INFLATION: A PREVENTABLE CRISIS

HEARING

BEFORE THE

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AND FINANCIAL SERVICES

OF THE

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Written opening statements and statements for the witnesses are available on the U.S. House of Representatives Document Repository at: docs.house.gov.

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No additional documents were submitted for this hearing.

INFLATION: A PREVENTABLE CRISIS

Thursday, March 9, 2023

HOUSE OF REPRESENTATIVES
COMMITTEE ON OVERSIGHT AND ACCOUNTABILITY
SUBCOMMITTEE ON HEALTH CARE AND FINANCIAL SERVICES

Washington, D.C.

The Subcommittee met, pursuant to notice, at 2:06 p.m., in room 2247, Rayburn House Office Building, Hon. Lisa McClain [Chairwoman of the Subcommittee] presiding.

Present: Representatives McClain, Comer, Foxx, Grothman, Fry, Langworthy, Burlison, Porter, Balint, Lee, Casar, and Crockett.

Mrs. MCCLAIN. The Subcommittee on Health Care and Financial Services will come to order. Welcome, everybody.

Without objection, the Chair may declare a recess at any time.

I recognize myself for the purpose of making an opening statement.

Welcome to the first hearing of the Subcommittee on Health Care and Financial Services for the 118th Congress. To the witnesses, thank you very much for your attendance and participation in today's hearing on the inflation crisis.

I think it is most important to understand how we got here so we don't make the same mistakes going forward, and we can do better going forward. We first have to agree that we have a problem before we can fix it and move forward for the American people. When the pandemic began in March 2020, Congress and Federal agencies took quick action to deliver financial relief to the American people. Congress quickly enacted a series of five laws providing over $3.1 trillion in Federal funds to mitigate the economic and public health impact of the COVID–19 pandemic.

President Trump's pro-growth and pro-worker economy, created by the Tax Cuts and Job Act, and investing in American manufacturing, combined with the unparalleled response to the pandemic, created the fastest economic recovery in history. As a result, only $1.9 trillion of the COVID relief funds were spent by January 2021, leaving over a trillion dollars for further relief.

Between the start of the pandemic in March 2020 and March 2021, inflation rose 2.6 percent. The Food Index rose 3.5 percent. Energy services increased by only 4.1 percent, and gasoline prices increased by $0.67 to $2.89 a gallon. Instead of allowing these policies to continue supplementing the successful economic recovery efforts, Democrats jammed through Congress another $1.9 trillion, claiming it was for pandemic relief.

I want to remind everyone that we still had at that time $1 trillion leftover from the relief packages that we hadn't spent yet, and the definition of "inflation" is too many dollars chasing too few goods. Republicans and economic leaders of both parties, including Larry Summers, Greg Mankiw, and Michael Strain, warned that this completely unnecessary spending would put the economy at risk of inflation and possibly recession. Congressional Democrats simply did not listen to the experts. They were determined to spend more money. Government clearly has a spending problem. Then exactly what Republicans and economic experts predicted actually happened.

In 2020, inflation rose to a 40-year high. The price of groceries went through the roof, gas prices soared, and retirement accounts plummeted. Between March 2021 and March 2022, inflation rose 8.5 percent. The Food Index rose 8.8 percent, the largest increase since 1981. Welcome back, Jimmy Carter. The Energy Services Index rose by 13 percent, more than triple the rate it did the year prior under Trump despite the COVID–19 pandemic, and gasoline prices increased $1.43 to $4.32.

What was the Democrats' response? More spending. They pushed through the wrongly named, I might add, Inflation Reduction Act, another $740 billion boondoggle which did nothing to fight inflation, but it did spend more than $360 billion on climate policies and funded 87,000 IRS agents. I am not sure how that helps the pandemic, but this is on top of $3.1 trillion and $1.9 trillion. Democrats decided to spend even more money, and let me remind you that we still have left over money to this day from those relief packages.

Democrats' spending spree over last Congress drove the prices of groceries up by more than 11 percent. Their spending spree and attack on American energy caused Americans across the country to pay 27 percent more to heat their homes this winter. Inflation driven by Democrat policies made Michiganders choose between heating their homes and buying groceries. I don't know if you all know, but it gets cold in Michigan, especially this winter.

Then what was President Biden's solution to the skyrocketing energy inflation? He told Americans to buy expensive electric vehicles. Now, mind you, in Michigan, we didn't have the infrastructure, the charging stations, nor the money to buy these electric vehicles. But President Biden's "let them eat cake" response illustrates just how little he and congressional Democrats care about the impact of the reckless spending policies have had on working Americans.

This Committee stood on the sidelines for too long while Americans across the country were feeling the pressure of inflation brought on by the Biden administration and congressional Democrats. Today, we hear from experts to better understand how inflation could have been prevented and what this administration and Congress must do to address it. I thank you and look forward to your testimony.

I yield now to Ranking Member Porter, for her opening statements. Thank you.

Ms. PORTER. Thank you very much, Madam Chairwoman. It is great to join you at our first Subcommittee hearing together, and

I look forward to working across the aisle to oversee and strengthen our capitalist economy.

Today, we begin our work by discussing inflation. My Republican friends titled this hearing, "Inflation: A Preventable Crisis." So, I think our first task is to dig into what they think was preventable. Let's rule a few things out. We all know that Congress couldn't have prevented a once-in-a-century pandemic or Putin's illegal war in Ukraine. We all know Congress couldn't have prevented the strain on our supply chains when people started trading consumption of services for goods during COVID, and we all know Congress couldn't have immediately fixed our strained supply chains to reduce inflation. After all, it took decades for Washington to crack our supply chains by underinvesting in infrastructure, ignoring price gouging monopolies, and letting corporations offshore manufacturing.

So, we have ruled out Congress preventing the economic shocks and the resulting effects that led to inflation, but still, our Republican friends are suggesting that something about inflation was a choice. Well, I suppose it was a choice to help people suffering the economic impacts of COVID, but to me, that help wasn't really a choice. It was a necessity, but it seems like today's hearing could turn into a forum to blame American fiscal policy for the global phenomenon of inflation. If American fiscal policy created inflation as a crisis that is being felt in countries across the globe, then American fiscal policy should equally be able to solve that crisis.

So, what policies do Republicans think will solve global inflation? Is it deep cuts to social programs like Social Security and Medicare that would devastate our seniors and working families, or maybe it is just the REIN IN Act, which Republicans passed last week, which requires the President to consider the inflationary impact of executive orders. The problem is the REIN IN Act commissions a report. It is not a comprehensive look at the costs and benefits of executive orders. Does that really help us make more informed fiscal decisions, or is it just designed to discourage executive orders?

Either way, the REIN IN Act still just commissions reports. It takes no real action. If that was House Republicans' secret plan to fight inflation, it is going to be a long two years for American families. Either Republicans don't have a plan to address inflation while making life better for families, or they are too afraid to admit that their plan is to take away deeply popular and needed programs from the American people.

Let's contrast that with what Democrats have been up to. We passed the Inflation Reduction Act, which would cap the price of insulin for seniors, allow Medicare to negotiate drug prices, lower the cost of health insurance, and lower the cost of renewable energy, all while reining in inflation by paying down the national debt. We passed the Bipartisan Infrastructure Law to invest billions in our ports and airports to stop the supply chain bottlenecks that have spiked prices during the pandemic. We passed the CHIPS for America Act that will bring back domestic manufacturing that Washington let move overseas for decades, injecting competition and resiliency into our markets that lowers prices. And perhaps most importantly, we have had a President who has taken executive action to break up monopolies, chipping away at the power big corporations have enjoyed to gouge huge profit margins and raise prices on consumers. These are the kinds of actions that contain inflation, make life better for families, and shore up our economic resiliency.

Today, I am calling on House Republicans to please put forward your own plan to fight inflation that is at least as detailed as the Inflation Reduction Act. It is time the American people see where you stand, not see you grandstand. I yield back.

Mrs. MCCLAIN. Thank you, Ms. Porter. I am pleased to introduce our three witnesses today, who are experts in fiscal and monetary policy and can speak to the causes and long-term consequences of the current inflation crisis. Dr. Douglas Holtz-Eakin is the president and founder of the American Action Forum. From 2003 to 2005, he was the sixth Director of the nonpartisan Congressional Budget Office, which provides the budgetary and policy analysis to the U.S. Congress. He has a Ph.D. in economics from Princeton University. Welcome.

Dr. John Taylor is the Mary and Robert Raymond Professor of Economics at Stanford University and George P. Shultz Senior Fellow in economics at the Hoover Institute. He is known for his research on the foundations of modern monetary theory and policy, which has been applied by central banks and fiscal market analysts around the world. He has a Ph.D. in economics from Stanford University.

And Mr. Michael Konczal—did I say that correct? I am always struggling with names, so I apologize in advance—is the director of macroeconomic analysis at the Roosevelt Institute. A former financial engineer, he holds a B.A. in math and computer science and an M.S. in finance from the University of Illinois at Urbana Champaign.

Pursuant to the Committee Rule 9, the witnesses will please stand and raise their right hands.

Do you solemnly swear or affirm that the testimony that you are about to give is the truth, the whole truth, and nothing but the truth, so help you God?

[A chorus of ayes.]

Mrs. MCCLAIN. Let the record show that the witnesses all have answered in the affirmative.

We appreciate all of you being here today, and we look forward to your testimony. Let me remind the witnesses that we have read your written statements, and they will appear in full on the hearing record. Please limit your oral statements to five minutes. And as a reminder, please press the button on your microphone in front of you so that it is on and the Members can hear you. When you begin to speak, the light in front of you will turn green. After four minutes the light will turn yellow. When the red light comes on, your five minutes is expired, and we would ask that you please try and wrap it up as soon as possible.

I recognize the first witness to begin their opening statement.

STATEMENT OF DOUGLAS HOLTZ-EAKIN, PRESIDENT AND FOUNDER, AMERICAN ACTION FORUM

Mr. HOLTZ-EAKIN. Well, thank you, Chair McClain, and Ranking Member Porter, and Members of the Committee for the privilege of being here today. You have my written statement. Let me say three things briefly, and then I look forward to answering your questions.

Point No. 1 is that inflation really took root in 2021. At the beginning of 2021, in January, year-over-year CPI inflation was 1.4 percent. One year later, in January 2022, it was 7.5 percent. This marks one of only three years in which CPI inflation grew by six percentage points in a single year in the postwar United States. So, what are the sources of this sharp run up in 2021? Well, the Chair alluded to some of them in her opening remarks. One was excessive monetary stimulus. The Federal Reserve responded aggressively to the arrival of the pandemic recession, cut rates to zero, made an open-ended commitment to provide liquidity to markets, and, importantly, started buying $90 billion a month of Treasuries and mortgage-backed securities, and it continues to do so in 2021. Even as inflation started to creep up, it maintained this pace through the entire year.

In addition, there was excessive fiscal stimulus, the American Rescue Plan, $1.9 trillion in stimulus, was enacted in March 2021 at a time when the U.S. economy was growing at 6.5 percent. It was plain in the data, things like GDPNow at the Atlanta Fed showed that. At a time when the measured output gap between what GDP was running at and what its potential was, as calculated by my old shop, the Congressional Budget Office, that budget gap was $400 billion to $600 billion. You don't need a $1.9 trillion bill to close a $400 billion to $600 billion output gap, so it was just much too big and destined to cause macroeconomic disruptions.

And there were, as well, supply chain constraints from around the globe, but to the extent that you recognize supply constraints, you should be even more restrictive in your fiscal stimulus because it is only demand relative to supply that matters. So in 2021, inflation really, really ramped up, and that, I think, is the period that was most crucial and where the biggest policy errors were made.

Point No. 2 is that once inflation gets embedded in the economy, policymakers have essentially no good choices. Choice No. 1 is live with the inflation. When it got to 10 percent, that was clearly unpalatable. American households were deeply dissatisfied and being harmed by the inflation. The alternative is to live with the things necessary to bring it back into control, and that is a steady stream of bad news in the terms of house prices start going down, retail sales declining, slower growth in jobs in the labor market. And as a result, that initial policy, it gets compounded into further costs down the line as you deal with taking the inflation out of the system.

Point No. 3 is we are hardly done with this episode. In the most recent readings, CPI inflation was 6.4 percent year-over-year, well above two-percent target. The core, taking out the volatile food and energy components, was still at 5.6, but for me, the really striking numbers are food, energy, and shelter are 50 percent of the CPI. That is because they are about 50 percent of the typical family budget, and food, energy, and shelter still rising at 8.5 percent year-over-year. Go to the gasoline station, go to the grocery, go home and be reminded that your paycheck is nearly 10 percent less valuable than a year before.

And inside that, shelter is really the poster child for the inflation problem. Shelter is a third of the CPI. Year-over-year inflation, shelter inflation is 7.9 percent. It has risen every month since February 2021. We have yet to see a peak, and shelter isn't something that has a supply chain. It is in the United States. Shelter is a service, and services are the U.S. inflation problem right now. Goods price inflation has been, in fact, addressed to some extent, and the Federal Reserve, in particular, will need to do more to address the inflation problem.

I will just close with something which I find sort of slightly depressing on the inflation front. The Fed's preferred measure of inflation is a geeky thing called the market-based Price Index for personal consumption expenditures. We don't want to talk about that in public, but I will be happy to answer questions later. But it is really just indicative of what transactions are actually happening in the economy right now. When they started their tightening in April 2022, year-over-year market-based core PCE was 4.9 percent. In January 2023, it was 4.9 percent. That is very little progress on the underlying inflation, which means that as the tightening the Fed has done so far gets into neutral, there is more to do to really address the inflation.

So, I thank you for the chance to be here today, and I would be happy to answer your questions.

Mrs. McCLAIN. Thank you, sir. I appreciate your opening statement. I now recognize Dr. Taylor.

STATEMENT OF JOHN B. TAYLOR, MARY AND ROBERT RAYMOND PROFESSOR OF ECONOMICS, STANFORD UNIVERSITY, AND GEORGE P. SHULTZ SENIOR FELLOW IN ECONOMICS, HOOVER INSTITUTE

Mr. TAYLOR. Thank you, Chairwoman McClain and Ranking Member Porter, for inviting me to this important Subcommittee meeting. Inflation is such an important topic. I am going to focus most of my remarks on that, in particular, the monetary policy aspects of that.

For several years, starting back in 2017, the Fed began to move to a more rules-based monetary policy, and it worked well for the United States in 1980's, 1990's, and in other years. Many papers were written at the Fed and other places showing the benefits of the so-called rules-based policies. In July 2017, when Janet Yellen was the Chair of the Fed, a whole section on rules-based monetary policy was put in the monetary policy report. The target inflation rate was only two percent.

Many monetary policy experts made favorable comments about the rules-based policy. J. Powell, for example, said, "I find these rule prescriptions helpful." Evidence was that with the move toward rules-based policy was beneficial, economic performance improved. Unfortunately, this moved toward monetary policy rules was interrupted when the pandemic hit in 2020. First, rules were removed from the Fed's report. They were put back in in February 2021. Then rules were taken out again in February 2022. But Chair Powell, in answer to complaints from Members of Congress about rising inflation, said he would put the rules back in. And in the report released on June 17, 2022, policy rules were back.

This approach of including rules in the report has continued, and it appeared last Friday, in the March 3, 2023 report. A copy of the table is in my prepared testimony, but let me just mention the Taylor rule was first on the list. And the Fed admitted that throughout 2021 and 2022, the target range for the Federal funds rate was below the prescriptions of most simple rules. I think it is good that rules are back in the Fed's monetary policy report. It would be more helpful if the Fed formally incorporated rules into its actual decisions and apparently has been trying to do this recently. At first, only small changes were seen in actual monetary policy as inflation rose sharply, as you just heard. This was the case of the Fed and other central banks who are behind the curve. So, we are still living in a high inflation era, unless monetary policy actions are taken.

Events in Ukraine raised inflation, but not the basic story. Figure 1 in my prepared testimony shows the effective Federal funds rate through late 2022 through the present. The rate moved from 25 basis points to 4-and-a-half percent, but that is still probably too low. While the gap between the rules and the effective rate has narrowed, the huge discrepancy still exists.

During March 2022, the actual Federal funds rate was well behind the curve. Why? If we use the Taylor Rule, which is in the Fed's report, the most recent monetary policy report in particular, you plug in an inflation rate over the past four quarters of only four percent, a target inflation of two percent, which the Fed says we are still taking it to, an equilibrium interest rate of one percent, which is a consensus at this point, lower than I assumed originally, and the gap between real GDP and its potential of zero—we are pretty close to zero, low unemployment—then you get a Federal funds rate of six percent. These are mild assumptions. So, even with these mild inflation numbers, the Fed is still behind the curve, though, as Chair Powell indicated this week in testimony, they are still trying to catch up, so we will see.

My written testimony shows that the Fed got way behind the curve in detail compared to the rules-based monetary policy, and it says this is why inflation rose so much. The Fed has started on a method to get inflation back down. By reviewing the years leading up to the present situation, the formal testimony provides the background needed for analyzing the current and future monetary policy decisions.

There are now more reasons than ever for central banks, including the Fed, to use the more rules-based policy, to keep inflation at the two-percent target range. Central banks should start now on procedures or rules that markets understand. The policy interest rate would increase as inflation rises, as has now just begun to happen. It would, of course, be a contingency plan, as are all rules. This would greatly reduce the chances of a large, damaging change later. Thank you.

Mrs. MCCLAIN. Thank you. I appreciate your testimony. I now recognize Mr. Konczal.

STATEMENT OF MICHAEL KONCZAL, DIRECTOR OF MACROECONOMIC ANALYSIS, ROOSEVELT INSTITUTE, WASHINGTON, D.C.

Mr. KONCZAL. Chair McClain, Ranking Member Porter, and distinguished Members of Subcommittee, thank you for inviting me to testify at this hearing. My name is Mike Konczal, I am the director of macroeconomic analysis at the Roosevelt Institute.

Today I am going to speak about the causes of inflation that have been unique to this recovery, the progress we have made so far, and what policymakers can do to bring down inflation further. But first, it is important to remember this recovery has been remarkable. The economy has added more than 500,000 jobs each month for the past two years. There are now 4 million more jobs in the February 2021 CBO projection of what would have happened without the American Rescue Plan. In contrast to previous recessions, real GDP is recovering to projections of where it would have been without the pandemic, but we have also experienced inflation has been higher and more sustained than financial markets and the Federal Reserve projected.

There has been four key contributors to inflation during the past two years, and we have heard stories about people canceling gym memberships and buying home gym equipment instead. And the first contributor, the shift in demand from services to goods, has been aggregated across the entire economy. Second, vulnerabilities in our supply chains, many of which already lacked resiliency pre-COVID, led to skyrocketing prices for goods in summer of 2021, yet during this time, the prices for services did not fall. As the economy reopened, inflation and services picked up even as supply chains were still normalizing. This all mechanically increases inflation.

Third has been the change in demand for housing resulting from remote work, which now covers over a quarter of the work force. One study by the San Francisco Fed found that these shifting patterns of demand for housing explain half of the overall increases in house prices and rents during the past two years, all of which has been a major contributor to inflation. And fourth, Russia's invasion of Ukraine in February 2022 also increased inflation, especially through energy and food prices. Thanks to U.S.-led domestic and international efforts, especially the financial commitments in deploying and restocking the U.S. Strategic Petroleum Reserve, the CPI for inflation has come down to rates near the beginning of the war in recent months.

Now, what we don't see is if these explanations are sufficient to explain most of the shifts in inflation over the past two years. But if inflation was primarily the result of the Biden administration's policy, we would have expected to see certain things in the data, but we see the opposite. First, if too much demand was the main contributor of inflation, we would expect to see potential output, real GDP, or real consumption exceed pre-pandemic projections or trendlines. Where we would expect the big difference is the composition of them have changed.

Second, we would expect the United States to be globally unique, but instead, we see inflation increasing across the globe. All of the 40 countries the OECD collects data on saw higher core inflation across 2022 than in 2019. Of those 40, 28 of those 40 had higher inflation increases relative to 2019 than the United States. United States' increase in inflation has been lower than many European countries, like the U.K. and Germany, but also lower than countries not in Europe, such as Canada and Israel. Our inflation increase has been about the same as South Korea. This inflation is truly a global phenomenon. Now, our inflation picked up earlier in 2021 than peer countries, driven by price breaks and automobiles particularly, but our reopening growth started earlier and stronger as well. The IMF estimates that the U.S. growth will be twice the average of the Eurozone from 2020 to 2023.

A third thing is instead of seeing people not working, we have seen a rapid recovery in the labor force. Prime age employment to population ratios are near pre-pandemic levels and still growing. There are more workers working today than the CBO projected in 2019 that there would be at this point. Fourth, if unemployment was below a natural rate of unemployment, we expect nominal wages to be increasing and increasing fast. Instead, wages decelerated across 2022 to rates that, while still especially strong, are more consistent with lower inflation.

Now, there has been a lot of progress. Inflation is down almost half across the past three months compared to the first half of 2022 across a variety of metrics, roughly six percent to four percent, depending on what you are looking at. However, inflation is still higher than we want it to be, and there are still policy options we can use to speed its decline.

First is to raise or eliminate the debt ceiling. A financial crisis would be devastating to this economy, I don't need to say much more about that. Second is to recognize that a lot of tightening has taken place. Federal Reserve raised interest rates rapidly in 2022, almost five percent, close to the six percent, as the Taylor rule might suggest, and economists agree that these hikes slow the economy in long and variable lags. We don't want to administer too much medicine if we think we haven't seen all the effects of the previous around yet. Measures of housing inflation, in particular, which we know will fall from private sector analysts, take a long time to be incorporated in the official statistics.

Third is to look at corporate profit margins. Non-financial profits as a percent of GDP are at record levels. If corporate profits fall, it means we can have lower inflation while still keeping a strong job market. Fourth, we need to build more. Our infrastructure needs to become more resilient through successful deployment of the Inflation Reduction Act. And also, we need more housing, which was a challenge even before the pandemic. And fifth, we need to expand the labor force from everything, through higher immigration to expanded childcare. There are many job openings available, and this would make our economy stronger.

Thank you for your time, and I look forward to your questions.

Mrs. MCCLAIN. Thank you very much for all of your testimony and opening statement.

I am going to recognize myself for five minutes.

Dr. Holtz-Eakin, yes or no. Did the American Rescue Plan increase inflation?

Mr. HOLTZ-EAKIN. Yes.

Mrs. McCLAIN. Was it predictable that the American Rescue Plan would drive inflation so significantly?

Mr. HOLTZ-EAKIN. Yes. People said so at the time, notably Larry Summers, former Secretary of the Treasury, also an economist. History has given us examples just like the American Rescue Plan. In 1951, the U.S. economy was growing at 10.5 percent, quite rapid growth. Federal spending was increased by about 50 percent. That is roughly the American Rescue event, $2 trillion on a $4 trillion race, and inflation jumped by six percentage points that year. So, you get the big fiscal stimulus, and an accommodative Fed, and the high growth environment, you get inflation.

Mrs. McCLAIN. Thank you. Were the Democrats warned about these risks?

Mr. HOLTZ-EAKIN. Yes, there were public comments made by people about how undesirable this was and how large it was. There was testimony. I testified at the Senate Banking Committee about the risks of the American Rescue Plan and made the points I made today about how it is the wrong time for stimulus. We are growing rapidly. It is too big compared to the problem. I had some issues with the design. It wasn't really focused on COVID-related fallout in the economy. And so, there were lots of people who had expressed some concern over the scale and composition of the bill.

Mrs. McCLAIN. So, Democrats passed the legislation they knew would likely drive the country into its worst inflationary period in 40 years?

Mr. HOLTZ-EAKIN. I don't have any idea what the motivation is. The bill passed, and we have now seen the policy error.

Mrs. McCLAIN. And it is good to learn from our past mistakes.

Mr. HOLTZ-EAKIN. It would be nice if we did.

Mrs. McCLAIN. In your opinion, I would like to understand your definition of inflation.

Mr. HOLTZ-EAKIN. Inflation is a broad-based increase in the price level so that the dollar price of goods and services broadly in the economy rising.

Mrs. McCLAIN. OK. Thank you. In 2021, President Biden's then chief of staff, Ron Klain endorsed a tweet saying, "Inflation is a high-class problem." From Jason Furman, a Democrat who was President Obama's Chair of the Council of Economic Advisers, inflation is a high-class problem. Doctor, doesn't inflation affect middle-income and low-income Americans as well?

Mr. HOLTZ-EAKIN. You got a couple of doctors.

Mrs. McCLAIN. I got a couple of doctors. We will start with you.

Mr. HOLTZ-EAKIN. Yes, certainly. In my written testimony, I pointed out that if you look at the median income in the United States and you say 50 percent, it is going to food, energy and shelter. That is a $3,000 tax on food, energy, and shelter at current inflation rates. It is a real loss in purchasing power for other purposes because you have to devote it to those core elements.

Mrs. McCLAIN. Dr. Taylor, would you agree?

Mr. TAYLOR. Yes. I think the effects of inflation on a broad population are completely understated. That is why this two percent or whatever, I thought it should be 1.5 percent before they chose two. That is why I think it is so important.

Mrs. McCLAIN. Thank you, and a follow-up. In fact, according to several research institutions in the Fed, the inflationary crisis brought on by the Biden and congressional Democrats' reckless spending has disproportionately impacted low-income individuals. Shouldn't the Biden administration be forcing more help on Americans in need by actually addressing the inflationary crisis rather than minimizing the real pain inflation caused by their reckless actions? We can't fix a problem unless we first admit we have a problem.

Mr. HOLTZ-EAKIN. I think we all know we have an inflation problem. The question now is what is the best route to fixing it. My own opinion is that the Federal Reserve is, in fact, correct when Chairman Powell said that this is the Fed's problem. We have a mandate for price stability and full employment, and the only way to get to full employment is to restore price stability.

Within the Fed's strategies, I want to just note what Dr. Taylor said about the fact that their discretionary decisions thus far have left them way behind the curve. There was a large discussion about the uptick in inflation in the first half of 2021. They continued with the foot on the gas through the whole year and didn't begin tightening until early in 2022, and tightened too slowly.

Mrs. McCLAIN. I agree. Dr. Holtz, the Biden administration continues to claim that 70 percent of the increased inflation was due to Russia's invasion of Ukraine. Is that true? Big percentage?

Mr. HOLTZ-EAKIN. You can find a window where you can make that true, and they did. It was one month earlier last year. But broadly, the inflation problem really did take root in 2021, prior to the invasion, and I don't think explanations that point toward an invasion of Ukraine as the problem of inflation are correct.

Mrs. McCLAIN. Well, I am just looking at the facts. So, if I understand the facts correctly, and please correct me if I am wrong, when the President took office in January 2021, inflation was at 1.4 percent. By December of that year, inflation had risen, right, to seven percent, six percent jump, kind of a big jump in my opinion, but the war in Ukraine didn't start till the following February. So, those are the facts, right? I am not distorting the reality, and I am looking at the global picture.

Mr. HOLTZ-EAKIN. That is right, and that was in my written testimony as well.

Mrs. McCLAIN. So, how much of the inflation is due to Biden's policies versus how much is caused by Putin's invasion of Ukraine? I mean, we have to start talking about facts.

Mr. HOLTZ-EAKIN. So, a crude decomposition, as you put aside the invasion, which happens later, you compare Europe to the United States, as many people want to do. In 2021, European consumer price inflation rose about a percentage point each quarter, went from zero percent to four percent. That is because they shared the same supply chain problems the U.S. had. U.S. inflation got well above seven percent, and so there is part which is attributable to the impact of supply chain difficulties, but there is another part that is unquestionably excessive demand stimulus in the U.S.

Mrs. McCLAIN. Thank you. The Chair would like to recognize Mr. Casar. Did I say that right, Casar?

Mr. CASAR. Yes, thank you. Thank you so much. There is this false presumption that I think is talked about here in Congress that government spending always necessarily equals inflation, and my understanding is that that is just wrong. I want to go back to some basics here that we heard today. Prices can go up for a variety of reasons—supply demand mismatch, corporate greed, supply chain issues, war—and when prices go up, smart government interventions can have a role in bringing those prices down.

And I want to talk about one example, for example, investing in childcare when there is a smart investment by the Federal Government or local government to make sure that there is more childcare available for people, something I hear from my constituents, they need all the time, if we bring people back into the childcare work force, raise their wages, make sure that there is more small childcare operators available. Mr. Konczal, can you talk to us about whether smart, targeted government investments like this one to provide people more childcare options could actually bring prices down as opposed to driving them up?

Mr. KONCZAL. Yes, absolutely. So, a strong characteristic of this recovery has been a lot of job openings. Though the labor market has recovered quite rapidly to pre-pandemic levels, we knew pre-pandemic, we were still missing millions of people who could be working as a result of lack of access to childcare and lack of other kinds of care infrastructure, and that problem is still with us even after the pandemic. We also know that declines in immigration are probably putting pressure on labor markets and making it harder for employers to find workers that they could be filling the jobs.

Mr. CASAR. So, on top of potentially bringing childcare costs down by the government, subsidizing childcare, and helping open more childcare centers, what you are saying is also by having folks send their kids to that childcare, they could reenter the work force, increase productivity overall, overall increase supply, and, therefore, also drive prices down?

Mr. KONCZAL. Yes, absolutely. We knew this was a problem in 2019, and it still remains with us.

Mr. CASAR. And then long term, when you have those children participate in high-quality childcare, we know that their overall productivity goes up, their ability to innovate and find the career of their choice goes up in their adult life, and long term, that also increases our overall productivity, the overall strength of our economy, and that is anti-inflationary as well?

Mr. KONCZAL. In the long and medium term, it allows us to be much more productive and have a much higher level of output.

Mr. CASAR. I think that is really important because the false narrative that I think needs to not be constructed is that we shouldn't help folks when they are in need. The government shouldn't intervene and spend in smart ways, because the answer to any time congressional Democrats or the Biden administration want to do something good is that it is going to further inflation, then the answer is let's just not do much at all. But I, as a city council member, saw how the American Rescue Plan not only created millions of jobs, but saved people's lives. And if we make sure we make smart investments that actually support the American worker and bolster our economy, we can make those kinds of investments in ways that actually bring prices downward, and I think that your testimony makes that really clear. I appreciate that.

Mr. KONCZAL. Thank you.

Mr. CASAR. Thank you, and I yield my time back to Representative Balint.

Mrs. MCCLAIN. Thank you, Mr. Casar. OK. The Chair recognizes Dr. Foxx for five minutes.

Ms. FOXX. Thank you very much, Madam Chair, and thanks for our panelists being here, particularly Doug Holtz-Eakin. We haven't seen you in a little while. It is nice to see you, Dr. Taylor. Thank you very much to all of our panelists.

Dr. Holtz-Eakin, Federal officials and members of academia have used the term "transitory" to describe the current trend of inflation. Now, they have been saying that lately, but do you want to explain a little bit more about what you think they mean by that?

Mr. HOLTZ-EAKIN. Early in 2021, as inflation started rising from that 1.4 percent, I noted it. At the start of the year, there was a discussion about whether this was something that was transitory, would take care of itself and return toward 1.4 percent within the year, or if this was part of a longer trend that was more permanent and something the Fed would have to actively lean against to get back to the two percent target. For at least six months, perhaps longer, many Fed officials and analysts stuck to the notion that it was transitory and that no change in Federal reserve policy was necessary. By the second half of 2022, essentially, everyone had been in this notion. Inflation was clearly high, rising, and not a transitory phenomenon.

Ms. FOXX. Thank you. Dr. Taylor, last Congress, I introduced the Spending Safeguard Act, which would tamp down mandatory spending increases by establishing specific caps for new or reauthorized programs. How would legislation like this affect America's inflation?

Mr. TAYLOR. I think it would be a step in the right direction. This is in focus on the budget deficit. In my testimony, I focus on monetary policy, which I have looked at a lot, but the deficit is an issue. And you can wish it away, but it is there, and it is a very, very important factor, so actions like this are very important to take. Monetary policy is complicated. The tendency is, it is always easy to think about fiscal policy, but it is such a difference now in terms of monetary policy. That is why I focused on that.

Ms. FOXX. And you mentioned the deficit just now, so I will follow up. Do you think that really could be effective in lowering the deficit and the debt as well?

Mr. TAYLOR. Oh, yes. I think a policy is monetary, is fiscal, is regulatory, is international. We are focusing a lot on fiscal now because it is such a mess. We are focusing on monetary because it is such a mess, but don't forget the regulatory stuff. Don't forget the international stuff. It is very important. But I always say, yes, the fiscal side is so important, and it has exploded and needs to be brought back to normal.

Ms. FOXX. Yes. For my colleagues, we have agencies that have money that they can spend under mandatory spending, and an estimate comes from CBO, it is going to cost $100 million, and then they go out and spend $200 million because there is no cap. And so, my bill put a cap on it saying if it goes above 10 percent, you have to come back to us to get approval for it. It may not be trillions, but pennies add up. So, Dr. Taylor, in your opinion, is allocating trillions more in spending toward liberal initiatives like the Green New Deal an effective approach to addressing inflation?

Mr. TAYLOR. I don't think it is an issue really. It would be counterproductive to do this. In fact, it doesn't really matter too much of what you are spending on. It is a deficit itself, and it has caused a lot of problems. I think it is too big by any stretch of the imagination. It interferes with other kinds of policy, so that should be the focus, and I think what you describe, limits mandates, is an important part of this. We used to have thought about a balanced budget amendment at one point, so this is in that direction.

Ms. FOXX. OK. For both you and Dr. Holtz-Eakin, when do you anticipate inflation to return to pre-COVID levels, and what actions should the Biden administration, Congress, and the Federal Reserve be taking to meet that timeline?

Mr. TAYLOR. So, we can't predict inflation very well, but the stated goal of the Fed is to get it back to two. They will probably raise rates a little bit more. I know that has concerned people, but it is the best thing that I know that they could be doing. If they do that, then inflation will come down gradually, and that could be instantly—be lucky to be instantly—but come back to this two percent, which is the target we shouldn't give up on.

Mr. HOLTZ-EAKIN. At the time that the Fed launched this tightening cycle, Chairman Powell addressed the National Association for Business Economics and said it would take three years to get back to the two-percent target. In the interim, inflation has proven more stubborn than he had anticipated, and the terminal rate are going have to get to higher than they had anticipated. So, I think it will probably take longer than he anticipated.

Ms. FOXX. Thank you, Madam Chair. I apologize for going over. I yield back.

Mrs. MCCLAIN. Thank you. The Chair recognizes the gentlelady from Pennsylvania, Ms. Lee.

Ms. LEE. Thank you, Madam Chair. So, we have all seen personally back in our communities, right, how they are hurting. I have never seen eggs costing you $7 at Giant Eagle. Rents are rising, housing costs are only getting worse, but we know why. Inflation is hurting everyone globally because the pandemic was global. A war in Europe is impacting everyone. We know the reasons, but today, we really want to focus on solutions. So, Mr. Konczal, what policies could Congress pursue to further tackle inflation, in your opinion?

Mr. KONCZAL. I believe things that help us build more and expand our capacity would be very helpful, particularly in the housing sector. I think things that might raise taxes on rich people, in particular, to bring down the deficit to pay for important targeted investments, I think, would be very useful. I think letting the tightening that has already happened, seeing the impacts of it, I think that is actually quite important. And things that increase our labor force supply, such as childcare, immigration, other things I think would really help our work force.

Ms. LEE. Yes. Similarly, I think that listening to testimony and about the different causes of inflation, I think the one thing that we didn't maybe hear a lot about is corporate greed and price gouging. Gasoline prices now average more than $5 a gallon in Pittsburgh, and oil companies posted record profits this year, leading me to suspect price gouging at the pump. Pennsylvania has among the weakest laws in the Nation when it comes to investigating and preventing price gouging. What actions do you believe we can take at the Federal level to address corporate greed impacting my constituents?

Mr. KONCZAL. I think broadly speaking, we had a competition problem in 2019, and I think that competition problem is here now. It is important to remember that the labor share has fallen during this recovery; that is, workers' wages have gone up less than the prices. Workers are not driving the inflation. The inflation has been reflected in corporate profits. And so, I think things like competition coming online, that would bring down margins. Particularly we see prices that businesses pay have increased less than the prices consumers pay, which has shown up in these corporate profits. I think competition bringing that down and increasing the labor share, I think could do a lot to help alleviate inflation at the margins.

Ms. LEE. Thank you. In the wake of historic pandemic, ideally war, inflation rates now, is not the time to simply point fingers. I want to ensure we are doing work to get money back into the pockets of all the people in this country. I yield back, Madam Chair.

Mrs. MCCLAIN. The gentlelady yields.

Ms. BALINT. If I may, Madam Chair? One of the premises of this hearing is that the Biden policies have been reckless, that the policies of the Biden Administration have added to the deficit. And I just want to really be rooted in fact here, which is that the new budget that has been proposed will actually cut the deficit by nearly $3 trillion over the next 10 years. And that is really a stark contrast to what I am hearing from my colleagues, the Republicans' proposal, which would actually increase the national debt by $3 trillion over the next 10 years, and would continue to give big handouts to the rich, to big corporations, to special interests. And I just want to make sure that we are always keeping that fact at the center of this. We are here to try to work toward solutions, and I think it is really important that we are rooted in reality. I yield back.

Mrs. MCCLAIN. Thank you. The Chair now recognizes the gentleman from Wisconsin, Mr. Grothman.

Mr. GROTHMAN. Thank you. I am going to kind of follow up on some of the things Ms. Foxx said. Could you comment on the current Federal deficit or the total amount of Federal debt as to where it is historically as far as percentage GDP? Whichever one of you guys. You seem pretty bright. We will give you another shot.

Mr. HOLTZ-EAKIN. We are at roughly 100 percent of GDP, and we will shortly exceed the highest level relative to GDP in the history of the country.

Mr. GROTHMAN. Right, and I don't think people realize how much we are exceeding it. We were near 100 percent, I think, only for like one year, but have we been anywhere near 100 percent, say, for the last 75 years?

Mr. HOLTZ-EAKIN. The only comparable period was World War II, and so we are now even going to surpass the levels in World War II.

Mr. GROTHMAN. Right. We are around 100 percent, you are right. For most people on this panel, for most of our life, what were we around, 40 to 50 percent through the 1970's and 1980's?

Mr. HOLTZ-EAKIN. About 35 coming into the financial crisis, jumped to about 70 after the financial crisis. We are now at 100.

Mr. GROTHMAN. Right, so easily the most. Next thing I want to comment about GDP itself. We calculate that GDP is supposed to be a measure, I guess, of the wealth in society, OK? But if the government spends money on something, say that government spends money on childcare, the government spends money on some green initiative, something that not by itself is increasing the wealth of American society, or the government just spends more money on government bureaucrats, the government spends more money on IRS agents, what effect does that have on GDP?

Mr. HOLTZ-EAKIN. So, GDP is actually not a wealth measure. It is a measure of the——

Mr. GROTHMAN. I mean——

Mr. HOLTZ-EAKIN [continuing]. Production and goods and services in a year.

Mr. GROTHMAN. Right.

Mr. HOLTZ-EAKIN. It is an income——

Mr. GROTHMAN. Measure of income, right?

Mr. HOLTZ-EAKIN. It is an income measure, and one way to measure the income is to add up how it is spent. And so, if it is spent on government bureaucrats, or childcare, or something, that is one way to get a measure of it. Another way to get a measure of it is to look at all the people who are contributing to producing it, look at their wages, and their profits, and their rents, and things like that. So, those measures are just accounting classification.

Mr. GROTHMAN. Right. I guess the point I am trying to make is, normally when you say a country's GDP is expanding, you think of more cars, more houses, more dinners out or something, not just expanding government bureaucrats, but for the purpose of GDP, we are including things like hiring new bureaucrats, that sort of thing.

Mr. HOLTZ-EAKIN. Correct.

Mr. GROTHMAN. OK. Well, just kind of question here for you on just the Fed in general and something that the press has not adequately reported. When this COVID thing broke, we met with the Fed, or at least with Powell, and we were encouraged to spend as much as we could. And we were told that that would not lead to inflation, which I thought was preposterous at the time, but that is what we were told. Could you comment on that philosophy that spending recklessly, at least when we are in a—what do they call it, depression, recession, whatever—could not lead to inflation?

Mr. HOLTZ-EAKIN. I think that reflects two things. One was really the, I think, the recent history of the Fed coming out of the financial crisis where it felt that fiscal policy was not being used, and that all of the responsibility was up to the Fed to generate growth. And it simply can't do that, and it was unable to do that, and so it wanted some help in the face of a downtrend. That is point No. 1. Point No. 2 is, the Fed had publicly been quite celebratory of its tactic of keeping monetary policy quite accommodative, in like 2019, late in the cycle, and having unemployment get to record-low levels without generating inflation. And I think it believed that it was going back to a war world inflation, just wasn't going to where it said, but it was an error, and they have since admitted it was an error in judgment.

Mr. GROTHMAN. OK. Quick other things. In this budget, we have an increase in a variety of taxes, so I am going to ask you to comment on two things, first of all, because capital moves about. When we raise marginal rates in this country compared to other countries, what effect does that have on GDP?

Mr. HOLTZ-EAKIN. We lose capital to produce goods and services, and so it diminishes future GDP on the supply side.

Mr. GROTHMAN. So, it affects growth, right?

Mr. HOLTZ-EAKIN. Yes.

Mr. GROTHMAN. Rates, marginal rates and affects growth. Next thing along those lines, if we increase marginal rates, what effect does that have on wealth within the country? In other words, say, on an individual, and I am just kind of speaking the Laffer Curve here, that sort of thing. I wonder if you could comment on the effect of increased rates, be it on corporate business level or individual level?

Mr. HOLTZ-EAKIN. Well, I would be happy to get back to at length on the individual pieces, but I would just point out the corporate rate reverses something which is an undisguised success. Getting the U.S. rate down has changed the situation formula. We lost 10 headquarters a year on average in the decade leading up to 2017. We haven't lost a single U.S. headquarters since, and, indeed, the one company that was leaving then came back. So, these do affect location decisions, and we should be cognizant of that.

Mr. GROTHMAN. Thank you.

Mrs. MCCLAIN. Thank you. I want to thank my colleagues for pointing out that the President's budget reduces the deficit by $3 trillion. Another interesting fact I would like to add is the President's budget actually increases taxes by 4.5 trillion. Interesting, it only reduces the deficit by 3 trillion. But with that said, I would like to recognize the gentlewoman from Texas, Ms. Crockett.

Ms. CROCKETT. Thank you so much, Madam Chair, and thank you so much to all of you for being here. You definitely make me so happy that I did not do the economist side of things as I was supposed to do as a business major. So nevertheless, I just want to be clear about a few things because I feel as if the conversation is veering off in a couple of different ways. Can I have each of you agree with me or just say you disagree that inflation is a multifaceted issue? Yes or no.

Mr. HOLTZ-EAKIN. I am not even sure I understand the question, but I will say yes.

Ms. CROCKETT. OK. Dr. Taylor?

Mr. TAYLOR. It is multifaceted, but there are a few things that we know is a big factor in inflation, is the Fed.

Ms. CROCKETT. OK.

Mr. KONCZAL. Multiple causes to our current inflation.

Ms. CROCKETT. OK. Perfect. Along with that, would you all agree with me that the inflation that we are experiencing in the United States is not solely because of one person being in the White House, but this is inflation that has affected the entire world? Yes or no. I will start it this way.

Mr. KONCZAL. As of 2022, U.S. is not an outlier. There is an increase in inflation.

Ms. CROCKETT. Thank you so much.

Mr. TAYLOR. So, I think it is the Federal Reserve, and they have been followed now too slowly by the ECB and the other countries in Latin America. It is a global phenomenon.

Ms. CROCKETT. Thank you so much.

Mr. HOLTZ-EAKIN. It is global.

Ms. CROCKETT. Thank you so much, and I would agree with you that it is global. And I had the privilege of traveling on our last district work weekend, and I left the country, and I had some conversations about what they were experiencing economically, as well as conversations about how, say, those that threatened not to raise the debt ceiling, which I know we are not here to talk about that. But we have conflated the budget with debt ceiling conversations continually, so I just decided I will go ahead and conflate, continue on with the tradition of this House.

But in talking to them, I was curious to know, what did inflation look like to you, and surprisingly, it looked a lot like what it looked like here. They talked about supply chain issues as it relates to food. They talked about the war in Ukraine. I will admit that they did not talk about healthcare as much because, you know, in fact, I believe, in your opening statement, you mentioned Europe. Europe actually has universal healthcare. So, when you look at, say, a pandemic, we didn't have as many people that did not have health coverage. And I know about lacking in health coverage because in the great state of Texas, we have over 5 million people that are not covered. That tends to drive costs up when we increased the demand so much on the system that was really already on the brink and we weren't providing coverage, but that is yet another issue for another day.

I know there was just mention about tax cuts, and I will go to you. I am not going to slaughter your name. So, I am going to just go like this, right? So, the Trump tax cuts not only devastated this country's finances with deficits, but it also set the stage for inflation even before the pandemic. Would you agree with this statement or disagree?

Mr. KONCZAL. I am not sure. I need to know more context. It did not provide any kind of increase in investment that economists have found, which have left us in a worse position for our infrastructure and for our ability to produce.

Ms. CROCKETT. Absolutely. Thank you so much, and you would agree with me that it is important to invest. And let me ask you all this again because I like having all three of you all participate. You would agree with me that no one had a playbook for what to do in the midst of a pandemic, correct, in order to make sure we didn't suffer from the inflation that we are seeing?

Mr. HOLTZ-EAKIN. I guess I would tend to disagree. I think that in March 2020, what the Fed saw very clearly was across the economy—cash-flow crunches, liquidity crunches in the lingo—because the customers disappeared while hiding from the virus. And the Fed knows how to deal with liquidity shortages, and it dealt with them, and that was a playbook they ran from the financial crisis.

Ms. CROCKETT. I didn't want to get into it back and forth. I guess I am not going to get to you all because we only got 40 seconds. But for instance, I live in Dallas, and I believe that there is housing crisis all over the country. There are plenty of people we know right now. Commercial businesses are still complaining about the fact that people aren't going into the businesses, right? And so, we know that our work force has actually morphed into something else.

There are people that saw an opportunity to be able to take care of their children, and stay at home and work, and save that money. Would you not agree that there had been actually a shift? Right now, what I hear from small business owners is they don't have a work force, so I don't think that the Fed can fix that or fix that person that, say, has a preexisting condition and decides, I don't want to risk my life by going to work. Do you think that changing the Fed rate can fix those types of things that were going on, which is why my first question was? Do you not agree that this was a multifaceted issue?

Mr. HOLTZ-EAKIN. So, the Fed can't control supply issues, and labor force participation is part of the aggregate supply issues. It can only control demand issues through the quantitative tightening, buying back the bond, selling off the bonds, and raising rates.

Mrs. MCCLAIN. Thank you. The Chair recognizes the gentleman from South Carolina, Mr. Fry.

Mr. FRY. Thank you, Madam Chair, for having this hearing today. Thank you to the panel for your time and your testimony. I really appreciate that. I am glad that we are having this hearing. I think it is really important.

I am a freshman and when we are running, we talk to people in our districts about what they face, and they are seeing 40-year high inflation. They are seeing gas prices are up, grocery prices are through the roof, pantry staples such as eggs, butter, milk, chicken, have skyrocketed. And what is even worse, I think, is that in the district that I represent, that is home to 163,000 retired seniors, 1 in 6 seniors in America are considering returning to work because they can no longer afford the rising cost of living. I think about that. I think about the middle-income Americans on fixed incomes. I think about seniors who are on fixed incomes. Dr. Holtz-Eakin, you previously testified in February 2021 that the American Rescue Plan injected too large of a stimulus into the American economy. Can you elaborate on that?

Mr. HOLTZ-EAKIN. Certainly. The bill, when proposed, came at a time when the weekly and monthly data that we received suggested the economy is growing quite rapidly. A good summary of this is something produced by the Atlanta Fed known as GDPNow, which sort of gives you an estimate of what is the current growth rate is in the quarter for GDP, and it was at 6.5 percent. So, this was not the same as March 2020 when the economy was falling at a rate that ultimately contracted by nearly 10 full percentage points in a single quarter, was extraordinary. So, we are in a completely different situation. We are growing quite rapidly, and we are getting close to full employment. We are getting close to potential GDP, and there is no reason to have a nearly $2 trillion stimulus. It is way too big for whatever problem you might have imagined remained, and so it was going to be a big macroeconomic error.

Mr. FRY. Do you still two years later maintain that same assessment that the American Rescue Plan overstimulated the economy?

Mr. HOLTZ-EAKIN. Absolutely.

Mr. FRY. Is there anything from your original assessment to now that has changed in that?

Mr. HOLTZ-EAKIN. Oh yes, I got one piece badly wrong. I thought the biggest fallout would be to repeat what we had seen in 2020. We passed the CARES Act, $2.5 trillion spending, and in May 2020, the U.S. savings rate went to 33 percent. That is positively un-American. We do not save a third of every dollar, and that then flowed into asset classes, and we saw, broadly, equities were up. Housing was up. That is when crypto first became a big deal. Every asset class got inflated. Saw the same phenomenon after the December 2020, $900 billion stimulus.

And so, I was afraid, on the heels of that, with all of this money flow into asset price inflation, the Fed would take a look at a whole bunch of asset bubbles, and have to just pull the plug on them and raise rates sharply, and we would have a recession in the immediate aftermath of a terrible pandemic downturn. I thought that was sort of lining up to do that. I was wrong because the economy opened up at roughly the same time, the vaccines came online, and the money came out of the asset classes and into the consumer purchases and became consumer price inflation instead.

Mr. FRY. Do you think that the Inflation Reduction Act, in fact, reduced inflation?

Mr. HOLTZ-EAKIN. No single act reduces inflation. Its contribution was minimal. At best, it was $300 billion in deficit reduction backloaded, so it was going to be five years off, and we hope the Fed has got us at two percent well before that. At the same time the Inflation Reduction Act was being considered, Congress passed the CHIPS and Science Act, $300 billion of pure deficit-financed spending, the PATH Act, up to $600 billion dollars by CBO's estimate of pure deficit finance spending. It is the cumulative spending and tax cuts by the Congress that matter for inflation, and in 2022, it continued to produce inflationary pressures.

Mr. FRY. So, will the subsidies—you are testifying, your testimony is that the subsidies included in those packages increase those inflationary pressures?

Mr. HOLTZ-EAKIN. They pale in comparison to doing $2 trillion in a month, but they are of the same type.

Mr. FRY. Right, but all three of those collectively and even individually cause that inflationary pressure?

Mr. HOLTZ-EAKIN. Continually. No question.

Mr. FRY. Madam Chair, thank you, and I yield back the balance of my time to you.

Mrs. McCLAIN. Thank you. The Chair recognizes the gentlelady from Vermont, Ms. Balint.

Ms. BALINT. Thank you, Madam Chair. Last year, as so many Vermont families like mine saw their grocery bills, their gas bills skyrocket, we know that many American companies were posting record profits. And according to a staff analysis by the Subcommittee on Economic and Consumer Policy this past fall, there is clear evidence that shows record price hikes, record profits, profit margins that not only helped to drive inflation, but are also continuing to keep prices high.

So, from 1979 to 2019, profits contributed to only 11 percent—11 percent—of price growth in the United States, but from the second quarter of 2020 through the end of 2021, profits accounted for roughly 54 percent of price increases. Four of the largest meatpacking companies saw profits increase by 134 percent between 2019 and 2021. The two largest public companies and the rental car industry enjoyed a 597 percent increase in profits. Three of the biggest shipping companies saw profits raise by—wait for it because I couldn't believe it, had to go back and check—nearly 30,000 percent—nearly 30,000 percent. I know that the Vermonters, because Vermonters watch C-SPAN—Vermonters watch this, they are howling at 30,000 percent. It is not in their minds that they are being fleeced. They are absolutely being fleeced. The Subcommittee analysis detailed numerous instances in which companies were using inflation as an excuse to justify jacking up their prices and forcing consumers to pay more to pad their profit margins.

So, Mr. Konczal, am I pronouncing your name right? Mr. Konczal, why did we see such a significant unconscionable increase in excess corporate profits in this time period?

Mr. KONCZAL. I think inflation was reflected in corporate profits for a couple of different reasons. One was the shift from services to goods. I think when you have the kind of supply chain problems we have that ends up with higher prices, it is moderated through prices. I think there is some evidence, or at least there is certainly something worth looking at more formally, about whether or not firms have used the opportunity of this crisis and reopening to raise prices a little bit higher than they would have otherwise.

I think a lot of economists and certainly a lot of financial analysts are a little surprised that the margins, corporations, their profit margins have not declined throughout 2022 and still seem like they might not even decline for quite some time. Even a little bit of a decline in those margins through competition, through proper regulatory scrutiny, would allow inflation to come down while the labor markets still stay strong. I think it is in general, and also, I think it is worth noting that we don't see workers or wages really leading this inflation, like some argue that happened in the 1970's. This is really being reflected on the corporate side.

Ms. BALINT. I really appreciate that. I have to bring up what I hear when I travel around Vermont. We have a lot of general stores in Vermont. These are little mom-and-pop shops. They are trying to sell groceries in these tiny rural communities. And I talked to them, and they say what is happening at the corporate level is disgusting. These are not necessarily Democrats that are saying this. There are people across the political spectrum who are trying to feed the people in their communities.

And so, I wanted to go back to something that I saw. Again, it is really hard to believe some of this stuff. The Subcommittee analysis also found examples of corporate executives essentially admitting to using inflation as a cover for massive price hikes. We had one executive, make sure I get this right, executive from Kroger saying, "Hey, a little bit of inflation is always good in our business." We had another one saying, this one was from industrial sealants, "We don't reduce prices on the back of these increases. We are going to see what the consumer will bear." Other people said that. I could go on and on.

So, the question to you is when we are trying to convey to our constituents back home why it is that they are still seeing incredible inflation right now, like, how do you articulate for them, regular people, because that is why I ran for office, to show up as a regular person here. How do I explain to them a 30,000 profit increase? How do I explain that?

Mr. KONCZAL. I think it is very hard to explain. I mean, in that specific case, I would explain that the ports have been disinvested in for decades, that our infrastructure is not the capacity it needs. And that is why we needed to make important investments to be able to have the access to ports and capacity that we need to handle those specific problems. More generally, people are going to debate why inflation went up, but the fact that corporate profits remained so high and so elevated, it is part of the reason inflation is not going to come down as quickly as it should.

Ms. BALINT. Thank you. I yield back.

Mrs. MCCLAIN. Thank you. The Chair recognizes the gentleman from New York, Mr. Langworthy.

Mr. LANGWORTHY. Well, thank you so much, Madam Chairwoman, and thank you so much for our witnesses and the testimony that you have presented here today.

One of the great areas of concern in my district, in the 23d congressional District in New York, which is large swaths of agricultural territory in the New York-Pennsylvania line along with the suburbs of Erie County and in Buffalo, is the high cost of energy. And, Dr. Holtz-Eakin, are you aware that the prices of American home heating this year rose by more than 27 percent?

Mr. HOLTZ-EAKIN. Sounds about right, yes.

Mr. LANGWORTHY. It has been something that people across upstate New York have been gravely concerned about while they are struggling with some of the proposals at the state and Federal level of reforms and changes to the way we heat our homes. The other concern is mandates on electric vehicles into the future. I have questions. Do you think that President Biden's recommendation to Americans that one of their ways to reduce energy prices is for them to go out, buy an electric car? Do you think that that is a legitimate solution for most Americans?

Mr. HOLTZ-EAKIN. A, the price point on electric cars is well above mass penetration. It is not going to happen that fast, so the magnitudes are all wrong. It is not going to do anything substantial. It is a single price. Again, the inflation phenomenon is prices across the economy, all goods and services rising at the same time.

And so, picking out individual items and focusing on them, which is something people do a lot, misses the larger point. We have prices going up everywhere.

Mr. LANGWORTHY. Right. I think you bring up a great point. I mean, estimates have the cost of an electric vehicle between $45,000 and $50,000, on average. A median household income is $50,000 to $55,000, and that is with Federal subsidy involved. Instead of recommending that Americans spend almost every single penny of their income on an electric vehicle, do you believe that the Biden administration should instead be focused on increasing American energy production at all different levels?

Mr. HOLTZ-EAKIN. I think the strategy which they have undertaken on the climate front is an extremely unwise one and quite risky. I mean, it basically says we are going to have the cleanest electricity sector on the globe. And we are going to send that electricity across the grid that doesn't exist to power every home, industrial plant, vehicle in the United States, and that is betting the ranch on one solution, which isn't smart. If you let markets decide things, they will diversify and come up with lots of solutions, so I think it is not a wise strategy.

It is also quite troubling from a sort of matching it up to the research literature, in any serious study of the economics of climate change. Natural gas is the bridge fuel, and natural gas is a focus for decades during the transition to cleaner energy portfolio. So, to take it off the table in 2021, 2022, makes no sense whatsoever.

Mr. LANGWORTHY. I am glad that you brought up natural gas because in my state of New York, in my actual congressional district, the Marcellus Shale runs right under the ground in the southern tier counties of New York and Pennsylvania does safely——

Mr. HOLTZ-EAKIN. As a native of Pittsburgh, we want to thank New York for their policies.

Mr. LANGWORTHY. But, unfortunately, you are right. In 2015, our former Governor, Andrew Cuomo, announced a moratorium on the safe pumping of natural gas, making New York as the first state with this significant shale resources to do so. In your opinion, could ending bans on fracking in states like New York, could that increase American energy production?

Mr. HOLTZ-EAKIN. It would. We have actually already seen this from about 2008 to 2012. The hydraulic fracturing and horizontal drilling revolution generated a North American energy supply expansion that made us the preeminent source on the globe, and it was also an enormous source of economic growth at that time.

Mr. LANGWORTHY. That is right. Do you believe that the jobs created by domestic production of oil and natural gas could benefit Americans in the economy as a whole, and can it actually bring down inflation?

Mr. HOLTZ-EAKIN. Now, again, it is energy. It is energy prices, not oil prices, but it is a crucial input. When we see global oil prices go up, we see fertilizer costs go up, we see all sorts of cost pressures that have to get passed along to consumers, so it can contribute.

Mr. LANGWORTHY. OK. Do you believe that the anti-fossil fuel, political leaders that are restricting the supply of oil by opposing oil investment, oil production, oil transport, that they are causing energy prices to rise?

Mr. HOLTZ-EAKIN. Global oil markets are always tightly balanced, and so small variations in supply and demand produce big price swings. And so that certainly has had an impact over the past several years.

Mr. LANGWORTHY. Very good. Thank you very much, and I yield back.

Mrs. MCCLAIN. Thank you. The Chair recognizes the gentleman from Missouri, Mr. Burlison.

Mr. BURLISON. Thank you, Madam Chair. Thank you for coming. I really appreciate it.

I think that when we are looking at this situation with all this unbelievable inflation that we are experiencing, right, and consumers are suffering, the question is, what do we do about it? To me, the answer is, how do we grow our way out of this, right? How do we increase productivity, increase the production of eggs so that the price per egg drops? I mean, this is simple supply and demand economics, right? So, the question is what do we need to do as policymakers to figure out how to motivate, whether it is a farmer that wants to invest in more chicken production or someone who wants to invest in more energy production? What kind of things can we do as a policy to ramp up productivity?

Mr. TAYLOR. First of all, you don't increase taxes. That is maybe the first thing and that will——

Mr. BURLISON. Wait. Wait. Can you repeat that?

Mr. TAYLOR. You don't increase taxes.

Mr. BURLISON. OK. And elaborate on that?

Mr. TAYLOR. Well, taxes are a drag. It reduces productivity. It is not a good thing to do, especially in a situation we are now. We have a productivity problem.

Mr. BURLISON. So, if we were to decrease taxes, then all of those evil companies that have profit, they would, instead of investing that profit into future production, future mining operations, future chicken farms, they would hoard the money, right, hoard the profits, or they are more likely to do that, right?

Mr. TAYLOR. They are interested in making profit, so use the money most effectively.

Mr. BURLISON. Right.

Mr. TAYLOR. Let me say because you began by saying inflation is a problem, and so many of your colleagues have said inflation is a problem. It is a problem, but it is not necessarily related to these profits. It is a different subject.

Mr. BURLISON. Right.

Mr. TAYLOR. It is monetary policy.

Mr. BURLISON. Right.

Mr. TAYLOR. I mean, you can see it, such as the U.S. is all over the place. So, this Congress used to have efforts to try to have the Fed report more on what it is doing. That seemed to disappear. I think it should come back because in a sense, I am not the best person to answer your questions. I am not at the Federal Reserve Board. Those are the people who can answer your questions, and if you had a specific requirement that they say what they are doing, it will be much easier for you.

Mr. BURLISON. But going back to my question, though, is other policies. Mr. Konczal?

Mr. KONCZAL. That was right.

Mr. BURLISON. How do we increase productivity?

Mr. KONCZAL. There are a lot of ways. To increase overall growth, I think increasing the labor force, that is through immigration, through bringing more people into the work force. There are a lot of different ways to do that. I think housing has been a real lag on productivity, so ways that we can intervene to make it easier to build more housing, particularly in places that are pretty housing constrained.

Mr. BURLISON. So, what would that mean? Reducing regulations, reducing the tax burden on people who are developing?

Mr. KONCZAL. I mean, it is fundamentally a local zoning issue, so it is very hard to do at the Federal level, but I know a lot of policymakers who are thinking very hard about this.

Mr. BURLISON. OK. Dr. Holtz-Eakin, your comments on that? How do we ramp up productivity in the United States?

Mr. HOLTZ-EAKIN. You don't, but firms have every interest in being more productive.

Mr. BURLISON. I guess I should ask, how do I, how do we incentivize private actors to ramp up productivity?

Mr. HOLTZ-EAKIN. You want to have an environment which has good incentives for the deployment of risky capital into innovation, physical capital accumulation, human capital accumulation. That means setting the tax rules and keeping them, not moving around. Having sunsets is a bad idea.

Mr. BURLISON. Creating certainty.

Mr. HOLTZ-EAKIN. The regulatory burden, I think, is an underappreciated issue, and at AF, we keep track of the cost of every regulation issued by the Federal Government, and there have been some remarkable changes over the years. In the Obama Administration, the average cost to regulation, $1.1 per day every day for eight straight years, $890 billion of self-reported regulatory costs. That is a $900 billion still tax increase. Trump administration, essentially zero over four years. First year, the Biden administration, $200 billion regulatory costs. That cost goes somewhere, and it goes into inflation. It comes at the expense of productive investments. So, having a more sane regulatory environment, having a stable set of tax rules all would help firms decide what will be productive, and the productivity will take care of itself.

Mr. BURLISON. I appreciate it. Thank you.

Mrs. MCCLAIN. Thank you. The Chair recognizes the Chairman of the full Committee from Kentucky, Mr. Comer.

Chairman COMER. Thank you, Madam Chairman. Dr. Holtz-Eakin, do you agree that inflation is reflected more in corporate profit or corporate greed, as some of our friends on the other side of the aisle would refer, than it is for labor cost?

Mr. HOLTZ-EAKIN. No, I don't agree with that. We have done some work at AF on the sort of favorite measures of concentration and do they lead to higher prices. They do not. Do they lead to reduced competition in the form of entry? They do not. So, this line is at odds with the data.

Chairman COMER. Can you explain why corporate profits are increasing in recent decades?

Mr. HOLTZ-EAKIN. I haven't done a specific study on that. I would be happy to get back to you.

Chairman COMER. Would there be repercussions for reducing corporate profits for the sake of reducing inflation?

Mr. HOLTZ-EAKIN. Yes. The profit motive drives business decisionmaking, so you would be interfering with a lot.

Chairman COMER. Dr. Taylor, would you advise the Fed to take a wait-and-see approach raising interest rates because of the tightening labor market?

Mr. TAYLOR. No, I think it is pretty clear they need to move ahead. They began to talk about it recently. The question is how far. I say six percent in my testimony. I think that is a place to go, and it would be beneficial to the economy. It will increase growth and reduce the chances of a serious recession later.

Chairman COMER. So, what would you say the most important way to fight inflation would be? What is the silver bullet there because the media wasn't as interested in inflation during the last administration, and they came to the summary, many in the media, that the Inflation Reduction Act actually would reduce inflation. Obviously, it has not. So, what would you say the most important way to fight inflation would be?

Mr. TAYLOR. So, I think that the problem is the Federal Reserve. And globally, you have the European Central Bank, you have other central banks around the world, which are tending to follow the Fed to some extent as they have in the past. That is an important thing, so the focus should be the Fed. And as I mentioned, this Congress used to have policies that will require more reporting. That is why the Fed has reported a little bit more, but that could go further so you would get explicit answer from them. Why did you have the interest rate zero for so long? It was the feeling, that kind of thing, and they haven't answered that.

Chairman COMER. I couldn't agree more. I couldn't agree more. So, last question, just to follow up, does investing in infrastructure and housing reduce inflation because I think that is something the President has implied. Like if we invest more money in housing and infrastructure, will that reduce inflation?

Mr. TAYLOR. So, it will reduce inflation for some goods, but it might increase otherwise. I think you have to think about inflation, as Doug indicated, it is a measure of all prices, and this two percent just doesn't choose a few. And so, all the things that have been mentioned in this hearing are hoping there is one particular issue, but it is a broader set of issues.

Chairman COMER. And talking about having to raise interest rates, obviously, one reason you raise interest rate is to fight inflation. But when you raise interest rates, that reduces new home builds, new housing starts. That makes housing less affordable as opposed to more affordable just simply by supply and demand. I think that is something to point out. Go ahead, Dr. Taylor, you can finish, and then Dr. Holtz, you can.

Mr. TAYLOR. What we have learned about monetary policy, if it is clear what is happening, it doesn't have to be these crunches. People realize that interest rates will be a little higher, but that will be good because inflation comes down, so they think about this whole process. The more communicative the Fed can be, the more you can participate in this discussion, the better this will work, and you wouldn't have the bad circumstance you are referring to.

Mr. HOLTZ-EAKIN. So, I want to agree with that. I mean, the idea is to have them look past what is happening right now toward a rule that will show a path of future interest rates, and they can plan the whole lifecycle, the construction, and the sale, and all of that. In the absence of that, the idea that right now, if the Federal Government just goes out and engineer a residential construction boom, that will somehow be effective in fighting inflation, misses the fact that the Fed is trying to stop residential construction.

And if you start trying to build it, they will raise rates more because when they reduce residential construction, that transmits monetary policies to a big swath of the economy. You don't buy refrigerators to put in the houses, you don't buy furnaces to put in them, you don't carpet them, and that is a traditional route for the Fed to influence the demand for goods, especially in the economy. So, to fight the Fed, when you are asking it to deal with inflation is not good policy.

Chairman COMER. Right. Exactly. Madam Chair, I yield back. Thank you for this very substantive Committee hearing.

Mrs. MCCLAIN. Thank you, and now the Chair recognizes the gentlewoman from California, Ms. Porter.

Ms. PORTER. Thank you very much.

If we want to understand the multifaceted root causes of inflation, it is important we lay out some basic economics. You all know this, but I want to make sure the American people do, and we have a great panel to help us learn.

So, Mr. Konczal, I am going to have you help me with this basic economics 101, supply and demand situation. So, here is the basic model on economics that helps us determine how much real GDP an economy produces, and at what price level. So, what are these lines on the graph? The supply line, long-range aggregate supply shows us how much real GDP an economy can supply at different price levels. And the demand curve, aggregate demand right here, shows us how much real GDP people are willing to consume at different price levels. Where these curves intersect, that shows how much real GDP our economy generates and what prices people are going to face. So, what causes inflation? What happens when we change this intersection? Let's demonstrate. So, Mr. Konczal, what does increased government spending do to the demand curve?

Mr. KONCZAL. It would increase. It would move it to the right.

Ms. PORTER. It would move it over here, so this is what happens when you increase government spending. Everyone see? Prices go up. All right. What happens to the demand curve if the government, say, increases taxes on wealthy Americans?

Mr. KONCZAL. It would move the demand curve to the left and decrease the price level.

Ms. PORTER. Prices would go down. OK. So, let's combine these two effects. What would happen if you increased government spending, but you paid for it all with taxes on the wealthy?

Mr. KONCZAL. In general, it would not have an effect.

Ms. PORTER. So unclear, but indeterminate, could balance each other out depending on the scope and size of those spendings. So, when you have legislation that puts money in the hands of people who need it, say, during a pandemic, but you make sure you are getting at least that much back from taxes on rich people, you should not see much aggregate meaningful inflation. Now, it is even more promising for inflation when the legislation generates surplus tax revenue that might even be able to help cool inflation. Can you raise your hand, all three of you, if you agree that the Inflation Reduction Act followed the basic anti-inflationary principle of putting money in people's hands, but raising taxes on the wealthy? Anybody? One. Mr. Konczal.

So, Mr. Holtz-Eakin, you are here to advise Congress about how to contain inflation, and the best hint I got from your testimony is on page one. You said, "Congress should not further exacerbate inflation through excessive spending," and you said there is no good option. When we get to inflation, it is all tough. So, what is next? How are we going to reduce inflation without inflicting pain on working families and seniors?

Mr. HOLTZ-EAKIN. So, I say this lovingly, but please don't try. I think that this is the Fed's problem that you have delegated to the Fed and given it a mandate for full employment price stability, and you should let them pursue that mandate, review their efforts with oversight hearings. That is exactly the right thing to do. And you should think about setting the parameters for fiscal policy, the tax structure, the tax levels, the kinds of spending programs we have to maximize long-run economic growth, and not move them back and forth quickly to try to respond to whatever is going on this year, next year. Congress is not well suited for that. It is much more suited for the long-run growth potential for the economy, and so that is an allocation of roles, I think, would be preferable.

Ms. PORTER. So, for example, investing in things like infrastructure, that is a long-term growth?

Mr. HOLTZ-EAKIN. Where appropriate, yes. Where appropriate, yes.

Ms. PORTER. Where appropriate to invest in that. So, I think as we sort of wrap up this, I think, really productive hearing with an amazing all-star, and let me just say, intimidating witness panel. I want to sort of go through what I think are the key takeaways. It doesn't cause inflation to make paid-for investments in working families. If you pay for them, if you take the money out of the economy with taxes, and you put it back in other places, that is allocative, but on aggregate, if you get it right, it shouldn't cause inflation. That is what that curve, that chart was showing. It is a good idea to make wealthy pay their fair share, to pay off the national debt, and help cool inflation. We take some of that surplus tax revenue, we can actually use it to cool inflation.

Democrats' Inflation Reduction Act, you two didn't agree, but I think it basically met that basic principle of doing those two things: making investments in families and making the wealthy pay their fair share. And the fourth thing is, I don't think, and I really appreciate your honesty, Dr. Holtz-Eakin, there really isn't a secret Republican plan or Democratic plan for that matter, to fight inflation. There is no easy way to do this without punishing hard-working American families, so the solution here isn't to cut spending programs that people rely on. The solution here is to try to support families as we get through this really difficult economic period and let our economy try to find its way back to a level of inflation. That is less painful than where we find each other today. So, I yield back and thank the Chairwoman for her indulgence.

Mrs. McCLAIN. I thank my colleague for her comments, and right now, I will recognize the Ranking Member, Ms. Porter, for her closing statement.

Ms. PORTER. Thank you again, Madam Chairwoman, and thank you again, for all of our witnesses. I think you probably know that I don't flatter witnesses unnecessarily. You really are an all-star panel, and we really are grateful for you being here today.

Look, I am a single mom with three school-aged kids, and like all of you, I am tired of what is happening at the grocery store. It used to be fun, and now it is just tough to go in there. I am tired of feeling the sticker shock and putting the cereal back on the shelves because we can't afford it. I am tired of searching for coupons and finding that there aren't any to help me bring down prices. I am deeply invested in trying to rein in inflation for constituents and for my own family. But when we talk about inflation, we need to do it justice by not oversimplifying. And today, what many Democrats have tried to do is demonstrate that calling inflation a preventable crisis is an oversimplification.

Now, it is our job in Congress to set aside the partisan games and try to get to work. Inflation is complex. It is multifaceted, and there are certainly tools that government, sometimes Congress, but, as you suggested, often not Congress, can use to try to address inflation. We can keep making our tax code more fair. We can crack down on tax cheats so that we increase tax revenue, can pay down debt, can cool inflation. We can keep fighting corporate monopolies so that our markets can be more competitive and can deliver lower costs. That is really the promise of a capitalist economy. We can keep shoring up supply chains, bringing manufacturing back home, and helping smooth the transport of goods to market. We can invest in long-term structural investments that will do right by our economy, things like infrastructure, things like renewable energy, because these investments pay off in the long run with lower costs for families and a stronger, more stable, more resilient economy that is less vulnerable to inflationary shocks.

It is possible to do all of these things together, but we can't use inflation as a convenient scapegoat to cut programs that seniors and kids and families rely on. Wherever Committee Republicans land, and I hope the chairwoman will address that, the American people should know that Committee Democrats are going to continue to work tirelessly toward thinking about how to navigate this inflationary period while honoring our commitment to make life better for the American people. I yield back.

Mrs. McCLAIN. Thank you, Ms. Porter, and thank you for conducting my first oversight hearing with me. I appreciate it. I look forward to working with you in the future to come up with some commonsense solutions to help the American people move forward.

I now recognize myself for the closing statements.

I would agree that we are not here to talk about cuts. That is not our plan, but I first feel that we need to start talking about the causes of what got us in this situation. So, we are not going to repeat the same thing over and over again because if we can learn from the past, we can have a brighter future, and I think that is what both sides of the aisle are trying to do for the American people. I can assure you that is what I am trying to do, but we must learn from our mistakes so we are not deemed to repeat them in the future.

Today's hearing has illustrated how important actually facts are over fiction, and we need to stop with the messaging and take a look at the facts. When the pandemic hit in March 2020, inflation was 1.5 percent as compared to the prior year. When Biden took office in January 2021, inflation was at 1.4 percent, compared to the previous year. That is just a fact. On March 11, 2021, Democrats jammed through $1.9 trillion American Rescue Plan. By April, inflation had risen from 1.4 percent to 4.2 percent. By December, inflation was at seven percent. By June 2022, inflation was at 9.1 percent. The Biden administration and congressional Democrats did not stop there. On August 16, 2022, the $740 billion Inflation Reduction Act was signed into law, again, inflation. Too many dollars chasing too few goods.

We are just doubling down on the American people, yet Democrats have spent this entire hearing denying that inflation exists, claiming inflation is a high-class-only problem and blaming the corporations, who I might add, those corporations pay massive, massive amount of taxes. And what would happen to the taxes if corporations, because there is a third option, the corporations could just stop producing? And then who would pay the massive amount of taxes that the corporations pay because there is another option. We just don't ever want to talk about that.

We cannot fix a problem of inflation until our colleagues recognize what all hard-working Americans recognize and what we are dealing with, and that is, inflation exists. The truth is Democrats' reckless spending caused the dramatic inflation, hurting millions of Americans. This isn't an opinion, this is a fact, and we need to learn from this fact, to not double down and make the same mistakes again.

The data clearly illustrates that despite the destructive economic impacts of the pandemic, President Trump had the economy on a rapid path to recovery, 1.4 percent inflation, with his pro-growth and pro-economic policies. Yet Democrats choose to flood the economy with unnecessary—unnecessary—remember, we passed, we infused money into the economy. We didn't spend it all, and we passed two more policies that put more money into the economy. I mean, we flooded the economy with unnecessary and wasteful spending, causing inflation to spike at a 40-year high and put the economy, I might add, on the brink of recession, no matter how you want to change the definition of a recession. My colleagues across the aisle must acknowledge that it is their inflationary crisis and recognize that Congress needs to immediately address it.

So, I thank the witnesses for your time. You have been remarkable, all three of you. The wealth of knowledge that you three bring is amazing.

And without objection, the Members will have five legislative days to submit materials and to submit additional written questions for the witnesses which will be forwarded to the witnesses for their responses.

Mrs. MCCLAIN. If there are no further business, without objection, the Subcommittee stands adjourned. Thank you so much.

[Whereupon, at 3:45 p.m., the Subcommittee was adjourned.]

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