

Chairman Sanders, Ranking Member Graham, and Senators on the committee,

Thank you for the opportunity to speak with you today on the impact of inflation on the American people and its root causes. I had the honor of serving as the Assistant Secretary for Economic Policy at the Department of the Treasury during the previous administration. In that role, I worked with Senators on both sides of the political aisle and the Small Business Administration to quickly implement the Paycheck Protection Program and ensure that the economic devastation that might have resulted from the pandemic was not realized.

The excessive inflation currently harming America's families is primarily the result of unnecessary fiscal stimulus passed by Congress and implemented by this Administration, bolstered by excessively accommodative monetary policy by the Federal Reserve.

At the onset of the pandemic, [prices declined](#). When the economy reopened, prices started rising with inflation from June 2020 to February 2021 averaging 32 basis points per month. The \$1.9 trillion American Rescue Plan Act (ARPA) was signed into law in March of 2021. Since then, monthly inflation has doubled to 64 basis points per month, resulting in a 7.9 percent increase in the consumer price index over the twelve months ending February 2022.

Due to a fundamentally strong economy with rising wages and decreasing unemployment prior to the pandemic, Americans had aggregate balances in their checking and savings accounts of just under \$11 trillion. Following ARPA disbursements, that amount had risen to over \$14.2 trillion—nearly a thirty percent increase.

The entirely predictable result was inflation, running the highest we have seen in forty years. Even [former Clinton Treasury Secretary Larry Summers](#) characterized enactment of such policy as “the least responsible macroeconomic policies we’ve had in the last 40 years.” Last week, [researchers at the San Francisco Federal Reserve published findings](#) that stated, “Fiscal support measures designed to counteract the severity of the pandemic’s economic effect may have contributed to this divergence by raising inflation about 3 percentage points by the end of 2021”.

For further evidence, as [former Acting CEA Chair Tyler Goodspeed recently documented](#), inflation in the Euro area and the United States were largely equivalent to each other in the eighteen years prior to the pandemic. However, in the twelve-month period starting in March 2021, the increase in inflation in the United States was more than triple the increase observed in the Euro area.

Some are instead blaming the recent inflation on corporate greed and the exercise of market power. There are many problems with that conclusion. From January 2010 through January 2020, 12-month inflation averaged 1.78 percent. Over the last twelve months, inflation has been 7.91 percent, more than quadrupling recent increases. Were corporations not greedy in the 2010s? What changed in March 2021 such that corporations suddenly became greedy? As someone who has researched corporate financial decision making for the last twenty years, I am not aware of any finding in the academic literature that corporations significantly altered their desire to generate profits in the last year relative to the decades that preceded the pandemic.

The second challenge to that narrative is that producer prices have increased at a faster pace than consumer prices. Sellers did not pass along all of their cost increases to consumers. If retailers used monopoly power in pursuit of greed, consumer prices would rise faster than the cost of inputs, and yet we have observed the opposite.

It is true that [corporate profits have risen during the recovery](#). Just as corporate profits fell at the beginning of the pandemic when there was extra supply relative to suddenly diminished demand, corporate profits will naturally rise when demand significantly outstrips supply. This increase in corporate profits is not the result of an exercise of market power; it is the necessary outcome of a shortage caused by policies that have inflated demand while discouraging supply.

To curb the 40-year high rate of inflation the American people are enduring, Congress must reverse course. Continuation of irresponsible fiscal policy would only accelerate the Federal Reserve's already aggressive plans to hike interest rates. Instead, we need to encourage more domestic productive activity by reducing the regulatory burdens companies are facing, cease the constant threats of higher taxation, remove barriers to work, and declare an end to pandemic restrictions. Following those policies prior to the pandemic, our nation saw a 50-year low in the unemployment rate, historic gains in household income, reductions in income inequality, and record low poverty rates across all races.

The [Chairman's proposal](#) for a 95 percent tax on profits would have devastatingly counterproductive effects. Fundamentally, profit is the reward from providing things Americans value at low cost. It encourages individuals and companies to respond to the desires of consumers. A profits tax therefore eliminates these incentives.

The proposal would apply a 95 percent tax rate on any profits realized by large companies above their pre-pandemic five-year average profit level, adjusted for inflation. Any company that created new products, successfully entered new markets, or shifted their offerings in response to changes in consumer preferences following the pandemic would be punished. Companies whose product prices rose with inflation, but who served more of their fellow Americans, would have their increased results deemed excess profits and taxed at 95 percent.

If enacted, this proposal would nearly eliminate domestic economic growth. Today's punishment becomes tomorrow's extremely strong disincentive. Profits from successful innovation that better serves the needs of fellow citizens would be forcibly taken by the government but the losses from failed innovation are borne by the business. Why would American companies innovate, respond to changes in the economy, supplement supply when there are shortages elsewhere, or engage in research and development under those kinds of conditions? I urge the Senate to reject such destructive proposals.

I look forward to participating in this important conversation.