Testimony of Dr. Tyler Goodspeed before the U.S. Senate Committee on the Budget

To: Members of the Committee on the Budget
From: Dr. Tyler Goodspeed
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Subject: Full Committee Hearing entitled, "Reducing Inequality, Fueling Growth: How Public Investment Promotes Prosperity for All"

Chairman Whitehouse, Ranking Member Grassley, and Members of the Committee:

Thank you for the opportunity to speak with you today about the important topics of inequality and economic growth.

From 2017 to 2021 I had the honor of successively serving as Senior Economist, Chief Economist for Macroeconomic Policy, Member, and Acting Chairman of the President's Council of Economic Advisers. During this time, a primary economic policy of the Trump administration was not only to deliver maximum sustainable economic growth, in accordance with the Employment Act of 1946, but also to do so in a way that delivered real economic gains across the income and wealth distributions, especially for those who had been left behind during the preceding recovery.

To that end, the administration pursued a tax and regulatory agenda designed to incentivize private domestic capital formation and investment in more capital per worker; enhance labor demand by lowering the relative value of multinational enterprises' outside option; and incentivize greater labor force participation, in part by raising the after-tax rate of return on work for those for whom work required the incurrence of childcare costs.

In the aftermath of this combination of historic tax and regulatory reform, the U.S. labor market experienced one of the longest uninterrupted stretches of an unemployment rate at or below 4 percent on record, with the unemployment rate reaching 3.5 percent on the eve of the pandemic.

From the start of the economic recovery beginning in July 2009 through the end of 2016, real weekly wage growth for those in the bottom tenth of the wage distribution lagged real weekly wage growth for those in the top tenth of the distribution; real weekly wage growth for production and nonsupervisory workers lagged real weekly wage growth for supervisors and managers; real weekly wage growth for Black or African American workers lagged real weekly wage growth for White Americans; and real weekly wage growth for those without a college degree lagged real weekly wage growth for those with a college degree.

In contrast, from January 2017 through February 2020 (2017:Q1 through 2019:Q4 for quarterly data), real weekly wage growth for those in the bottom tenth of the wage distribution rose at more than twice the pace of real weekly wage growth for those in the top tenth of the distribution; real weekly wage growth for production and nonsupervisory workers rose at more than twice the pace of real weekly wage growth for supervisors and managers; real weekly wage growth for Black or African American workers outpaced real weekly wage growth for White Americans; and real weekly wage growth for those without a college degree outpaced real weekly wage growth for those with a college degree.

After falling sharply during the financial crisis of 2008 and 2009, real median household income rose slowly—on average just 1 percent per year—in the seven years of economic recovery through 2016, only re-attaining and surpassing its 2007, pre-crisis level in 2016. Thereafter, in the three years leading up to the 2020 pandemic, real median household income rose at more than three times the pace of the preceding seven, increasing by $5,220 in 2019 alone, the largest single-year increase on record. The official poverty rate fell to a record low of 10.5 percent, with the number of Americans living in poverty declining by 6.6 million in the three years through 2019.

After rising throughout most of the economic recovery through 2016, household income inequality, as measured by the Gini coefficient, declined in 2018 and 2019. Labor compensation's share of Gross Domestic Product, which had fallen sharply in 2008-10 and had been falling throughout most of the period since 2000, rose in 2019.

Unfortunately, in the 2.5 years since the end of the pandemic recession and arrival of effective COVID vaccines, the U.S. economy has not experienced a repetition of the same broad-based gains as those observed in 2018 and 2019. Though real weekly wage growth since 2020 for production workers, Black or African American workers, and workers without a college degree has been relatively stronger than real weekly wage growth for managers, white workers, and workers with a college degree, respectively, in absolute terms real weekly wage growth has been negative across all of these groups. In 2022, real median household income declined by $1,750—a bigger decline than during both the 2020 pandemic recession and the recession of 2001.

I look forward to participating in this important conversation, and to sharing my perspective on how the U.S. economy and U.S. labor market might return to the large, broad-based economic gains uniquely observed in the three years preceding the pandemic.