward work and raise standards of living. Extending the personal tax rates for individuals and small businesses enables families to spend more of their money on things that make their lives better rather than funding ever-growing government programs.

Thank you for including me in today’s important discussion and I look forward to answering your questions.