Opening Statement of
Vice Chairman Kevin Brady
"How the Taxation of Labor and Transfer Payments Affect Growth and Employment"
Before the Joint Economic Committee
May 16, 2012

Today the Joint Economic Committee is holding the second of two hearings on how taxes affect America's economy. This hearing focuses on the taxation of labor. The first hearing on April 17th focused on the taxation of capital.

My goal, as Vice Chairman of this Committee, is to ensure that America has the strongest economy in the world throughout the 21st Century. To do that, we must get our monetary policy right, get our fiscal policy right, get our regulatory policies rights, and open new markets to U.S. exports.

A sustainable fiscal policy requires more than just closing the trillion dollar gap between federal spending and federal revenues. A sustainable fiscal policy requires economic growth.

A growing economy improves our fiscal outlook by increasing federal revenues and reducing federal spending relative to the size of our economy.

Sadly, however, economic growth and job creation is lagging under President Obama. To understand how poorly our economy is performing compared with its potential, let's look at this chart and compare the big government-oriented Obama recovery to the free market-oriented Reagan recovery:

- From its low point in February 2010 following the recent recession, the Obama recovery produced private sector job growth of 4.0%. Over the comparable time-frame, the Reagan recovery far eclipsed the Obama recovery with 10.1% private sector job growth.

- If President Obama had the same growth rate of private sector jobs as President Reagan enjoyed, we would have over 6 ½ million more jobs today – that is more than one job for every two workers currently counted as unemployed.

- From its peak in October 2009, the unemployment rate has declined by a meager 1.9 percentage points under President Obama. Over the comparable time-frame, the unemployment rate dropped by 3.4 percentage points under President Reagan.

- Under President Obama, the average real GDP growth rate has been 2.4% over the 11 quarters following the recession. Over the comparable time-frame, President Reagan delivered an average real GDP growth rate of 6.1%.

More than anything, hardworking American taxpayers need cohesive monetary, fiscal, and regulatory policies that encourage business investment—business investment in new buildings, equipment, and software. Joint Economic Committee Republicans have shown that such private sector business investment is the key to robust economic growth and private sector job creation.

Leading economists believe that taxes affect the incentive to work, save, and invest. Thus, federal tax policy not only determines how much the federal government collects, but also how much the U.S. economy grows and how many jobs are created.

Other economists seem to believe taxes don't really matter. In their view, one tax increase to reduce the federal budget deficit is just as good as another.

The purpose of this hearing is to examine the empirical evidence offered by both sides of the debate.

In his written testimony, Dr. Rogerson presents evidence that taxes on labor substantially reduce employment and economic output. When these taxes are used to fund transfer payments and social services, the adverse effects on jobs and economic growth are even greater.

Dr. Biggs presents evidence that these adverse effects depend in large part on the specific tax and benefit rules of each entitlement program. Older workers are especially sensitive to the marginal net tax rate. That is the additional after-tax income received in exchange for working and paying taxes an additional year.

For his part, Dr. Johnson presents evidence that our taxes are lower than they have been at times in the past; and they are lower than many other countries' taxes today.

The question we face today is whether tax policy really matters. Can Congress allow the tax reductions of 2001 and 2003 to expire without any adverse effects on jobs and economic growth? Would this be, as many leading economists and my Republican colleagues have suggested, "taxmageddon?" Or, as President Obama and many of my Democratic colleagues contend, can Congress increase other federal taxes on the businesses and the "wealthy" with economic impunity?

Should Congress instead focus on fundamental tax reform and carefully consider which tax policies will provide the greatest boost to long-term growth and job creation in the private sector?

Hopefully, today's hearing will help us answer these questions. I look forward to the testimony of our distinguished witnesses.