BUILDING AN ECONOMIC RECOVERY PACKAGE: CREATING AND PRESERVING JOBS IN AMERICA

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C O N T E N T S

BUILDING AN ECONOMIC RECOVERY PACKAGE: CREATING AND PRESERVING JOBS IN AMERICA

Friday, October 24, 2008
U.S. House of Representatives
Committee on Education and Labor
Washington, DC

The committee met, pursuant to call, at 10:03 a.m., in room 2175, Rayburn House Office Building, Hon. George Miller [chairman of the committee] presiding.

Present: Representatives Miller, Woolsey, Sarbanes, Loebsack, and Courtney.

Staff Present: Aaron Albright, Press Secretary, Tylease Alli, Hearing Clerk; Chris Brown, Labor Policy Advisor; Jody Calemine, Labor Policy Deputy Director; Lynn Dondis, Senior Policy Advisor, Subcommittee on Workforce Protections; Carlos Fenwick, Policy Advisor, Subcommittee on Health, Employment, Labor and Pensions; Patrick Findlay, Investigative Counsel; David Hartzler, Systems Administrator; Ryan Holden, Senior Investigator, Oversight; Brian Kennedy, General Counsel; Therese Leung, Labor Policy Advisor; Sara Lonardo, Junior Legislative Associate, Labor; Ricardo Martinez, Policy Advisor, Subcommittee on Higher Education, Lifelong Learning and Competitiveness; Alex Nock, Deputy Staff Director; Megan O'Reilly, Labor Policy Advisor; Rachel Racusen, Communications Director; Meredith Regine, Junior Legislative Associate, Labor; Melissa Salmanowitz, Press Secretary; James Schroll, Staff Assistant; Michele Varnhagen, Labor Policy Director; Michael Zola, Chief Investigative Counsel, Oversight; Mark Zuckerman, Staff Director; Robert Borden, Minority General Counsel; Cameron Coursen, Assistant Communications Director; Ed Gilroy, Minority Director of Workforce Policy; Rob Gregg, Senior Legislative Assistant; Alexa Marrero, Minority Communications Director; and Jim Paretti, Minority Workforce Policy Counsel.

Chairman MILLER. Good morning. A quorum being present, the Committee on Education and Labor will come to order. The purpose of this morning's hearing is to listen to witnesses on the issue of building an economic recovery package and creating and preserving jobs in America. I want to thank in advance all our witnesses for your testimony and for your time and your expertise in this challenge that we have here.

The real economy, I think it is apparent to everyone at this point, is in a shambles. If you look at the staggering job losses, the rising unemployment and the sharp decline in families' earnings, September, for example, saw more mass layoffs than any other month since September 2001 after 9/11.

Earlier this month, we enacted an emergency $700 billion financial rescue plan to stem the collapse of the credit markets. This was a necessary step to prevent the bottom from falling out, but we knew it would not cure all that ails our economy. What we are seeing now in the continued decline in the volatility of the financial markets is a realization that recession is setting in and it is likely to be long, it is likely to be deep, and it is going to be global. It is urgent that we prepare now to take the next steps to rescue the economy by creating jobs, providing for immediate relief to the States and small businesses, and making real investments in energy, technology and education. We must have a plan to speak directly to the needs of America's families and workers today.

At a forum convened by Speaker Pelosi last week, leading economists agreed that creating jobs is essential to rebuilding our real economy. Alan Blinder and other economists told us that they fear unemployment could soon hit 8 percent or higher, and I think, Jared, you concurred in that, and I think Alan Sinai also concurred in that determination last week in that meeting.

In testimony early this week, Fed Chairman Bernanke agreed that Congress should develop an economic recovery package to help blunt rising unemployment. American families are facing a quadruple economic whammy; falling home values, shrinking retirement savings, rising basic costs and job insecurity. The economists warn that things are likely to get worse, since the real prospect of today's economic realities will result in a generation of Americans that are worse off than previous generations.

In September, the House approved an economic recovery plan that would have created good-paying jobs by investing in energy technology and infrastructure and retrofitting our schools; investments that would prevent the falling recession. It also would have provided access to job training and helped working families with grocery and health care bills. It also approved an extension of the unemployment benefits in October. Unfortunately, these efforts were blocked by Senate Republicans and the President in denial of the impact of their disastrous economic policies on American families.

Democrats, on the other hand, recognize that we should act now to restore confidence. For starters, we have to deal with growing numbers of the unemployed. Over the past year, unemployment rates have increased in 47 States. We must extend unemployment benefits for out-of-work Americans whose current benefits are set to expire or, in fact, maybe already have started expiring.

Next, rebuilding our crumbling roads, businesses, transit and schools must be central to our jobs and economic policy for an economic recovery package. These investments not only provide urgently needed repairs, but increase productivity, create good-paying jobs, and spur additional private investment. States and localities have projects ready to go, but lack funding as they face declining revenues. We will hear testimony this morning that making infrastructure investments are some of the most effective uses of Federal dollars in creating, jobs both in the short term and in the long term.

Encouraging the development of the green economy must also be a core component of any jobs recovery package. Not only will these investments create millions of good-paying jobs, but they will lead to fundamental change in the way we produce and consume energy.

Other infrastructure investments such as the build-out of the national broadband network promises similar benefits. The U.S. Lags behind dozens of other industrialized countries in terms of broadband diffusion.

As a letter from my colleague, Anna Eshoo from California points out, in a recent paper presented, the availability of broadband in communities added 1 percent to the employment growth and over a five-tenths of a percent increase in the growth of business establishments and five-tenths of a percent increase in the share of establishments represented by the information technology firms. The broadband build-out would add $500 billion to the GDP and 1.2 million additional jobs in construction and use of the national broadband network. We know how important this is to the rural communities in our country.

There are a number of the other proposals that will be considered in an economic recovery package, including job training, food stamps, heating assistance and help to the States to cover critical costs.

As we continue our efforts to create an economic recovery plan, we must make sure that these ideas provide the best help to struggling families and the best return to the taxpayers' investment.

After we hear from the first panel, we will also hear from the director of the Pension Benefit Guaranty Corporation, Charles Millard. The Pension Benefit Guaranty Corporation provides pension protection for 44 million workers and is responsible for administering benefits of more than 1 million Americans.

Director Millard will also discuss the new investment policy his agency has adopted in February of this year and whether it is a prudent approach for the unique mission of the Pension Guarantee Corporation. The new policy dramatically shifts PBGC's investments away from fixed income securities such as U.S. Treasuries into equity securities and aggressive asset classes. We will examine the rationale for such a change in light of the recent market meltdown and the reported loss of at least $3 billion, and I think we will hear later this morning it is much more than that, in investment in recent months. We must preserve and strengthen these retirement plans. For example, we must strengthen 401(k)s to provide complete disclosure of all related fees and requiring independent management advice. That will be the second panel that we will hear from.

With that, I would like to recognize Ms. Woolsey or other members for any opening remarks they may have.

[The statement of Mr. Miller follows:]

Prepared Statement of Hon. George Miller, Chairman, Committee on Education and Labor

The Committee on Education and Labor meets this morning to examine the state of employment and solutions that will put our economy on the road to recovery and get Americans back to work.

The "real" economy is in shambles. Just look at the staggering job losses, rising unemployment, and a sharp decline in families' earnings. September, for example, saw more mass layoffs than in any other month since September 2001, after 9-11.

Earlier this month, we enacted an emergency $700 billion financial rescue plan to stem the collapse of the credit markets. That was a necessary step to prevent the bottom from falling out. But we knew that it would not cure what ails our economy.

What we are seeing now, in the continued decline and volatility in the financial markets, is the realization that recession is setting in; that it is likely to be long; it is likely to be deep; and it is going to be global.

It is urgent that we prepare now to take the next steps to rescue the economy by creating jobs, providing immediate relief to the states and small businesses, and by making real investments in energy, technology and education.

We must have a plan that speaks directly to the needs of American families and workers today.

At a forum convened by Speaker Pelosi last week, leading economists agreed that creating jobs is essential to rebuilding our economy.

Alan Blinder and other economists told us that they fear that unemployment could soon hit 8 percent or higher.

Even Fed Chairman Ben Bernanke agrees that Congress should develop an economic recovery package to help blunt rising unemployment.

American families are facing a quadruple economic whammy: Falling home values, shrinking retirement savings, rising basic costs, and job insecurity.

And economists warn that things are likely to get worse. There is a real prospect that today's economic realities will result in a generation of Americans worse off than the previous generation.

In September, the House approved an economic recovery plan. It would have created good-paying jobs by investing in new energy technology and our infrastructure—investments that would prevent our economy from falling deeper into recession.

It would have also provided access to job training and helped working families with grocery and health care bills. We also approved an extension of unemployment benefits in October.

Unfortunately, these efforts were blocked by Senate Republicans and a President in denial of the impact of their disastrous economic policies on American families.

Democrats, on the other hand, recognize that we should act now to restore confidence.

For starters, we have to deal with the growing numbers of the unemployed. Over the past year, unemployment rates have increased in 47 states.

We must extend unemployment benefits for out-of-work Americans whose current benefits are set to expire.

Next, rebuilding our crumbling roads, bridges and schools must be central to our jobs and economic recovery package.

These investments not only provide for urgently needed repairs, but increase productivity, create good-paying jobs, and spur additional private investment.

States and localities have projects ready to go but lack funding as they face declining revenues.

We will hear testimony this morning that making infrastructure investments are some of the most effective uses of the federal dollar in creating jobs in both the short-term and the long-term.

Encouraging the development of a green economy must also be a core component to any jobs recovery package.

Not only will these investments create millions of good-paying jobs, but they will lead to a fundamental change in the way we produce and consume energy.

Other infrastructure investments, such as increasing broadband diffusion, promise similar benefits.

The U.S. lags behind a dozen other industrialized countries in terms of broadband diffusion.

This gap slows our efficiency and our ability to remain globally competitive.

There are a number of other proposals that will be considered in an economic recovery package, including job training, food stamp and heating assistance, and help to states to cover critical costs.

As we continue our efforts to create an economic recovery plan, we must make sure that these ideas provide the best help to struggling families and the best return on taxpayers' investment.

We will also hear from the director of the Pension Benefit Guaranty Agency Charles Millard.

PBGC provides pension protection for 44 million workers and is responsible for administering benefits for more than 1 million Americans.

Director Millard will also discuss his new investment policy that his agency adopted in February of this year and whether this is a prudent approach for the unique mission of the PBGC.

The new policy dramatically shifts PBGC's investments away from fixed income securities, such as U.S. Treasuries, into equity securities and other aggressive asset classes.

We will examine the rationale for such a change in light of the recent market meltdown and the reported loss of at least $3 billion in equity investments in recent months.

We must preserve and strengthen Americans' retirement plans. For example, we must strengthen 401(k)s by increasing transparency and providing complete disclosure of all related fees and providing independent management advice.

We must also waive the current tax penalty for seniors over 70 and a half who don't take a minimum withdrawal from their retirement accounts. And we must prohibit privatizing Social Security.

Today's witnesses will help us understand what's happening in the real economy, where we are headed, and help us consider what proposals might work best to get the economy moving in the right direction.

I look forward to their testimony.

Ms. WOOLSEY. Thank you, Mr. Chairman. This is going to be very interesting. But I want to get on with this, so I won't have opening remarks. Thank you.

Mr. LOEBSACK. Thank you for convening this hearing, Mr. Chairman. Like my colleague, Ms. Woolsey, I will just hold off until we get to the Q&A.

Mr. COURTNEY. I will also, Mr. Chairman.

Chairman MILLER. Thank you. What wonderful Members of Congress.

This morning on our panel we will first hear from Dana Stevens from Thorofare, New Jersey, who has worked in benefits administration for the past 10 years. She wad laid off by her employer in July due to corporate restructuring and she will be discussing her experience with the deteriorating job market over the past several months. Thank you so much for joining us this morning.

Next we will hear from Ron Blackwell, the chief economist at the AFL-CIO. Before joining the AFL-CIO, Mr. Blackwell was assistant to the president of the Amalgamated Clothing and Textile Workers and chief economist of Unite Here. Before that, he was a faculty member and academic dean at Seminar College at the New School where he taught economics.

Gerald Bernstein is the director of the Living Standards Program at the Economic Policy Institute. Dr. Bernstein joined EPI in 1992 and has written extensively on issues such as income inequality, mobility and trends in employment and earnings. His latest book is Crunch: Why Do I Feel So Squeezed, and Other Unsolved Economic Mysteries. Dr. Bernstein earned his Ph.D in social welfare from Columbia University.

Chris Hansen is president and CEO of AEA, the Nation's largest association representing the electronics and IT industries. Before joining AEA in November of 2007, Mr. Hansen was AARP's group executive officer for State and national initiatives. Previous to his work at AARP, Mr. Hansen was a senior vice-president at Boeing. Mr. Hansen holds a BA from the University of Denver and a masters from the American Graduate School of International Management.

Robert Pollin is a professor of economics and founding co-director of the Political Economy Research Institute at the University of Massachusetts, Amherst. Dr. Pollin's research centers on micro-economics conditions and low-wage workers, the analysis of financial markets and the economics of building a clean energy economy. He earned a BA from the University of Wisconsin and an MA and Ph.D. from the New School of Social Research.

William W. Beach is the director of the Center For Data Analysis at the Heritage Foundation. In his position, Mr. Beach oversees statistical research on taxes, Social Security and trade, among the other issues. Prior to joining Heritage in 1995, he served as a litigation economist and economist for the Missouri Office of Budget and Planning. Mr. Beach is a graduate of Washburn University and holds a master's degree from the University of Missouri in Columbia.

With that, we will start with you, Ms. Stevens. Again, thank you so very much for joining the committee. I know that it is not easy to tell personal stories in public settings, but having looked at your testimony, I think you are presenting a face on this problem that many, many, unfortunately millions of Americans will recognize and understand that yours is a problem that we are trying to address in providing for strengthening the economy.

Under the system, when you begin to speak, a green light will go on, that will be about 4 minutes. An orange light will go on which suggests you might want to start wrapping up your remarks, but we want you to finish in a way that you are comfortable and is also coherent for us.

So thank you again. We look forward to your testimony.

STATEMENT OF DANA STEVENS, HUMAN RESOURCES PROFESSIONAL

Ms. STEVENS. Chairman Miller, Ranking Member McKeon, members of the committee, thank you for inviting me to testify at this hearing today. My name is Dana Stevens and I am a resident of Thorofare, New Jersey, in Gloucester County.

Since July 11th, I have been unemployed and struggling to find a new job to make ends meet. My story is not unique, I am sure. I am like millions of others who are struggling in the current economy. I am grateful for the opportunity to share my story today on behalf of all the unemployed workers out there who are ready, willing and eager to work, but simply cannot find a job.

I am 31 years old and have been working continuously since I was 21 years old. Shortly after high school, I began working full-time and going to college on a part-time basis, steadily pursuing my degree in business administration.

In June of 2007, I began working for an insurance broker. I was recruited to join that employer and was hired to fill a new position of benefits administration supervisor. I loved the job and I felt very comfortable and secure and settled, until last March.

I was notified that my department would be outsourced in order to save $80,000 in business costs in addition to the salaries and additional money spent on benefits for the employees. This decision was also made as part of the sale of my employer to a much larger insurance company. I was initially told to remain positive and that my employer wanted to find me another position. However, in May, I was told that July 11th would be my last day of work.

As soon as I learned that I would lose my job, I immediately began looking for a new one. I followed every avenue I could. I posted my resume on line. I networked extensively with the clients of the employer. I applied for job openings. I have even worked with professional headhunters. My husband and I also began saving every single penny that we could to be able to pay our mortgage and bills once my position had ended. We have always lived within our means and paid our bills on time, but I knew that the amount I receive in unemployment insurance benefits would not be enough to cover our monthly mortgage.

Since I learned that I would lose my job, I have applied for over 143 positions, in addition to all of the other network I have done. In that time, I have had interviews with only seven companies. While I have come close to getting a job and I have received compliments on what a strong candidate I am, I am still unemployed.

I am looking as broadly as I can. I live in Southern New Jersey, so I am applying for jobs within Wilmington, Delaware, Philadelphia, Pennsylvania, and the entire region. I am not simply looking for human resources or insurance jobs, but for anything that I could do, including office work and administrative jobs. Most would be a step backwards from the positions that I have previously held. I am even willing to take a significant pay cut just for the sake of working, but I do need a job that will pay me enough so I can keep my house and avoid becoming part of the working poor.

I am even willing to do contract work that offers no benefits, just for the sake of being employed and be able to pay my bills.

I thought I had a good chance of finding a job two weeks ago when a headhunter called me about an open position within an organization. The next day I got a phone call from that headhunter stating that the corporation had decided to put the position on hold until at least February because they do not have the money to fill it right now.

Everyone is willing to accept jobs for which they are overqualified and take pay cuts, so the competition is really tough out there. Luckily, my husband still has his job, but in order for us to make ends meet, he has been working overtime. He also goes to school two nights a week for 4 hours each night so he can better his employment prospects for the future.

While I am lucky that he has a job and is working hard to support us, it upsets me that he is doing it alone. I am a very independent person and I feel bad that my husband has to endure the extra hours of work, plus his school work and working full-time.

Even though he is working overtime, we have used up almost all of our savings just to continue to pay the mortgage. We have just enough savings left to scrape by on our December payment. After that, I don't know what we will do if I can't find a job.

My husband and I are careful and responsible people. We own a home and made sure to purchase a House we could afford in order to avoid risky financing. We made educated decisions and worked hard for what we have. I have worked continuously for over 10 years. Now I feel like the odds are against me because I have had to rely on unemployment.

Beyond that, my self-esteem has taken a real hit. You can't help but ask yourselves sometimes, what is wrong with me? Why am I not picked? At times, even when I go for an interview, I hope that employers don't see that.

Congress can help people like me. In the short-term, please extend unemployment benefits since the economy isn't getting any better and jobs are continuing to disappear. You have been elected to serve the people of the United States, and we have never needed you more.

Thank you again for the opportunity to tell my story and represent all of the unemployed workers throughout the country who are struggling just to survive in this current economy.

[The statement of Ms. Stevens follows:]

Prepared Statement of Dana Stevens, Human Resources Professional

Chairman Miller, Ranking Member McKeon, and members of the Committee, thank you for inviting me to testify at this hearing today. My name is Dana Stevens, and I am a resident of Gloucester County, New Jersey. Since July 11th , I have been unemployed and am struggling to find a new job and make ends meet. My story is not unique—I am like millions of others who are struggling in the current economy. I am grateful for the opportunity to share my story today on behalf of all the unemployed workers out there who are ready, willing and eager to work, but just cannot find a job.

I am 31 years old, and have been working continuously since I was 21 years old. Shortly after high school, I began working full time and going to college on a part time basis, steadily pursuing my college degree in general business administration.

In June of 2007, I began working for an insurance broker. I was recruited to join that employer and was hired to fill a new position of Benefits Administration Supervisor. I loved the job and felt very secure and settled, until last March. I was notified that my department would be outsourced in an effort to save $80,000 in business costs, plus salaries and additional money in benefits. This decision was also made as part of a sale of my employer to a much larger insurance company. I was initially told to remain positive and that my employer wanted to find me another position within the organization. However, in May, I was told that July 11th would be my last day of work.

As soon as I learned that I would lose my job, I immediately began looking for a new one. I followed every avenue I could. I posted my resume on-line, networked extensively with the clients of my employer, applied for job openings, and even worked with professional head-hunters. My husband and I also began saving every penny we could to be able to pay our mortgage and bills once my employment ended. We have always lived within our means and paid our bills on time, but I knew that the amount I receive in unemployment insurance benefits would not be enough to cover our monthly mortgage payment.

Since I learned I would lose my job, I have literally applied for over 140 jobs, in addition to all of the other networking I have done. In that time, I have had interviews with only seven companies. While I have come close to getting a job, and have received compliments on what a strong candidate I am, I am still unemployed. I am looking as broadly as I can. I live in southern New Jersey so I am applying for jobs in Wilmington, Delaware, as well as Philadelphia, Pennsylvania, and the entire region. I am not simply looking for human resources jobs, but for anything I could do including office work and administrative jobs that are a step backwards from the positions I previously held. I even am willing to take a significant pay cut for the sake of working, but I need a job that will pay me enough so that I can keep my house and avoid becoming part of the working poor. I am even willing to do contract work that offers no benefits, just for the sake of earning money to pay our bills.

I thought I had a good chance of finding a job two weeks ago when a head hunter called me about an open position. But then she found out the next day that the position was put on hold until at least next February because the employer could not afford to fill it right now. That is the situation I am facing everywhere I look. There just are not a lot of good jobs out there right now, and the ones that do exist have hundreds of people applying for them. Everybody is willing to accept jobs for which they are overqualified and take pay cuts, so the competition is really tough.

Luckily my husband still has his job, but in order for us to make ends meet, he has to work over-time. He's also going to school two nights a week, for four hours each night, so he can better his employment prospects for the future. While I am lucky that he has a job and is working hard to support us, it upsets me that he is doing it alone. I am a very independent person and I feel bad having my husband endure the long hours and extra work. Even though he is working over-time, we have used up almost all of our savings just to continue paying the mortgage. We have just enough in savings to scrape by on our December payment. After that, I don't know what we'll do if I can't find a job.

My husband and I are careful and responsible people. We own a home and made sure to purchase a house we could afford in order to avoid risky financing. We make educated decisions and work hard to earn what we have. I've worked continuously for over ten years. I'm going to school to get my degree, and I have never received government services before. Now, I feel like the odds are against me because I have had to rely on unemployment in order to help support our family.

My unemployment has had very real consequences that will take years to correct. I had to transfer colleges, because the school of my choice was just too expensive. Even at the local community college, I've had to pay my tuition on a credit card. At times, I've even had to put the cost of groceries on my credit card so we can pay our bills and still have food to eat. I will pay high interest rates on that tuition and food as I pay it off over several months, possibly years. In addition, my husband and I were getting ready to start a family right before I lost my job. This is something we both want very much. As disappointed as I am that we had to postpone having children, I am also relieved that I did not get pregnant before I lost my job. I'm sure my job opportunities would be nominal, as very few employers would hire me knowing that I would have to take maternity leave within months of starting a new job.

Beyond that, my self-esteem has taken a real hit. I've always been a very confident person and feel that I present myself well. But, when you apply for so many jobs and nothing comes through, you can't help but think "what's wrong with me?" Imagine going into an interview and trying to project self-confidence when you feel completely defeated. I'm putting on a front every time I have an interview and I just hope that potential employers cannot see through it. There are even times when I apply for a position and know that I would be a great fit for the role and I don't even get a response on my resume submission.

I really feel like I've done the right things in life. In spite of all my efforts and being responsible, I cannot get ahead. It makes me worried and frustrated, even angry at times. I hope that by being here today, my story will be beneficial to others that are in my situation. They need to know they're not alone, even though being unemployed is one of the loneliest feelings in the world. I look at the rising unemployment statistics to gain some perverse comfort in realizing I'm not the only one out there struggling to find a job.

People like me are really hurting. We want to work. Believe me, the amount we get for unemployment is no incentive to stay home. I hear the President's spokesperson say that extending benefits again might create an incentive for people like me to stay home longer and that's just wrong. There is nothing fun about staying home when you can't find a job. There is nothing enjoyable about being up at night worrying about how you are going to make ends meet. Being unemployed hurts you and your family financially, but emotionally and physically as well. For anyone to suggest that receiving unemployment is like getting a free vacation is insulting and degrading to the millions of people like myself who are desperately trying to get back to work.

Congress can help people like me. In the short-term, you need to extend unemployment benefits again because the economy is not getting any better, jobs are continuing to disappear, and the winter is coming when we need to money to pay our heat and other bills. But I also ask you to come up with legislation that will help provide a financial recovery for all people in this country, especially those who are struggling the most. Use your influence to help create new jobs with good pay and good benefits. Find ways to create incentives for companies to keep good jobs in-house, rather than outsourcing them to cheaper vendors who undercut the market for hard working men and women. You have been elected to serve the people of the United States, and we've never needed you more.

Thank you again for the opportunity to tell my story and to represent all the unemployed workers throughout this country who are struggling just to survive in this current economy.

Chairman MILLER. Thank you very much for your testimony. Again, we appreciate how difficult it is for you to discuss this in public among strangers.

Mr. Blackwell.

STATEMENT OF RON BLACKWELL, CHIEF ECONOMIST, AFL–CIO

Mr. BLACKWELL. Thank you, Chairman Miller. Unfortunately, Ms. Stevens is not alone. There are currently 10 million Americans that are formally unemployed and looking for work every day and can't find it. If you added the number of Americans that are working part-time when they need a full-time job or people who have been discouraged or people that are near taking employment, you would double that number.

As we meet today, we face the most complex and dangerous economic crisis that I have seen in my career. I wasn't around for the Great Depression, but this is much more serious than the 1980s, as I recall. The bursting housing bubble last year has triggered a global credit crisis, and together they are dragging the U.S. And other economies into recession and slowing growth worldwide.

As a result, the American economy has been shedding jobs in accelerating rates since the beginning of the year. The economy lost 168,000 in September alone. There has been a total of 900,000 private sector jobs lost this year so far.

The unemployment rate has increased by 1.2 percentage points since January and now stands at 6.1 percent. Nearly 10 million workers, as I said, are now unemployed and seeking work. Over 2 million of those have been unemployed for over 27 weeks, and hundreds of thousands of American workers are approaching the exhaustion of their unemployment benefits even as recently extended.

Unemployment claims are now running at nearly 500,000 a week, which is clearly consistent with the rapidly deteriorating labor market, and this kind of deterioration has not been seen outside of the context of a recession in our history.

A majority of private sector economists now consider the economy is either in or entering a recession of uncertain depth and duration. And with job loss projected to continue for several quarters, private economists are forecasting a rise the unemployment rate, as you mentioned, to a total of 7 to 8 or even above percent by the end of next year.

In my judgment, we are clearly in the early stages of a potentially very seriously recession that will likely be as deep as anything we have experienced in a generation, last longer than most, and one which is rapidly becoming global in scope. Just how deep and protracted this recession will be depends on the timeliness of congressional action, the aggressiveness of congressional action, and whether it is properly focused on the activities that we need supported.

The current economic crisis is the conjunction of three distinct elements; a housing crisis, a credit market crisis and an employment crisis. Each of these crises is serious enough in itself, but their interaction is now making for a particularly dangerous dynamic.

Housing prices have already lost 20 percent of their value on average and can be expected to fall another 10 to 15 percent, even if they do not overshoot their fundamental values. Home foreclosures are spiking, people are losing their homes, communities are being devastated and trillions of dollars are being drained from the net worth of households.

Consumers, who have been driving the economy, debt finance consumption spending is what has been behind the recent recovery from the last recession, but they are pulling back sharply. They started initially on autos, of course, as you know, and houses, but in September, it seems like the dam has broken and consumer has capitulated. So it looks like the consumers are pulling back very sharply. They represent 70 percent of the spending in the economy, and with housing prices continuing to fall and with people continuing to lose their jobs, that can only get worse.

Unfortunately, the complexity of the forces dragging us into recession makes formulating and calibrating an economic recovery plan particularly difficult. We truly are in uncharted territory in terms of economic policy.

Nevertheless, this designing and building an economic recovery plan, Congress should bear in mind three particular considerations which I think bear on the shape and the appropriate size of a recovery program and that follow from the very distinctive characteristics of this last recovery and the recession that we are now in. I detail some of these considerations in my written remarks. I don't have time to present them here.

I will simply mention that we have to focus on two things: One is the urgency of congressional action. We have no time to waste. The labor market is deteriorating very, very rapidly, and the consumer, as I said before, has capitulated and is pulling back very, very sharply.

If housing prices continue to fall like the way they are falling and people continue to lose the jobs the way they are doing, then all of the effort that Congress made to stabilize our credit markets by committing this money will be lost, because even as the government pours money into these financial organizations, the net worth of the assets they control are draining out.

Secondly is to be aggressive. I think the stimulus program that was undertaken earlier this year was more than welcome and very timely. It was poorly targeted, in my view. But it is clearly not adequate to match the kind of challenge that we have in front of us.

Finally, I need to say that it needs to be well-focused. This current crisis is the result of fundamental economic imbalances in the U.S. and global economy that have been allowed to develop over the past 30 years, and we need to take action now that addresses those. I think your suggestion that we get involved in aggressive infrastructure spending is exactly the kind of focus that we need.

These are long-term needs that we need to rebuild the competitiveness of our country, to have broadband in our cities, to have bridges that aren't falling into rivers and cities that aren't drowning, and to provide the basis for this country to be able to pull its weight in the world and produce more of the value equivalent of what it consumes.

I think I will stop there.

Chairman MILLER. Thank you.
[The statement of Mr. Blackwell follows:]

Prepared Statement of Ron Blackwell, Chief Economist, AFL–CIO

Thank you, Chairman Miller, Ranking Member McKeon and members of the Committee. I welcome the opportunity to be here today to testify on behalf of the ten million members of the AFL-CIO and share our views on the state of the economy and the importance and the urgency of building an aggressive economic recovery program.

I want to begin by mentioning that I serve on the board of Baltimore Branch of the Richmond Federal Reserve Bank. I want to make it clear that I am speaking today exclusively in the role of chief economist of the AFL-CIO and nothing I say should be taken to reflect the views of the Bank or the Board of Governors.

As we meet today, we face the most complex and dangerous economic crisis since the Great Depression. A bursting housing bubble last year has triggered a global credit crisis and together they are now dragging the U.S. and other economies into recession and slowing growth globally.

As a result, the American economy has been shedding jobs at an accelerating rate since the beginning of the year. The economy lost 168,000 jobs in September alone, bringing total private sector job loss to nearly 900,000 so far this year. The unemployment rate has increased 1.2 percentage points since January and now stands at 6.1 percent. Adding the millions of workers who want a job, but who are not now looking, would bring the 'under-employment' rate into double digits.

Nearly ten million workers are now unemployed and seeking work, over two million of whom have been unemployed for over 27 weeks. Unemployment claims are now running at over 500,000 a week, indicating a sharp recession is well underway. A majority of private sector economists now consider the economy as either in, or entering, a recession of uncertain depth and duration. And, with job loss projected to continue for several quarters, private economists are forecasting a rise of the unemployment rate to between seven and eight percent by the end of next year.

In my judgment, we are clearly in the early stages of a potentially very serious recession that will likely be as deep as anything we have experienced in a generation, last longer than most recessions and is becoming increasingly global in scope. Just how deep and protracted this recession will be depends on a timely, aggressive and well-focused economic recovery package.

The current economic crisis is a conjunction of a housing crisis, a credit market crisis and an employment crisis. Each of these crises is a serious enough in itself, but their interaction is now making for a particularly complex and dangerous dynamic. Housing prices have already lost 20 percent of their value on average and can be expected to fall another 10-15 percent even if they do not overshoot their fundamental values. Home foreclosures have spiked to between 9000-10,000 a day and trillions of dollars have been drained from household net worth. Consumers are pulling back sharply as their wealth declines, slowing the economy and forcing employers to shed jobs and cut wages and benefits. The continuing decline of housing prices also aggravates the credit crisis as the value of mortgage-backed assets continues to undermine the balance sheets of under-capitalized financial firms.

Unfortunately, the complexity of the forces dragging us into recession makes formulating and calibrating an economic recovery plan particularly difficult. We truly are in uncharted territory. Nevertheless, in designing and building an economic recovery plan, Congress should bear in mind three considerations that bear on the size and shape of a recovery package that flow from the distinctive features of the most recent expansion and the forces behind the crisis.

First, Congress must act with appropriate urgency to address the acute pain and anxiety that the current economic crisis is producing in the lives of millions of working families. The current crisis brings to an end the slowest recovery in terms of job creation, wages and family incomes of any business expansion since the Second World War. And it comes at the end of a generation-long stagnation of wages and rising economic insecurity.

American workers are the most productive workers in the world and we are now working longer hours than workers in any other developed country. Nevertheless, wages and family incomes have stagnated, making it very difficult for workers to sustain their living standards. Since 1980, productivity has grown 70 percent, but wages have increased by only 5 percent. Real median family income has only increased by 15 percent, but only because each worker is working longer hours and more jobs and especially because each family is sending more family members into the labor force. The only reason median family income has increased at all is because of increased female labor force participation.

Productivity increased by 16 percent in the recovery from the 2001 recession, but real wages and earnings increased only 2 percent. As a result, the recovery just ended was the first business expansion on record that left real median family income below its pre-recession level (-$2000) and even below its level in the 2001 recession year (-$1000). Because of stagnating wages, working families have exhausted their savings and have increasing turned to personal indebtedness to maintain their living standards.

Any economic recovery program should move with the same urgency in addressing the acute pain and anxiety of working families as shown in addressing the global credit crisis. At a minimum, this means the recovery program should contain measures to extend the unemployment benefits for the hundreds of thousands of workers who are now exhausting their unemployment benefits. It should also greatly expand the food stamp program for our lowest-paid workers. And it should aid state and local governments who are otherwise forced to cut back their expenditures on health care in order to balance their budgets.

Second, any economic fiscal package must be aggressive enough to make a difference against the powerful and still developing forces dragging the economy into recession. The economic expansion from the 2001 recession—like the previous recovery from the early 1990s recession—was very different from all other post-World War II recoveries. The earlier recoveries ended as a result of policy actions by the Federal Reserve to stanch inflationary pressure by slowing economic growth by raising interest rates. The last two recoveries ended with the bursting of asset bubbles—equities in the late 1990s and housing prices since 2000.

The importance of this difference between the older business cycles and the newer is in the usefulness of traditional monetary policy instruments in mitigating the damage of recessions and aiding in the subsequent recoveries. In policy-induced recessions, monetary authorities could expect a reversal of policy—lowering interest rates—could be counted on to provided much of what was needed to spark a recovery of interest sensitive industries and restart growth. In response to asset deflation, a lowering of interest rates cannot be counted on alone to restart growth. Instead, counter-cyclical fiscal policy is necessary to arrest the decline and help power a recovery. Moreover, the deflation of housing values in the current recession is much more serious than the decline of equity values in the 2001 recession and, therefore, the current recession is likely to be much more serious than that recession and will require much more aggressive fiscal policy to stabilize.

The recent aggressive lowering of interest rates by the Federal Reserve is certainly welcome, but they are not sufficient to restart robust and sustainable growth under current circumstances. For this reason, the first $168 billion economic stimulus package passed by Congress in the Spring was especially appropriate and timely, but it was simply too small to counteract the combined depressing effects of a bursting housing bubble and the global credit crisis it triggered.

Congress acted with great dispatch to enact the $700 billion package to address the credit crisis and help maintain the stability of global capital markets. The same energy and imagination is called for in shaping an economic recovery package if we are to stabilize the rapidly deteriorating conditions in the real economy. This is not the time for undue caution or misplaced concern for federal budget deficits.

Third, an economic recovery package should target the underlying fundamental economic imbalances that have produced the current crises if we are to avoid repeating them in the future. Three imbalances are particularly worth noting:

The imbalanced between the U.S. and global economy. The unsustainable U.S. external account imbalance requires us to borrow five to six percent of our national income to pay for the things we consume as a nation but no longer produce. Our external imbalance with our Asian trading partners is maintained by our partners buying large quantities of dollar-denominated assets—U.S. Treasuries, of course, but also mortgage- backed securities—to maintain their competitive advantage. These trade surpluses in this way have fueled what Fed Chairman Bernanke refers to the “ global savings glut” which has powered the housing bubble that has now burst and is the proximate cause of the current crises. Either we find a way to produce more of the value equivalent of what we consume as a nation or, one way or another, we will be forced to consume less.

Correcting this imbalance suggests that any economic recovery program focus the needed fiscal spending on improving our nation’s competitiveness through public investment to create a world-class workforce and a world-class national transportation, information and communications infrastructure. A public investment-led recovery program would focus needed spending on longer term needs that we must find a means to address if we are to support our living standards in an increasingly competitive global economy, crowd in private investment and provide a more sustainable basis than that provided by asset inflation for our nation's economic growth.

The imbalance between finance and the real economy. In a well functioning economy, finance is supposed to be the servant of the real economy, not its master. But a combination of financial deregulation and financial innovation has allowed the bursting housing bubble to trigger a global financial crisis. Correcting this imbalance is more a matter for the regulatory reform of our capital markets than the economic recovery program. Nevertheless it is an essential component of a comprehensive program to build a strong, sustainable and internationally competitive national economy.

The imbalance of bargaining power between workers and their employers. This imbalance is responsible for the stagnation of wages and the rupture of the crucial relation between wages and productivity that has served as the foundation of the American social contract. The stagnation of wages has motivated American workers to work more, save less and borrow imprudently against appreciating assets to maintain their living standards. Correcting this imbalance requires sufficient demand from public and private investment to produce something close to full employment, a meaningful minimum wage and reforming our labor law to allow workers to freely associate with their fellow workers and form a union to bargain collectively. Again, this is beyond the concern of an economic recovery program, but is essential to restoring an American economy that is strong, sustainable and internationally competitive, but also one whose prosperity is broadly shared.

And finally, although it is not the subject of today's hearing, Congress must find away to address the continuing decline in housing prices, the proximate cause of the credit market crisis and the current recession. RealtyTrac reports a record 775,000 foreclosures in the third quarter, a 71 percent increase from the same period last year. Whether a part of an economic recovery package, or parallel to it, the Congress must address the housing crisis with an aggressive program to keep families in their homes. The AFL-CIO has long supported a moratorium on foreclosures and action to allow the terms of mortgages on primary residences to altered in the bankruptcy process. Given the scale of the housing crisis, and the central role it plays in resolving the credit crisis and mitigating the employment effects of the recession, even more aggressive steps should be considered to restructure mortgages more broadly.

Other panelists will address more specific recommendations for the composition of an economic recovery program, but I am prepared to offer the views of the AFL-CIO on these suggestions in answer to the Committee's questions.

Thank you again for the opportunity to be with you today and share the views of the American labor movement.

Chairman MILLER. Mr. Bernstein.

STATEMENT OF JARED BERNSTEIN, LIVING STANDARDS PROGRAM, ECONOMIC POLICY INSTITUTE

Mr. BERNSTEIN. Chairman Miller, Ranking Member McKeon and members of the committee, I thank you for the chance to testify on this urgent topic. As other panelists have covered the current conditions, I will focus on two other points: First the impact of recessions on incomes; and, second, policy options intended to address the downturn and offset these negative effects.

Due to the factors Ron just talked about, including job loss, fewer hours and slower wage growth driven by the weaker labor market, incomes usually fall in recessions. Moreover, as recoveries following the two previous downturns, the 1991 and the 2001 recessions were both weak, both were labeled jobless recoveries, family incomes fell in the early years of these recoveries as well.

These dynamics are plotted in figure 7 in my written testimony, which shows the trend in real average income of low and median income families in the first and third income quintiles. The peak year is either 1989 or 2000, the slide is up there now, and the years that follow include the recessionary period. Both of these recessions lasted 8 months and the first few years of recovery.

Note that lower income families tend to experience greater income losses as these families response to labor market changes is more highly elastic. This is one reason why the real incomes for middle and low income families rose quickly in the latter ’90s when very different job market conditions prevailed and the labor market was uniquely tight.

As others have noted, one prominent forecast predicts the rising unemployment through at least next year, reaching 8 percent by the end of 2009. Comparing this to a baseline of 4.6 percent in the next figure that prevailed in 2007, I expect that the increase in unemployment will lead to losses in the average income of low income families of 5 percent in real terms, about $900 in 2007 dollars. Poverty may increase from 12.5 percent to 14.3 percent. I expect the average income of the middle fifth to fall by about $2,500. As the figure reveals, these losses continue for a few years into the recovery.

Turning to the recovery agenda, I note that public officials both at the Congress and Federal Reserve have historically acted to offset recessionary conditions. Both the Fed and the Treasury have been aggressively intervening in financial and credit markets and their efforts are beginning to show some thawing of the freeze in these markets.

I view these as supply side interventions. That is, by opening up frozen credit lines, these actions are intended to clear supply lines of credit such as the borrowers and lenders will now lend at least somewhat more freely to each other. But in the absence of stronger demand, it is less likely these supply lines will be tapped. Thus, a demand side stimulus is warranted.

What form should it take? I recommend a 1-year recovery package in the neighborhood of 1 to 2 percent of GDP, $150 billion to $300 billion, targeted at infrastructure, State fiscal relief, unemployment insurance and food stamps.

I do not stress direct payments to households, though these may be helpful as well. But by emphasizing rebates, the last stimulus package overlooked other important priorities, and these channels are likely to provide a bigger bang for each stimulus buck.

A first priority should be to extend unemployment insurance benefits. Hiring freezes and layoffs have led to higher unemployment and at this point about a fifth of the jobless have been so for at least 6 months. Congress previously enacted an emergency unemployment compensation program, which provided up to 13 weeks of federally funded jobless benefits beyond the 26 weeks provide by States.

The National Employment Law Project estimates that beginning in October, in early October, 800,000 jobless persons began to exhaust their benefits and will be left without employment compensation.

But Congress may want to go beyond the extension in two ways: Raising the benefit levels of UI compensation and extending eligibility to unemployed persons who currently need but do not qualify for benefits.

Like unemployment insurance, food stamp expansion would also address a critical human need while generating a large multiplier effect. State fiscal relief was also left out of the last stimulus package, and while last time Congress invested about $20 billion in State fiscal relief, it was helpful but it was enacted late in the game as was thus less effective.

Finally, I urge this body to strongly consider including funding for infrastructure projects in a second package. A common argument against such investments in the context of a recovery package is that the water won't get to the fire in time, that the implementation lag is so long it will be unable to inject growth quickly enough to aid the ailing economy.

However, researchers at EPI have carefully documented current infrastructure needs that could be quickly converted into productive job producing projects. My written testimony lists many examples. I am happy to discuss them later.

Thank you.

[The statement of Mr. Bernstein follows:]

Testimony of Jared Bernstein
Senior Economist
Economic Policy Institute

Before the House Committee on Education and Labor

Hearing on:

"Building an Economic Recovery Package: Creating and Preserving Jobs in America,"

October 24, 2008

Chairman Miller, Ranking Member McKeon, and members of the committee, I thank you for the chance to testify today on this urgent topic. As this committee well knows, economic turmoil in both financial markets and the so-called "real economy" are taking a toll on the living standards of many American families, and I appreciate the opportunity to present an overview of the challenges they face and the solutions I believe will help.

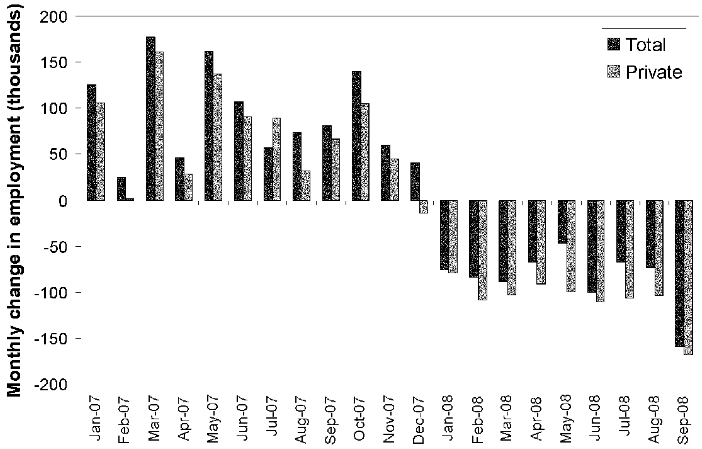
Though it has not been officially recognized, it is widely agreed upon that the U.S. economy is currently in recession. There are questions as to how long and deep this downturn will be, but recessionary conditions have prevailed, especially in the job market, throughout 2008. This testimony will first present an overview of current conditions, emphasizing the impact on middle and lower income families. Second, I will comment on some of the policy options Congress should consider to address the downturn and offset, to some degree, these negative trends.

Current Conditions

Though the official call has yet to be made, the economy in general, and the labor market in particular, is in recession. **Figure 1** shows the monthly changes in payroll employment from January 2007 through September of this year, for both total and private sector employment. Both have significantly and consistently fallen, and this pattern of job loss has not occurred outside of recessions.

At this point, most sectors are losing jobs, with the consistent exceptions of government—often a counter-cyclical sector—and health care. The latter reflects continued large public and private expenditures into the system, an aging population, and an inelastically demanded service (i.e., health needs cannot typically be put off until the cycle improves).

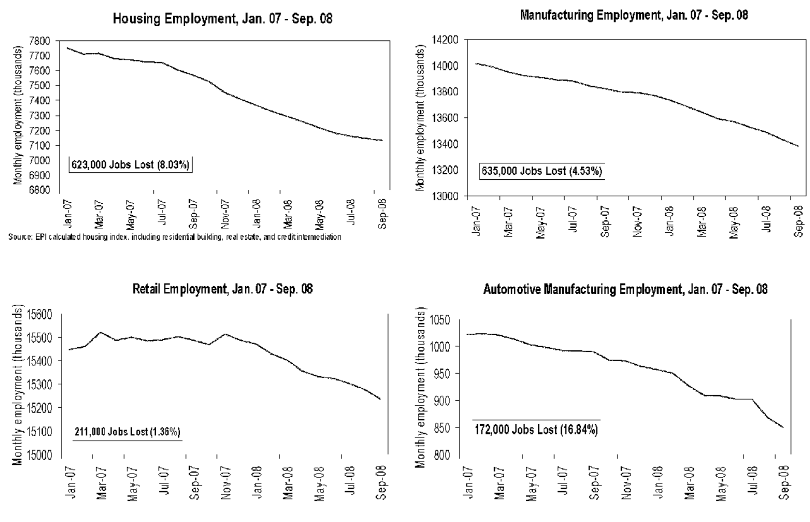
Figure 1. Total and Private Payroll Employment, Jan. 07-Sep. 08



Source: Bureau of Labor Statistics

Of course, jobs in residential construction are far off their peak, driven down by the bursting housing bubble. EPI constructs a residential housing index which includes employment both directly and indirectly linked to the sector (the index includes jobs in construction, real estate, and credit intermediaries related to home financing). **Figure 2** shows losses in the housing index, retail sales, and manufacturing, with autos shown separately. The fall-off in consumer spending is reflected in declining retail jobs, while the sharp fall-off in car buying shows up in that sector's employment losses. Note that these declines in manufacturing have occurred despite improvement in our trade balance. While we have exported more goods and imported fewer in recent quarters, manufacturing employment has not reflected these gains. Some evidence suggests that this is related to the content of our trade flows, which have been more concentrated in commodities such as grain than in durable goods.

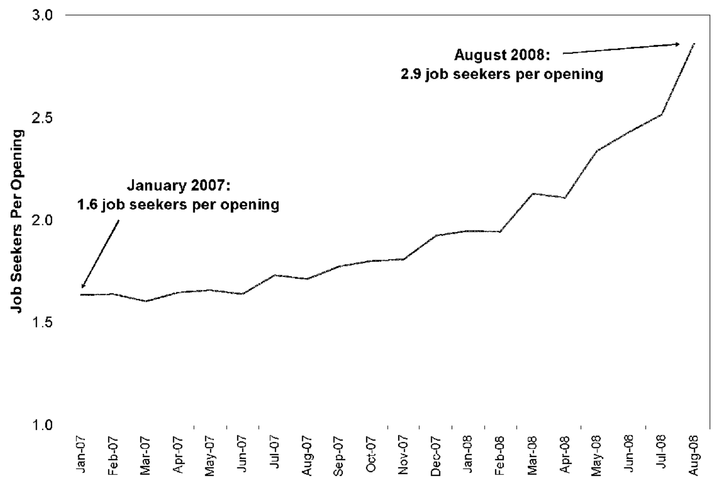
Figure 2. Employment Declines Across Sectors



Source: Bureau of Labor Statistics

Another recessionary indicator is the increase in job seekers relative to job openings. The lack of job creation, as shown in Figure 1, has led to a sharp increase in this metric, a clear indicator of increased slack in the labor market. **Figure 3** shows that in January 2007 there were 1.6 job seekers for every job opening in the economy; in the most recent data available, that ratio had risen to 2.9 job seekers per opening.

Figure 3. Job Seekers Per Opening, Jan. 07 - Aug. 08



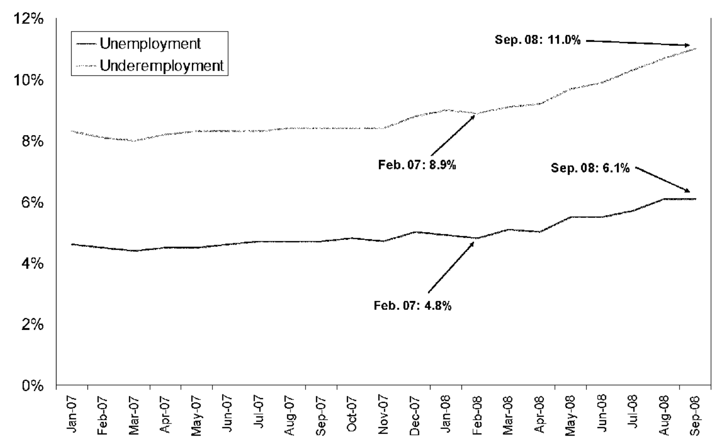
Source: Bureau of Labor Statistics

This mismatch between labor supply and demand leads, of course, to higher unemployment. **Figure 4** plots the unemployment and underemployment rates since January 2007, showing the cyclical rise in both measures.

The fact that underemployment has risen more quickly than unemployment is important because it shows that employers have adjusted to diminished demand not just by laying off workers, but also by cutting workers' hours. The difference is largely driven by the increase in the number of part-time workers who would prefer full-time work but can't find it. Since January 2007, the number of these involuntary part-timers is up by 1.8 million, to 6.1 million, and they now represent 4.2% of employment, the highest share on record since 1994.[1]

[1] Though this series existed before 1994, the BLS significantly changed the way part-time workers are indentified in the Household Survey that year, so the series is only consistent since January 1994.

Figure 4. Unemployment and Underemployment, Jan. 07 - Sep. 08

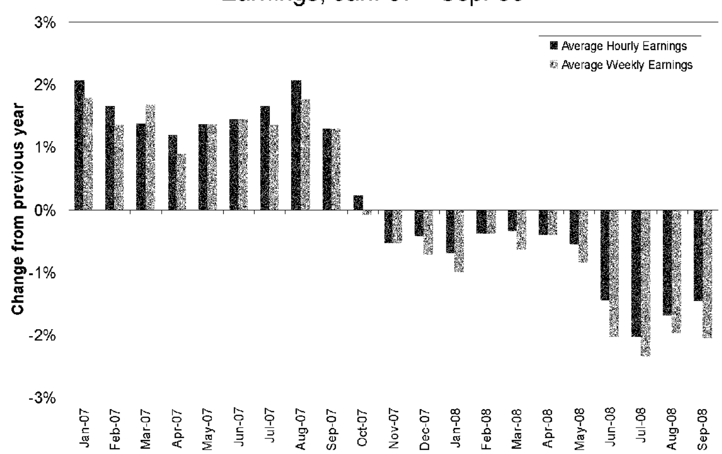


Source: Bureau of Labor Statistics

The fact that many workers are able to find fewer hours than they'd like has led to diminished weekly earnings. **Figure 5** shows yearly changes in inflation-adjusted hourly and weekly earnings since January 2007 for the 80% of the workforce in production or non-managerial occupations. This measure has been flat or falling since October of last year, with real weekly earnings down about 2.5% for the past three months.

In other words, the buying power of most workers is declining as inflation outpaces their weekly paychecks. Three factors are contributing to this erosion. First, the slack job market is leading to slower nominal (i.e., before accounting for inflation) wage growth. Nominal hourly earnings rose 3.5% percent in the third quarter of this year, compared to 4.2% in the first quarter of last year. Second, fewer weekly hours, as noted above, explains why the weekly bars in the figure show larger losses than the hourly bars. Finally, faster inflation has been a major factor in eroding the buying power of working families' earnings.

Figure 5. Yearly Changes in Average Weekly and Hourly Earnings, Jan. 07 - Sep. 08

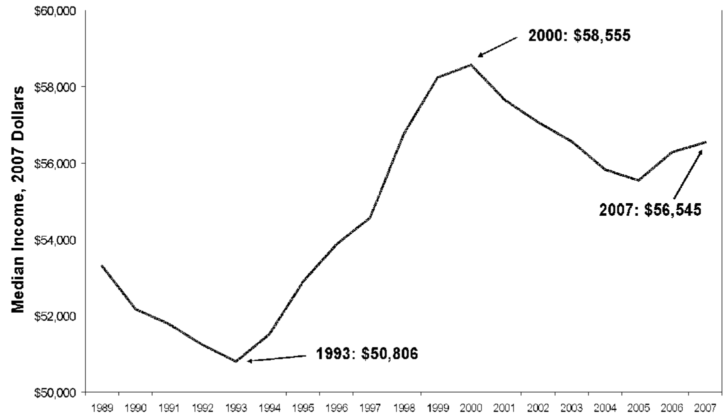


Source: Bureau of Labor Statistics

Figure 6 provides some recent historical context for the current conditions discussed thus far. The figure shows the trend in the real median income of working-age households—those headed by someone less than 65— 1989-2007. Their median income, after adjusting for inflation, fell $2,000 between 2000 and 2007, from about $58,500 to $56,500 (2007 dollars).

The trend was very different in the 1990s. After declining in the recession (and the jobless recovery that followed), the median income of working-age households reversed course and rose consistently through 2000. Over the 1990s (1989-2000), it was up almost 10%, or about $5,200. Had this growth rate prevailed in the 2000s, the median income of working age households would have gone up $3,600 instead of falling $2,000.

Figure 6. Real Median Income, Working-Age Households, 1989-2007



Source: Bureau of Labor Statistics

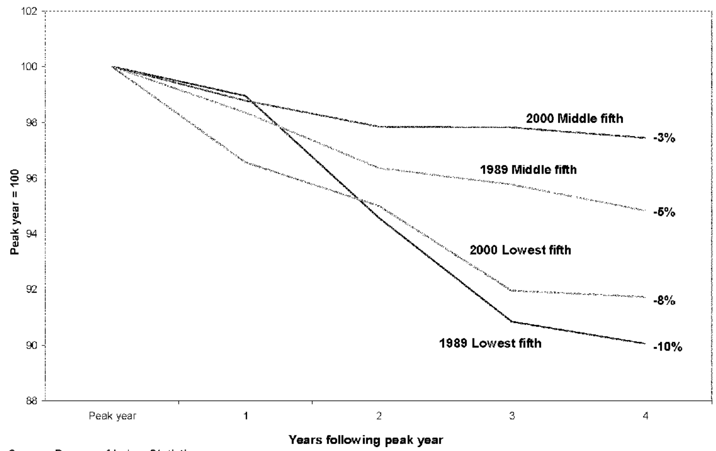
One key factor behind this result, which is an important source of worker insecurity, is the historically weak job growth over the 2000s business cycle, the weakest on record going back to the 1940s. When employment growth is weak, the abundant supply of labor in the job market means that there is less need for employers to bid wage offers up in order to get and keep the workers they need. This lack of worker bargaining power shows up as weak wage and income growth for working families, even amidst strong productivity growth and relatively low unemployment.

What to Expect

Due to the factors discussed above regarding job loss, fewer hours, and the slower wage growth driven by the weaker job market, incomes usually fall in recessions. Moreover, as the recoveries following these downturns were both weak (both were labeled "jobless recoveries"), family income fell in the early years of these recoveries as well.

These dynamics are plotted in **Figure 7**, which shows the trend in the real average income of low- and middle-income families (the first and third income quintiles). The peak year is either 1989 or 2000, and the years that follow include the recessionary period (both of these recessions lasted eight months) and the first few years of recovery. Note the lower income families tend to experience greater losses, as these families' response to labor market changes is more highly "elastic." This is one reason, as can be seen for middle-income households in Figure 6, that real incomes rose quickly in the latter 1990s, when the job market was uniquely tight.

Figure 7. Change in Average Real Family Income Following Peak Years, by Selected Income Quintiles

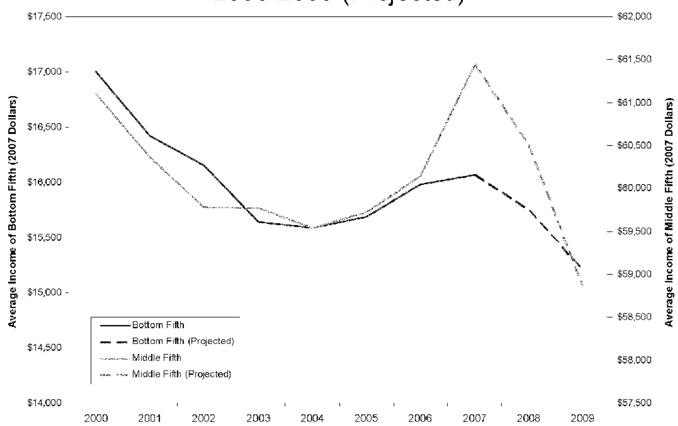


Source: Bureau of Labor Statistics

Using elasticities from economist Tim Bartik that map changes in unemployment to changes in real incomes by fifth (and poverty rates), we are able to predict the impact of the current downturn on incomes over the next few years. One forecast, by Goldman Sachs (GS), expects the unemployment rate, 6.1% in September, to be 8% by the end of next year (and 7.6% on average for 2009).

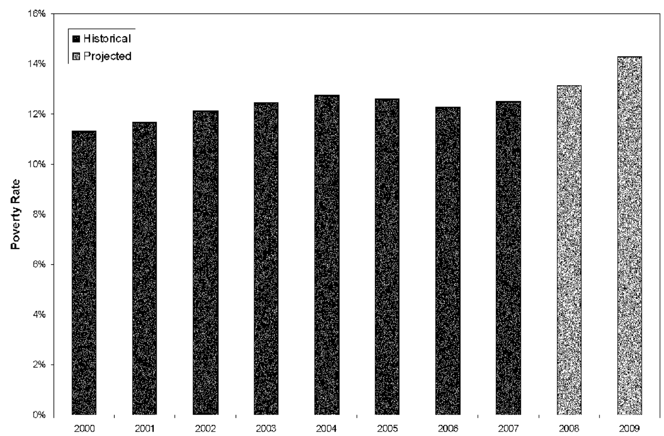
Figures 8 and 9 forecast the impact of the downturn through 2009 on incomes and poverty rates. Based on the GS estimates of rising unemployment through at least next year, we expect the average income of low-income families to fall by 5% in real terms, about $900 in 2007 dollars. Poverty may increase from 12.5% to 14.3%. We expect the average income of the middle fifth to fall about 4%, or $2,500. These losses are commensurate with those shown in the prior two recessions/weak recoveries, as shown in Figure 7. As that figure reveals, however, these losses continued for a few years into the recovery. Assuming that a recession began sometime in early 2008 and lasted through most of 2009, if past patterns persist regarding these income and poverty measures, losses could continue for another few years.

Figure 8. Average Income of Bottom and Middle Fifths, 2000-2009 (Projected)



Source: Bureau of Labor Statistics

Figure 9. Poverty Rate, 2000-2009 (Projected)



Source: Bureau of Labor Statistics

A Recovery Agenda

The economy is expected to remain in recessionary territory in the coming months. The same GS forecast noted above expects real GDP to be flat or negative from 2008q3-2009q2, followed by below-trend growth for the rest of 2009. Consumption spending, which comprises 70% of the economy, is widely expected to follow a similar pattern. Along with the job market constraints noted above, and their impact on wages and incomes, households are over-leveraged, and saving rates have been rising in recent months. While we would normally applaud higher savings rates by over-leveraged households, in the midst of a recession they serve to deepen the downturn.

Public officials, both in Congress and at the Federal Reserve, have historically acted to offset recessionary conditions. Both the Federal Reserve and the Treasury have been aggressively intervening in financial and credit markets, and their efforts are starting to show some thawing of the freeze in those markets. I view these as supply-side interventions. That is, by opening up frozen credit lines, these actions have cleared the supply lines of credit such that borrowers and lenders will now lend at least somewhat more freely to each other. But in the absence of stronger demand, it is less likely these supply lines will be tapped.

Thus, demand-side stimulus is warranted. But what form should such stimulus take, and what should be its magnitude? I recommend a one-year recovery package in the neighborhood of 1-2% of GDP, about $150-300 billion, targeted at infrastructure, state fiscal relief, unemployment insurance, and food stamps. This is similar in size and composition to other recommendations, such as Irons and Pollack (2008), or Baily (2008). For reasons I am about to discuss, I do not stress direct payments to households, but these may be helpful as well.

The first round of economic stimulus, passed last February, focused largely on such direct payments, called rebates. Over $100 billion in payments were sent to households over the summer, and some share of these payments, perhaps around half, found their way into the economy (the rest was saved, used to pay off debt, or leaked on import spending). Retail sales and personal income reports, for example, showed fairly clear evidence of the impact. Both of these measures factor directly into gross domestic product, and analysts generally agree that the stimulus package was an important contributor to the 2.8% growth in GDP in the second quarter of this year (real consumption spending contributed just under 1 percentage point to that growth).

But in almost solely emphasizing "rebates," the last stimulus package overlooked other important priorities, and these other channels are likely to provide a bigger bang for each stimulus buck.

A first priority should be to further extend unemployment insurance benefits. As discussed above, net job losses have led to higher unemployment, and at this point about a fifth of the jobless have been so for at least six months. Congress previously enacted the Emergency Unemployment Compensation (EUC) program, which provided up to 13 weeks of federally funded extended jobless benefits beyond the 26 weeks of unemployment insurance provided by the states. The National Employment Law Project (NELP) estimates that beginning in early October, 800,000 jobless persons will exhaust these benefits and be left without any unemployment compensation.

Expanding the EUC for more weeks should thus be part of any stimulus package. Another 13 week extension is warranted, with further weeks triggered in states with particularly weak job markets.

But Congress may want to go beyond the extensions in two ways: raising the benefit levels of UI compensation and extending eligibility to unemployed persons who currently need but do not qualify for benefits. Given the income deficits facing the unemployed, not to mention the strong macro-multiplier associated with these benefits, increasing the share of lost salary replaced by UI is warranted. Replacement rates—the share of lost salary replaced—are typically well below 50%. As part of a stimulus package, a temporary, federally funded initiative to take replacement rates up to 50-70% would be highly stimulative and provide the unemployed with a much needed boost.

Ways to expand eligibility, such as alternative base periods, are in the language of the UI Modernization Act, well known to this committee. It is my understanding that some of these eligibility expansions could be implemented under the rubric of stimulus.

Regarding multipliers, research by Moody's economy.com finds that since unemployed persons typically spend their checks to meet basic needs, the program yields a particularly large "bang for the buck:" a dollar spent on the UI extension yields $1.64 in terms of GDP growth.[2]

Unfortunately, parts of the initial stimulus package were not spent so wisely. Accelerated depreciation of business expenses, for example, generates only $0.27 extra GDP per dollar spent, the smallest multiplier in the cited study (see previous footnote).

In contrast, a food stamp expansion would resemble UI extension in that it would likely generate a large multiplier ($1.73, according the Moody's economy.com), thus both providing an effective macroeconomic stimulus and addressing a critical human need. The Food Research and Action Council reports that while food prices are up 7.6% over the past year, significantly more than overall prices (4.9%), food costs facing low-income households have risen even more quickly, by 10.3% (this is the increase in the USDA's Thrifty Food Plan, a market basket reflecting the food consumption of low-income households). Consider these increases in the context of the projected income losses for the bottom fifth, as shown in Figure 8.

A temporary increase in the benefit level of food stamps would help to offset this combination of spiking prices and lagging incomes.

State fiscal relief was also left out of the last stimulus package, yet the need to correct this omission is large and growing. According to the Center on Budget and Policy Priorities, "at least 29 states faced or are facing a combined $48 billion in…budget shortfalls."[3] These states typically must balance their budgets. Thus, in the absence of help from the federal government, they will be forced to draw down rainy-day reserves or take actions that would exacerbate the negative macroeconomic cycle (tax hikes or service cuts). The CBPP reports that states are

[2] See Moody's economy.com, Assessing the Macro Impact of Fiscal Stimulus, 2008.
[3] http://www.cbpp.org/1-15-08sfp.htm

actively tapping their reserves, but that these funds "generally are not sufficient to avert the need for substantial budget cuts or tax increases."

Thus, a second stimulus package should contain considerable aid to states. The two mechanisms through which such grants are typically made are a temporary increase in the federal government's contribution to the state's Medicaid program or general grants to the states. Following the last downturn, each of these programs received $10 billion. CBPP analysts note that these grants had their intended effects of preventing state actions that would deepen the negative cycle. But they also point out that "The major problem with that assistance was that it was enacted many months after the beginning of the recession, so it was less effective than it could have been…"

This time the states' budget needs are considerably larger, and various analysts of such conditions have suggested that $50 billion, split between Medicaid and block grants, could be usefully absorbed by states to offset the effects noted above.

Irons and Pollack (IP, 2008) also point out that the credit crunch has significantly raised the cost of borrowing for states, who, despite their sterling borrowing record, are facing much higher interest rates on bond issues. They note that "the Metropolitan Washington Airports Authority recently postponed plans for a $2.2 billion bond sale to expand the terminals at Dulles and Reagan National Airports. … Foregone infrastructure projects [like these]—which so far have been estimated to total $100 billion—will result in more unemployment, less demand for goods and services, and less overall economic activity." [4]

This example brings us to the final crucial area that the last stimulus package did not address, which is infrastructure investment. I urge this body to strongly consider including funding for infrastructure projects in a second package.

Three facts motivate this contention. First, as noted, American households are highly leveraged, and may well be poised for a period of enhanced savings and diminished consumption. In this context, public investment should be viewed as an important source of macro-economic stimulus and labor demand—the creation of new, often high-quality jobs—which is clearly lacking from our current labor market.

Second, there are deep needs for productivity-enhancing investments in public goods that will not be not made by any private entities, which, by definition, cannot capture the returns on public investments in roads, bridges, waste systems, water systems, schools, libraries, parks, etc. Third, climate change heightens the urgency of the need to make these investments with an eye towards the reduction of greenhouse gases and the conservation of energy resources.

For example, Irons and Pollock also note that according to the American Society of Civil Engineers, over two-thirds of roads are in poor or mediocre condition,[5] resulting in $54 billion

[4] http://www.washingtonpost.com/wp-dyn/content/article/2008/10/03/AR2008100303486.html?hpid=topnews
[5] "Key Facts About America's Road and Bridge Conditions and Federal Funding." TRIP, 2005 http://www.tripnet.org/nationalfactsheet.htm

per year wasted on repairs and operating costs.[6] More than a quarter of all bridges are rated structurally deficient or obsolete, leading to closings, and in some cases to collapse.[7] Half of all waterway locks are functionally obsolete, resulting in waterway shutdowns and substantial business losses.[8]

In this regard, infrastructure funding serves both to enhance productivity through investment in pubic capital and to create good jobs for workers that might otherwise be unemployed or underemployed. One common argument against such investment in the context of a stimulus package is that the water won't get to the fire in time; i.e., the implementation time lag is so long that we will be unable to inject growth quickly enough to help the ailing economy. However, research by EPI economists has carefully documented current infrastructure needs that could quickly be converted into productive, job-producing projects.

Take, for example, the August 2007 bridge collapse in Minneapolis. The concrete for the replacement bridge began flowing last winter, and the bridge was recently completed, well ahead of schedule. The American Association of State Highway and Transportation Officials claims that, according to their surveys, "state transportation departments could award and begin more than 3,000 highway projects totaling approximately $18 billion within 30-90 days from enactment of federal economic stimulus legislation."[9]

The following are other relevant examples identified by EPI researchers:

- There are 772 communities in 33 states with a total of 9,471 identified combined sewer overflow problems, releasing approximately 850 billion gallons of raw or partially treated sewage annually. In addition, the Environmental Protection Agency (EPA) estimates that between 23,000 and 75,000 sanitary sewer overflows occur each year in the United States, releasing between three and 10 billion gallons of sewage per year.
- According to a survey by the National Association of Clean Water Agencies, communities throughout the nation have more than $4 billion of wastewater treatment projects that are ready to go to construction if funding is made available. Funds can be distributed immediately through the Safe Drinking Water and Clean Water State Revolving Funds and designated for repair and construction projects that can begin within 90 days.
- The National Center for Education Statistics (NCES) put the average age of the main instructional public school building at 40 years. Estimates by EPI find that the United States should be spending approximately $17 billion per year on public school facility maintenance and repair to catch up with and maintain its K-12 public education infrastructure repairs.

[6] "Report Card for America's Infrastructure: Roads." *American Society of Civil Engineers*, http://www.asce.org/reportcard/2005/page.cfm?id=30
[7] "Key Facts About America's Road and Bridge Conditions and Federal Funding." *TRIP*, 2005 http://www.tripnet.org/nationalfactsheet.htm
[8] "Report Card for America's Infrastructure." *American Society of Civil Engineers*, 2005 http://www.asce.org/files/pdf/reportcard/2005_Report_Card-Full_Report.pdf
[9] http://www.transportation.org/news/96.aspx

- According to a 1999 survey, 76% of all schools reported that they had deferred maintenance of their buildings and needed additional funding to bring them up to standard. The total deferred maintenance exceeded $100 billion, an estimate in line with earlier findings by the Government Accounting Office (GAO). In New York City alone, officials have identified $1.7 billion of deferred maintenance projects on 800 city school buildings.
- The U.S. Department of Transportation has identified more than 6,000 high-priority, structurally deficient bridges in the National Highway System that need to be replaced, at a total cost of about $30 billion. A relatively small acceleration of existing plans to address this need—appropriating $5 billion to replace the worst of these dangerous bridges—could employ 70,000 construction workers, stimulate demand for steel and other materials, and boost local economies across the nation.
- The House Committee on Transportation and Infrastructure has identified more than $70 billion in construction projects that could begin soon after being funded. An effective short-term stimulus plan could include resources directed at projects for roads, rails, ports, and aviation; only projects that can begin within three months would be considered.

Finally, while I have discussed these infrastructure needs in the context of recession and stimulus, it is important to recognize two important points. First, these are all necessary and productivity-enhancing investments that should be made regardless of the state of business cycle. And second, recent history suggests that it is a mistake to think that labor market slack will no longer be a problem when the recession officially ends.

This last point deserves a bit of elaboration. Much of the current recession/stimulus debate has stressed that recent recessions—the ones in 1990-91 and 2001—were both mild and short-lived, and perhaps the next recession will follow the same pattern. It is critical to recognize that these claims are based solely on real output growth, and not on job market conditions. The allegedly mild 2001 recession, wherein real GDP barely contracted, was followed by the longest "jobless recovery" on record. Though real GDP grew, payrolls shed another net 1.1 million jobs. The unemployment rate rose for another 19 months and for almost two years for African-Americans. The pattern was similar, though not quite as deep, after the early 1990s recession.

Part of the explanation for this disjuncture has to do with the way recessions are officially dated by the committee at the National Bureau of Economic Research, as they have apparently given less weight to the job market and greater weight to output growth. But policy makers are likely to give greater consideration to working families whose employment and income opportunities are significantly weakened as unemployment rises and job growth contracts. Thus, from a stimulus perspective, these investments will be still be relevant and needed well after the recession is officially ended.

Conclusion

The first part of this testimony lays out the dimensions of the current recession in some detail, while the second section outlines what to expect in coming years, including forecasts of likely losses to income, driven by higher expected unemployment. The third section discusses a recovery package, including expansions to the unemployment insurance and food stamp programs, state fiscal relief, and infrastructure investment, with an emphasis on projects that can be up and running within months, quickly generating much needed new jobs. This package could involve expenditures, roughly speaking, of between $150-300 billion, with $50 billion for states, $50 billion for infrastructure, and $50 billion for UI and food stamps (UI would absorb most of this, perhaps $30-40 billion, depending on whether Congress pursued benefit and eligibility expansions). A recovery package of this magnitude is strongly recommended to meet the current economic hardships that many American families are undergoing, as well as those that lie ahead, as the downturn persists in coming months.

Chairman MILLER. Mr. Hansen.

STATEMENT OF CHRIS HANSEN, PRESIDENT, AMERICAN ELECTRONICS ASSOCIATION

Mr. HANSEN. Chairman Miller, members of the committee, good morning. Thank you for providing this opportunity to testify before your committee today.

The subject of this hearing is extremely important to those of us in the high technology industry, which currently employs nearly 6 million people in the United States. The average wage of those U.S.

workers is 87 percent higher than the average U.S. private sector wage. In other words, high-tech in the U.S. is providing the kind of good, high-paying jobs that America wants to keep.

I have three recommendations that I would like to make about the stimulus program that we would ask that Congress consider.

The first, Chairman Miller, is actually the same thing that you mentioned in your statement about broadband deployment and infrastructure. Advanced networks will allow increased opportunities for the creation of even more highly skilled jobs, to invent new products and improve existing ones in the vital areas of energy, health care, education, public safety and services. These are the jobs of the future.

AEA research shows that the United States now trails 15 other major countries in terms of broadband connectivity. Internet speed is the determining factor in promoting technology-based economic growth. The median download speed in Japan is 30 times faster than it is here, while Japanese pay about the same as we do for their significantly faster Internet connection. Telemedicine, telework, rural development and job creation are all predicated on having large numbers of people in disparate regions having access to fast, secure Internet service. We don't want to lose any more jobs or economic growth opportunities to overseas economies that have faster, more developed networks.

My second recommendation will be very familiar with you, Mr. Chairman, since it was included in the Democratic Innovation Agenda and it was also highlighted in President Bush's American Competitiveness Initiative, and that is that America must continue to invest in government-funded research in the physical sciences.

The goal of the America Competes Act was to honor the commitment of both political parties to double funding for the National Science Foundation, the Department of Energy's Office of Science and the National Institute of Standards and Technology. I would note that both presidential candidates support such an increase as well.

Unfortunately, the funding level for these organizations has remained relatively flat for the last 2 years. The economy and the American people need the kinds of breakthroughs that these agencies provide in environmental technologies, alternative energy sources and communications technologies that will enable wider use of medical health records, E-prescriptions and remote diagnostic procedures. This recommendation, Mr. Chairman, is not just about future "dot" jobs. R&D funding is about the job pipeline now and into the future. We can't afford to see these high-end research jobs disappear.

My third recommendation for crafting a new economic recovery package is to quickly increase liquidity and stabilize the U.S. economy by temporarily reducing the effective corporate tax rate for foreign earnings repatriated back to the United States.

The United States corporate tax system discourages companies from reinvesting their foreign earnings back into the U.S. And enacting such a provision would encourage companies to bring back overseas capital at a time when our companies are facing a difficult credit crunch. This would infuse the U.S. economy with funds needed to create new jobs and spur new investments.

As The Wall Street Journal pointed out on July 1st of this year, the capital infusion that resulted from the 2004 repatriation may be the reason why U.S. investment rose 9.6 percent in 2005. When this policy was enacted in 2004, at least $360 billion was brought back into the United States, generating billions of dollars in Federal tax revenues. This far exceeded the government's expectations. Instead of receiving 35 percent of nothing, since companies are now incentivized to keep their cash abroad, the U.S. Treasury received 5.25 percent of billions of dollars brought back into the United States. This benefited our companies, our economy and the U.S. Treasury, and it is precisely the type of provision that we need today.

Mr. Chairman, I congratulate you on conducting this hearing. It is very important to the future of American jobs and our economy, and I am grateful to have the opportunity to testify before you today. I will look forward to answering questions as appropriate.

Chairman MILLER. Thank you very much.

[The statement of Mr. Hansen follows:]

Prepared Statement of Chris Hansen, President, American Electronics Association

Chairman Miller, Ranking Member McKeon, Members of the Committee, good morning. My name is Chris Hansen, and I am the President and CEO of AeA, which the nation's largest high-tech trade association. I know you are both very familiar with AeA, and I would like to thank you for this opportunity to testify before your Committee to provide our perspective on your efforts to lay the groundwork for a comprehensive economic recovery and job creation program. This subject is important to us in the high-tech industry, which currently employs nearly six million people in the United States. And the average wage for those US workers is 87% higher than the average private sector wage. In other words, high tech in the US is providing the kind of good, high-paying jobs that America wants to keep.

I have three recommendations for any stimulus program that Congress might consider. First, under the category of infrastructure, we need even greater deployment of high-speed broadband networks in the United States. Advanced networks will allow increased opportunities for the creation of even more highly skilled technology jobs to invent new products and improve existing ones in the vital areas of energy, health care, education, public safety and services. These are the jobs of the future.

AeA research shows that the United States now trails 15 other major countries in terms of broadband connectivity. Internet speed is the determinative factor in promoting technology-based economic growth. The median download speed in Japan is 30 times faster then it is here, while Japanese pay about the same as we do for their significantly faster Internet connection. Telemedicine, telework, rural development and job creation are all predicated on having large numbers of people in disparate regions having access to fast, secure Internet service. We do not want to lose any more jobs or economic growth possibilities to overseas economies that have faster, more developed networks. And the government has a critical role to play. Just one example: it was government research 40 years ago that ultimately led to the development of the Internet. That development created a major industry in this country and created incredible benefit to Americans and populations worldwide.

My second recommendation will be very familiar to you, Mr. Chairman, since it was included in the Democratic Innovation Agenda and was also highlighted in President Bush's American Competitiveness Initiative. America must continue to invest in government-funded research in the physical sciences. The goal of the America Competes Act was to honor the commitment of both political parties to double funding for the National Science Foundation, the Department of Energy's Office of Science, and the National Institute of Standards and Technology. I would note that both presidential candidates support a funding increase. For many reasons, the funding level for these organizations has remained relatively flat for the last two years. The current Continuing Resolution calls for no increase in funding. America needs the vital research that these government agencies promote. The economy and the American people need the kinds of breakthroughs that these agencies provide in environmental technologies, alternative energy sources, and communications technologies that will enable wider use of medical health records, e-prescriptions, and remote diagnostic procedures.

This recommendation, Mr. Chairman, is not just about future jobs. R&D funding is about the job pipeline now and into the future. Our best and brightest need to know that cutting-edge jobs are waiting for them and that they're available now. We cannot afford to see these high-end research jobs disappear. We need our best people working now to create the technologies and innovations for the future.

My third recommendation for crafting a new economic recovery package is to quickly increase liquidity and stabilize the US economy by temporarily reducing the effective corporate tax rate for foreign earnings repatriated back to the United States. The United States' corporate tax system discourages companies from reinvesting their foreign earnings in the United States, and enacting such a provision would encourage companies to bring back overseas capital at a time when companies are facing a difficult credit crunch. This would infuse the US economy with the funds needed to create new jobs and spur new investments. As the Wall Street Journal has pointed out (7/1/2008), the capital infusion that resulted from the 2004 repatriation provision may be the reason why US investment rose 9.6% in 2005.

When such a policy was enacted in 2004, at least $360 billion was brought back into the United States, generating billions of dollars in federal tax revenues. This far exceeded the government's expectations. Instead of receiving 35% of nothing, since companies are now incentivized to keep their cash abroad, the US Treasury received 5.25% of the billions of dollars brought back to the United States. This benefited our companies, our economy, and the US Treasury, and it is precisely the type of provision we need today.

Mr. Chairman, congratulations on conducting a hearing of this kind. It's very important to the future of American jobs and the economy. I'm grateful for the opportunity to testify today, and I look forward to any questions you might have.

Chairman MILLER. Dr. Pollin.

STATEMENT OF ROBERT POLLIN, PROFESSOR OF ECONOMICS AND CO–DIRECTOR, POLITICAL ECONOMY RESEARCH INSTITUTE, UNIVERSITY OF MASSACHUSETTS–AMHERST

Mr. POLLIN. Thank you, Chairman Miller and Ranking Member McKeon.

As the other panelists have already emphasized, it is imperative to take action now to combat what is quickly metastasizing into a general economic crisis off of the financial crisis; that is, a general crisis with respect to jobs, private business investments, budgets of State and local governments.

The Federal Government has already, of course, committed unprecedented resources to stabilizing the financial sector, but we haven't done enough to advance an effective stimulus to address problems in the real economy. This must be done now and it must be done in the most efficient possible way.

What do I mean by most efficient possible way? Three criteria:

Number one, we must get the maximum amount of employment gain for a given amount of spending, the biggest bang for the buck.

Second, the targets must be such that the short-term injections also create long-term gains for the economy.

Third, we have to continue the fight against global warming.

I was here testifying a month ago on a hearing before the Committee on the Environment and Climate Change, and one of the speakers said, well, we have to put aside these issues about the environment.

Quite the contrary. I argue that addressing issues about the environment is a very effective way for also addressing the jobs crisis. In fact, part of my testimony draws on a study that I published last month called Green Recovery that was put out by the Center For American Progress.

Okay, the focus of the investments that I emphasize in my testimony are three: Educational services; public infrastructure, including transportation infrastructure, water management and institutional structures such as educational buildings; and, three, green investments. That combination of expenditures, as I show in my testimony, is by far, the most efficient way of creating jobs.

If we look at table 1 in my testimony, just to go quickly through some numbers, educational services for $1 million of expenditures creates 23.1 jobs; public infrastructure, 17.2 jobs; green investments, 16.7 jobs. Now, the next highest in the categories is the kind of tax cuts that you enacted in April, 14 jobs. By contrast, oil and gas industry expenditures is going to create about 4 jobs.

Now, where why do we get these very, very large disparities in job creation? There are two factors. Number one is relative labor intensity. When you spend a given amount of money, how many jobs are created, as opposed to buying supplies or buying imports?

Secondly is domestic content. The domestic content of investments in infrastructure, in education, in the green economy, are all retained within the United States. By contrast, as we know, on average, any dollar spent in the U.S. economy, 17 cents goes out into imports. So we need to focus on things that are going to be retained within the U.S. economy.

Now, if we do a $150 billion program that is roughly the same size as the stimulus of last April, what we would see, as I show in my testimony, is that you will get nearly 3 million jobs created through a combination of educational services, public infrastructure and green investments. That is roughly double the amount of jobs for the same amount of dollars for expenditures to tax cuts for household consumption, military spending and oil and gas industry.

Now, can these investments be done quickly enough? Jared spoke to that, and my own testimony also addresses that. Of course, some things are more long-term, but there are other things that can be done very, very quickly, including reversing the cuts in educational services, including building retrofits, such as this building. There are long-term benefits through public infrastructure and green investments. I discuss that in some detail in my testimony.

But one of the things that we show is that the average expenditure for public investment fell in the last 30 years to 2.4 percent growth versus 3.8 percent growth from 1950 to 1980. Bringing it back to even 3.4 percent would generate about $40 billion of GDP per year.

Finally, how do we pay for all this? Of course, the first way we pay is through the fiscal deficit. The deficit is large. It is not unprecedented. The deficits under Reagan were still bigger.

I would also finally add that given the financial crisis now, the interest rates on Treasuries is extremely low because the risk-premium on everything else is so high. Treasuries are the most desirable financial asset in the markets. Therefore, the interest that we would pay, the U.S. Government would pay, is extremely low now. For example, T-bills are at 0.05 percent. Even 3-year Treasury bonds, 1.9 percent. So we can borrow now for a much lower rate than we would have even 1 year ago. That makes pursuing a fiscal deficit much more affordable than it would be otherwise.

Thank you.

Chairman MILLER. Thank you.

[The statement of Mr. Pollin follows:]

Testimony before House Committee on Education and Labor

Hearing on "Building an Economic Recovery Package: Creating and Preserving Jobs in America"
October 24, 2008

Testimony of
Dr. Robert Pollin
Professor of Economics and
Co-Director, Political Economy Research Institute (PERI)
University of Massachusetts-Amherst

Dear Chairman Miller, Ranking Member McKeon, and Members of the Committee:

I am pleased to have the opportunity to testify today before the Committee on Education and Labor on the issue of "Building an Economic Recovery Package: Creating and Preserving Jobs in America." My testimony today will build in part upon some of the main themes of the study *Green Recovery: A Program to Create Good Jobs and Start Building a Low-Carbon Economy*, that I authored along with three colleagues at the Political Economy Research Institute of the University of Massachusetts-Amherst, Professor James Heintz, Heidi Garrett-Peltier, and Helen Scharber (these are the people to whom I will be referring when I make references to "we" in this testimony). That study was commissioned by the Center for American Progress, and released last month. I will also offer observations on related issues that are not covered in "Green Recovery," in particular, the opportunities for job creation and productivity growth through investments in public infrastructure and education.

I am a Professor in the Department of Economics and Co-Director of the Political Economy Research Institute (PERI) at the University of Massachusetts, Amherst. PERI is an independent unit of the University of Massachusetts, Amherst with close ties to the Department of Economics. Our purpose is to promote human and ecological well-being through our original research.

The Need for an Economic Stimulus/Jobs Program Now

The United States economy, as well as the global economy, are currently suffering through the most severe financial crisis since the 1930s Depression. As such, normal channels of supplying credit to finance both private and public investments are being impeded.

In addition, the budgets of state and local governments throughout the country are being strained by a falloff in tax revenues. Unlike the federal government, state and local governments are not able to finance their current expenditures through borrowing. This means that, in the face of declining tax revenues, they are forced to cut vital expenditures on education, health, public safety and public infrastructure.

Over the past year, these forces have inevitably exerted a heavy drag on the U.S. labor market. As of September 2008, there were officially 9.5 million people unemployed in the U.S. producing an unemployment rate of 6.1 percent. This compares with an unemployment rate of 4.7 percent one year ago. The situation is worse still when taking into account a labor market where people are working fewer hours than they wish, taking pay cuts, or becoming discouraged from looking for work. It is also likely that the overall employment situation will worsen in the coming months, unless the federal government takes strong action to counteract the momentum toward rising unemployment and recession.

Amid the current financial and economic crisis, there has been a perhaps inevitable tendency to put aside the fact that we are, concurrently, facing an equally severe long-term crisis of global warming. Over the past weeks, I have heard commentators remark that, in the face of the financial crisis and recession, policy measures to combat global warming will need to be postponed. Against this, climate scientists have made clear that we do not have the luxury to delay action on global warming. Rather, we in the U.S. need to take serious steps now to reduce our consumption of fossil fuels, as this is the single greatest source of carbon emissions in the atmosphere, which is, in turn, the most important cause of global warming.

In fact, there is no reason at all to delay taking action now to fight global warming. As my co-authors and I show in *Green Recovery*, a green investment agenda—focused primarily on measures to dramatically improve energy efficiency but on advancing renewable energy commercialization as well—can itself serve as a powerful engine of job creation in the short run.

Thus, a green investment agenda should be combined right now with additional forms of public investment spending to generate a large-scale program of job creation in the United States. Over the longer term, these investments will also lay the foundation for enhancing overall productivity, which will, in turn, further encourage private investment and job creation as we move out of the current crisis conditions.

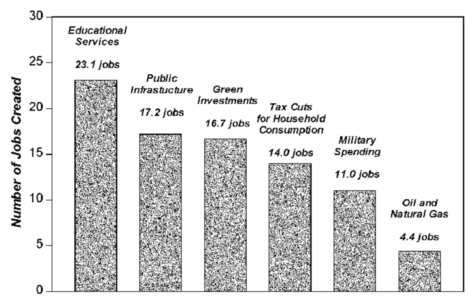
Job Creation Potential through Alternative Investment Strategies

Spending more money on *anything* within the U.S. economy—either by the private or public sector—will increase employment, as people will be newly hired into various activities to meet the expanded level of overall demand in the economy. To design an effective employment stimulus program, we need to consider, among various sectors of the U.S. economy, *how many* jobs are likely to be created for a given amount of spending.

In Figure 1 below, I present estimates of job creation within the U.S. economy that would be generated through increasing spending by $1 million in alternative sectors of the U.S. economy. I report figures for six different sectors: educational services; public infrastructure; green investments; tax cuts for household consumption; military spending; and the oil and natural gas industry.

The category "public infrastructure" consists, in equal parts, of investments in transportation, water management, and institutional structures, including educational buildings. The category "green investments" consists of three areas of energy efficiency—building retrofits (40% of total); public transportation (20%); "smart grid" electrical transmission systems (10%)—and three sources of renewable energy, wind power (10%), solar power (10%), and non-food biomass fuels (10%). The figures all come from the most recent 2005 input-output tables of the U.S. Commerce Department.

Figure 1.
Job Creation in the U.S. through $ 1 Million in Spending



Source: Input-Output Tables of U.S. Commerce Department
Note: Employment estimates include direct, indirect, and induced jobs

As Figure 1 shows, there are sharp disparities in our estimate of the relative job creating potential of these six alternative investment areas. We estimate that educational services will generate the largest number of jobs per $1 million of spending, at 23.1 jobs. Both public infrastructure and green investments will generate about 17 jobs per $1 million in new spending.

Tax cuts for household consumption was the central element of the economic stimulus program implemented by the federal government last April. As Figure 1 shows, we estimate that that the job creating potential of such a measure is 14 jobs per $1 million in spending, dramatically weaker than spending on educational services, and significantly less effective than either public infrastructure or green investments.

Spending on either the military or within the oil industry will have a still weaker impact on job creation within the United States. Indeed, spending more within the oil industry would generate less than one-quarter the number of jobs as investments in public infrastructure and the green economy, and less than one-fifth the impact as spending on educational services.

Why the Greater Job-Creation Impact from Some Sectors Relative to Others?

There are three ways jobs get created through spending within any of the sectors we have listed—educational services, public infrastructure, green investments, household consumption, the military, or the oil industry—or any other sector of the U.S. economy. These are:

1. ***Direct effects***—The jobs created by increased spending on, for example, retrofitting public school buildings or drilling off the U.S. shoreline for oil (e.g. a carpenter who replaces school windows);

2. ***Indirect effects***—The jobs associated with business firms that supply intermediate goods for constructing, maintaining, and retrofitting school buildings; or that supply equipment for oil drilling (e.g. a mill worker who builds the window framing); and

3. ***Induced effects***—The expansion of employment that results when people who have been newly hired to retrofit a school building or drill for oil spend the money they have earned on other products in the economy (e.g. a waitress serving dinner to the mill worker and her family).

How could one spending target create more jobs than another for a given amount of spending? If we compare, for example, retrofitting a school building versus exploring for new sources of oil, there are only three possibilities:

1. ***Differences in labor intensity.*** The average "labor intensity" for retrofitting a school building—i.e. the number of jobs created per dollar of spending, as opposed to the amount spent on machinery, buildings, energy, land, and other inputs—is higher than the labor intensity of oil exploration and drilling activities.

2. ***Domestic content.*** The amount of spending within the U.S. economy, as opposed to spending on imports in school construction as opposed to the oil industry; and

3. ***Lower average compensation for each job created.*** If there is a given amount of money to spend on employment, obviously more jobs are created if the average level

of compensation is lower. It means that the given amount of money gets spread around more broadly. We will always need to consider the merits of creating more jobs this way. That is, we need to consider to what extent are we creating more jobs by producing a high proportion of bad jobs?

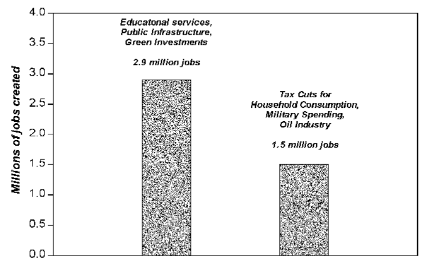
In terms of the sectors of the U.S. economy I have reviewed in Figure 1, the dominant source of the difference in job-creating potential is differences in labor intensity. That is, jobs in educational services, public infrastructure, and green investments rely much more heavily on employing labor and less on purchasing machinery, buildings, and energy than spending on the military or the oil industry. In the case of household consumption, the major difference in terms of job creation is the lower level of domestic content associated with a given dollar of spending. Considering total spending in the U.S. economy, of which consumer spending represents about 70 percent, approximately 17 percent goes to purchase imports. By contrast, 96 – 98 cents of every dollar spent on educational services, domestic infrastructure, or the energy efficiency components of green investments are retained within the U.S. economy.

Employment Impact of Alternative $150 Billion Stimulus Programs

For purposes of discussion, I present evidence now on the relative employment impacts of a stimulus program at the level of $150 billion. This is approximately the size of the April 2008 stimulus initiative. It is also roughly the size of the Iraq war budget for 2008.

Specifically, in Figure 2 below, I present estimates of the impact on employment of two alternative stimulus packages. The first package includes, in equal parts, spending on educational services, public infrastructure (including educational structures), and green investments. The second consists in equal parts of tax cuts to increase household consumption, military spending increases, and investment incentives to expand the oil industry. As the figure shows, when we combine these alternative approaches to injecting a $150 billion stimulus into the economy, the package of educational services, public infrastructure, and green investments will generate nearly twice the extent of job expansion as the package that includes tax cuts for household consumption, military spending, and support for the oil industry.

Figure 2.
Total Job Creation through Alternative $150 Billion Stimulus Programs



Source: Figures derived from data in Figure 1.
Note: Estimates assume linear extrapolation of employment effects through different levels of expenditure.

Can the Education/Public Infrastructure/Green Investment Program Work Quickly Enough?

While all of these investment areas are crucial to the long-term project of building a more productive clean-energy U.S. economy, it doesn't follow that they all can contribute effectively to a short-term green stimulus program. Operating as a short-term stimulus program, it will be necessary for these investment areas to begin expanding rapidly within a year.

Some of the strategies are clearly capable of being mobilized quickly. This is clearly true in the area of educational services. At present, as has been the case in every economic downturn, state and local government revenues are falling as a result of the recession. Because state and local governments for the most part are not able to finance their current operations through borrowing, the services they provide—which are focused primarily on health care, public safety as well as education—become jeopardized. This, in turn, strengthens the forces pushing the economy downward toward recession. Thus, one straightforward way to counter the recession quickly would be precisely to provide revenue sharing for state and local governments so that, for example, they will not have to cut their educational programs. This kind of initiative would have an immediate stabilizing effect on state and local budgets and would, therefore, act as an effective short-term jobs program.

In the area of public infrastructure and green investments, one obvious area capable of generating rapid results is a building retrofit program. This will rely entirely on known technologies, can be implemented on buildings of all sizes, and can provide short-term returns on the money being invested. Moreover, the construction industry is already in a severe slump, with large numbers of construction workers eager for new job opportunities.

To achieve the most rapid and effective short-term stimulus through a program of building retrofits, the U.S. government, working in conjunction with state and local governments, can mandate a program of retrofitting public buildings that could commence as soon as new legislation authorized it. Indeed, programs to retrofit public buildings are already operating throughout the country. These could serve as the active starting point for a more ambitious national program of public building retrofits.

Of course, it is equally important to retrofit the country's stock of privately-owned buildings, including residences and commercial structures. In *Green Recovery*, my coauthors and I a propose a program of strong financial incentives—including both loan guarantees and tax credits—to advance such an initiative. But even operating under such incentives, privately-owned structures will be retrofitted only when private investors and homeowners choose to make these investments. This means that the speed at which new investments in retrofits will occur in the private sector will be slower than with the public sector.

Similar to the situation with retrofits, mass transit is an area where some investments can be implemented immediately while others will entail relatively long incubation periods. Activities that can be pursued in very short order include purchasing new buses, increasing bus service, or even simply lowering public transportation fares, to encourage new ridership. Other areas, such as building light-rail or subway systems, will entail long lead times before a large amount of new hiring and spending occurs. With smart grid investments, projects that are already in planning stages could growth quickly through government support. But most initiatives will entail more than a one-year time lag before significant levels of new spending and hiring can occur.[1]

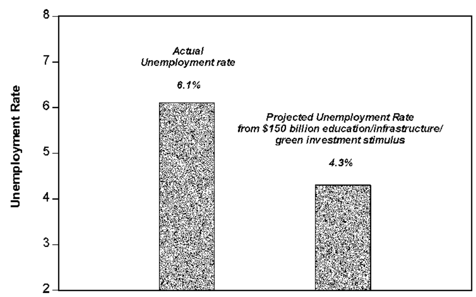
Overall Labor Market Effects

As of September 2008, there were 9.5 million people officially unemployed within the U.S. labor force of 154.3 million, producing an official unemployment rate of 6.1 percent, according to the most recent data from the U.S. Bureau of Labor Statistics. For purposes of illustration, let's assume that the $150 billion stimulus program is enacted amid roughly September 2008 labor market conditions. As we have seen, this program could produce a net increase of about 2.9 million jobs, which would reduce the

[1] A companion piece to *Green Recovery* that presents details on specific green investment programs that can be implemented rapidly and effectively implemented is "Center for American Progress Action Fund Recommendations on Green Infrastructure and Economic Recovery." September 21, 2008.

September 2008 number of unemployed to 6.6 million people, a decline of 31 percent. As we see in Figure 3, this would cut the unemployment rate to 4.3 percent, moving the job market forcefully away from its current slump.

Figure 3.
Impact of Adding 2.9 Million Jobs in September 2008 Labor Market



In reality, we cannot assume that everything about the U.S. labor market would stay unchanged relative to September 2008. First of all, we cannot know how the current crisis will proceed over the next two years absent any additional stimulus or financial bailout measure. We also cannot know how the $150 billion in government spending would affect other forces in the economy. The fall in unemployment, for example, could produce some shortages of labor and materials in a few sectors, particularly construction, but evidence suggests the risks of inflationary labor shortages from job creation are minimal.

The primary challenge today is to create more good jobs, not deal with inflationary pressures from an overheated economy. This becomes clear from examining the employment patterns within construction just over the past year. In September 2007, there were 9.5 million people employed in the construction and extraction industries. That figure has fallen to 8.7 million as of September 2008—a decline of 800,000 jobs. These figures imply that there are roughly 800,000 construction workers ready to accept new job opportunities in the construction industry. This job slack in the construction industry alone amounts to about 28 percent of the total 2.9 million jobs that could be generated by our overall proposed education/public infrastructure/green investment program. Of course, beyond construction, we are still left, as of September 2008, with 8.7 million additional unemployed workers in other sectors of the economy. This number will continue rising further still in the absence of a large scale jobs program. There is thus little chance that we will face serious labor shortages by creating 2.9 million more jobs through a stimulus.

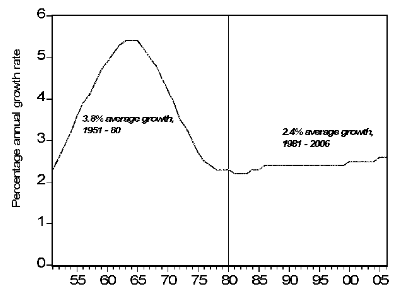
Longer-Term Benefits of Public Investment "Crowding In" Private Investment

In considering the viability of spending on public infrastructure projects—including road, bridges, and water management systems in addition to "green" public investments, such as mass transit and smart grid electrical transmission systems—one of the major issues that is often raised is whether such expenditures absorb the limited amount of total investment funds in the economy, and thereby "crowd out" private sector investment activities. Obviously, infrastructure public investments are likely to be counterproductive to the extent that they crowd out productive private investments. This would certainly be the case if, as is always possible, public investment projects are mismanaged or the funds are squandered. But even with projects that are well-designed and executed, they could end up yielding little or no net economic benefits if they crowd out productive private sector activity. Such considerations deserve serious attention.

In fact, the weight of evidence examining the impact of public investment on the U.S. economy does not point to a crowding out effect. It rather finds that, on balance, higher levels of public investment will promote private sector productivity and higher rates of return for business. As such, the evidence suggests that many kinds of public investments in the U.S. generally *crowd in* as opposed to crowd out private investment. In addition, the crowding-in benefits of public investments are also associated with positive gains in terms of employment, though in this case, with a time lag of a couple of years.

Despite these benefits of public infrastructure, spending in this area has fallen off. Figure 5.1 plots the long-term growth trajectory for public economic infrastructure investments in the United States. As we see, there is a strong upward growth trend from the mid-1950s through the mid- 1960s, with the annual growth rate ranging between 3.5 – 5.5 percent in that decade. The annual growth rate then fell steadily until the early 1980s to about 2 percent per year, and has ranged between 2 – 2.5 percent since.

Figure 5.1
Average Real Growth of U.S. Public Economic Infrastructure, 1951-2006



Note: Figures are in real, inflation-adjusted dollars. Annual data have been averaged by applying a Hodrick-Prescott filter.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

How has this decline in the growth of public investment affected economic growth and job creation within the U.S. economy? Research conducted in the 1980s and early 1990s, led by Alicia Munnell and David Aschauer, suggested that public investment in the United States economy contributes to better performance of the private economy in terms of higher productivity and more jobs. That is, public investment actually raises the return on private investment. Under these conditions, public investment will tend to crowd in rather than crowd out private investment. For example, Munnell found that public investment, both at the federal and state levels, has a positive impact on labor productivity.

My co-authors and I have re-estimated the relationships which Aschauer and Munnell researched, addressing some problems with the statistical details of the modeling exercise, as well as brought the figures up to date. In the main, our findings confirm to the earlier results of Munnell and Aschauer.

In particular, we found that increases in public investment in the United States do enhance the growth of GDP by a significant amount. The single most important result is our finding that a one-percent increase in the growth of public capital stock would lead to an increase in GDP of 0.29 percent. This is quite a substantial positive effect on GDP. As we saw above, average growth of public investment in the U.S. fell from an average of nearly four percent per year from 1951 – 78 to 2.4 percent subsequently. Assume we raised public economic infrastructure investments by one percentage point above its current trend of about 2.4 percent, to 3.4 percent. This is to a level still below the 3.8 percent average for 1951 – 70. In today's economy, that would generate over $40 billion per year in additional GDP. This dividend is an amount equal to roughly 25 percent of the total $150 billion program I am proposing here.

Public Investment and Employment

How might public investment in general affect employment opportunities in the U.S., aside from the 2.9 million jobs that would be generated in the short-term as a result of the increased spending itself? This is one of the questions that Munnell's earlier research, using state-level data, had examined in depth. We are in the process of following up on her earlier findings. For now, I will offer some preliminary perspectives on her results.

Munnell assembled a detailed data set on the stock of public capital for each state over the period 1970-1986. Based on these data, she presented evidence suggesting that those states with higher levels of public capital assets tended to enjoy faster rates of subsequent employment growth. These results controlled for numerous factors that could be influencing employment growth, including wage rates, education levels, energy costs, and the size of the urban population. As Munnell writes, "One would expect this to be case; a state that goes to the trouble of building roads, sewers, water supply facilities, and power plants, as well as schools and hospitals, would be expected to attract more new firms and more households than a state that did not undertake such activity," (1990b, p. 25).

Her specific finding was that states that invested $1,000 more in public infrastructure per capita in a given time period would experience a roughly 0.2 percent increase in average employment growth in subsequent years. We can illustrate the implications of this finding within the context of the present-day U.S. economy as follows. Let's assume that in 2009, public investment increased by $150 billion. Based on Munnell's findings, this would mean an increase in total U.S. employment, after a lag of a year or two, of about 1.5 million jobs per year beyond what would have otherwise occurred. This employment gain would be entirely due to the supply-side benefits of the enhanced public infrastructure. In other words, this effect is distinct from, and additional to, the employment gains due to spending increases—on educational services, public infrastructure and green investments-- associated with the short-term stimulus.

Our own research has not yet brought Munnell's earlier findings fully up to date. But if Munnell's earlier findings showing positive employment effects of public investment do hold up in our ongoing research, this will support the idea that higher rates of public investment will, if anything, encourage employment growth via the productivity gains that are generated.

Let me suggest here some very rough order-of-magnitude employment benefits, derived from the earlier Munnell findings, of a $150 billion public investment program. Within the context of the overall $150 billion program, let's assume that roughly half of the total amount—i.e. $75 billion—is spent on a range of public infrastructure productivity-enhancing green investments. Let's further assume that from that base of $75 billion in spending, the positive employment effects are only one-half as potent as those estimated by Munnell. Based on these assumptions, that would suggest that the net employment gains from the $75 billion in public infrastructure investments would be in the range of 400,000 jobs. However, these employment gains would not emerge immediately as the money on these investments are being spent, as is the case with the employment gains tied to labor intensity, domestic content and compensation levels. According to Munnell's findings, these public investment driven employment gains would emerge only after a lag of about two years.

Considering both the short-term gains in labor demand resulting from the increased spending on educational services/public infrastructure/green investments, we can see now that the full employment effect, after a lag of perhaps two years, can be in the range of 3.3 million jobs.

Table 1.
Summarizing Estimated Overall Employment Expansion from $150 Billion Education/Public Infrastructure/Green Investment Program

Short-term gains from spending on education/public infrastructure /green investments	2.9 million jobs
Long-term gains from public investment "crowding in"	400,000 jobs
Total employment expansion from both directly expanding labor demand and crowding in	3.3 million jobs

How to Pay for the Stimulus Program?

We propose that the $150 billion stimulus program be financed by an increase in the U.S. Treasury's fiscal deficit. The $150 billion in increased spending would then be used to cover three types of government outlays: direct spending for public projects; tax credits to support green investments by private businesses; and loan guarantees for financial institutions that would also serve to subsidize green investments by the private sector.

In terms of the green investment agenda, over the longer term, policymakers will need to establish major new revenue sources to finance a full transition to a clean-energy economy. In terms of a long-term energy program, the primary new source should be revenues generated through a carbon cap-and-trade program such as that sponsored last year in the U.S. Senate by Senators Boxer, Lieberman, and Warner. A cap-and-trade program, such as Boxer/Warner/Lieberman would set limits on carbon-dioxide emissions and require companies to obtain permits to release carbon into the air. The government would generate revenues by charging businesses to obtain the carbon-emitting permits. Credible estimates as to how much the government could raise through such a program range widely, between $75 and $200 billion. In addition, over the longer term, the government could generate in the range of another $6 billion by eliminating subsidies that are now funneled to the oil, gas, and coal industries.

But measures such as these will not be implemented within the short time framework needed to put a green stimulus program in place. This is why we have to rely on incentives within the private credit markets and deficit spending from the U.S. Treasury to pay for the $150 in green investments.

Increasing the Fiscal Deficit

As of fiscal year 2007, the federal government's fiscal deficit was $162 billion. With the economy slowing in 2008, this figure inevitably rose sharply, to $389 billion in fiscal 2008. In July 2008, the Office of Management and Budget had estimated that the 2009 fiscal deficit would rise further, to $482 billion. But in the face of the $700 billion financial bailout operation and recession, this July estimate is now moot.

We cannot know for certain how much the fiscal deficit will expand in the current circumstances. Among other things, we don't know how much of the $700 billion in Treasury funds will actually be needed to conduct the full financial bailout operation. It is possible that most of the purchases of non-performing financial assets now held by private financial institutions, as well measures to increase the liquidity of financial institutions, can be conducted through variations on Federal Reserve open market operations and discount window lending—i.e. variations on the conventional tools of monetary management, even during financial crises—as opposed to relying entirely, or even primarily, on the Treasury. To the extent that the Fed, as opposed to the Treasury, is the main source of funding for the overall bailout, the impact on the fiscal deficit will be diminished.[2]

[2] Thus, *The New York Times* for 10/22/08 reported that the Federal Reserve will begin buying "certificates of deposit and certain types of commercial paper" from money market funds, "in hopes of restoring the free flow of credit and easing worries about the investments." This is the third program of its kind that the Fed has announced this month. The Fed had previously committed to providing direct financing to businesses

That said, it is reasonable to consider that the fiscal deficit could possibly rise up to $1 trillion in fiscal 2009. Of course, it would be utterly self-defeating for the U.S. to run a reckless fiscal policy, no matter how pressing the need to fight the financial crisis and recession. But in this context, it is important to keep even a $ 1 trillion deficit figure in perspective.

The 2007 deficit—the level that emerged before the onset of the financial crisis—amounted to about 1.2 percent of GDP for that year. This is at a level significantly below the average fiscal deficit between 1960 – 2006 of 1.9 percent of GDP.

The largest deviation from this long-term average occurred under Ronald Reagan's presidency of 1981 - 88, when the fiscal deficit *averaged* 4.2 percent of GDP—i.e. more than three times larger than the 2007 deficit as a share of the economy. In 1983, the Reagan Administration presided over a deficit that was 6.0 percent of GDP. This was in the aftermath of the 1980-82 recession. In 1982, GDP contracted by 1.9 percent. Behind the force of the massive expansion of deficit spending in 1983, GDP growth rose sharply to 4.5 percent in 1983, and again in 1984, to 7.2 percent. Deficit spending in this period was clearly a major factor pushing the economy out of its slump.

Of course, the deficit began rising in 2008 as a share of GDP due to the economic slowdown. But even in 2008, the fiscal deficit/GDP ratio was 2.7 percent, still substantially below the *average* figure for the entire Reagan presidency, including expansion and well as recession years.

This is the context in which to evaluate the viability of a huge expansion in the federal fiscal deficit, to finance both bailout operations and a jobs stimulus. However, even if we assume that the deficit rises all the way up to $1 trillion, it is important to recognize that this is a manageable, if troubling, figure, given the magnitude of the current crisis. At the current level of GDP of $14.4 trillion, a $1 trillion deficit would represent about 7 percent of GDP, one percentage point higher than the peak 1983 deficit of the Reagan-led economic recovery.

Of course, the global financial system has undergone dramatic changes since the 1980s, so that direct comparisons with the Reagan deficits are not entirely valid. One major change is that U.S. government debt—Treasury bills and bonds—is increasingly owned by foreign governments and private asset holders. Foreign ownership of U.S. government debt—including that by Japanese, Chinese, Korean, and Western European entities—amounts to roughly 50 percent of the total debt outstanding. This means that 50 percent of the interest payments on that debt flow from the coffers of the U.S. Treasury—

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by buying three-month commercial paper, and also providing loans to banks and other financial institutions that buy asset-backed commercial paper from money-market mutual funds.
http://www.nytimes.com/2008/10/22/business/economy/22fed.html?em

i.e. the funds the Treasury receives from U.S. taxpayers—to these foreign owners of Treasuries. Over time, this obviously is a drain on U.S. income and wealth.

At the same time, amid the severe financial crisis, U.S. Treasuries are now, and will remain for some time, the single safest, and most desirable, financial instrument in the global financial system. Both U.S. investors as well as foreigners are clamoring to purchase Treasuries as opposed to buying stocks, bonds issued by private companies, and derivatives. This is pushing down the interest rates on Treasuries, both in absolute terms and relative to other debt instruments. The growing disparity between the low Treasury rates and the high rates on private bonds reflects the very high level of risk—the "risk premium"—that investors are now attaching to any security that doesn't have the full backing of the U.S. government. This situation is evident from the data shown in Table 2. below.

Table 2.
Interest Rates on U.S. Treasuries and BAA Corporate Bonds, October 2007 – October 2008

	October 15, 2007	October 15, 2008
4-week Treasury Bills	4.16%	0.05%
3-year Treasury Bonds	4.22%	1.91%
Baa Corporate Bonds	6.57%	8.86%
Spread between BAA Corporate Bonds and 3-year Treasuries	2.24%	6.57%

Source: Board of Governors of Federal Reserve System

This is clearly not a healthy situation. Over the next year, it will be important for the risk premium on private debt to fall relative to Treasuries. Nevertheless, for the present, when it is crucial that the U.S. government undertake a large-scale stimulus to fight the financial crisis and recession, it is a great benefit that the U.S. Treasury is able to borrow at negligible interest rates—e.g. at 0.05 percent for 4-week Treasury Bills and 1.91 percent for 3-year Treasury Bonds. In this way, allowing the fiscal deficit to rise even as high as seven percent of GDP—i.e. to a figure one percentage point higher than the peak deficit under President Reagan—nevertheless does not represent a longer-term burden on U.S. taxpayers greater than what occurred during the Reagan deficit years.

Expanding Loan Guarantees

In addition to $100 billion in direct federal spending and tax credits, there is also good reason to begin laying the foundation for more private sector involvement, especially in the area of green investments. As of April 2008, the U.S. government is already committed to offering $10 billon in loan guarantees for energy efficiency and renewable energy.[3] I propose that that the federal government budget $4 billion to expand the loan guarantee program. I estimate this money would conservatively net between $20 – $50 billion in new private sector green infrastructure investments, but would cost the U.S. Treasury only $4 billion since the government directly spends money on its loan guarantees only when borrowers default on their loans.[4] As long as investors in green investment projects are making payments on their loans, U.S. taxpayers face no direct costs from the loan guarantee program.

I arrived at the $4 billion cost to the federal government of these loan guarantees by considering several factors. The first is the percentage of a loan that would be guaranteed. We proposed that the federal guarantee cover only 75 percent of the total value of a loan. The second factor is the default rate on these loans. We estimate a default rate of 2 percent—which is in fact a high-end estimate, given both historical patterns and even current market conditions—on loans that the government would have to pay out to make lenders whole. And a third factor is the percentage of these guaranteed loans that might have occurred anyway without the benefit of the guarantee. We estimate that the net increase in green investments generated by the loan guarantee program would be less than the total amount of loans that would be guaranteed.

Taking account of these and other, related factors we believe a cautious budget estimate of $4 billion for loan guarantees is capable of generating at least $20 billion in new green investment lending, significantly increasing the amount of guaranteed loans for green investments than is currently budgeted by the federal government. In Appendix 2 of *Green Recovery*, my colleagues and I explain in detail how we arrive at this figure, and also describe how, using less cautious but still reasonable assumptions, the total amount of new green lending generated by a loan guarantee program could be much larger.

Over the longer term, these loan guarantees alongside tax credits for private investments would increasingly become a major impetus for private sector financing of a green infrastructure investment program. But over the next two years these loan

[3] This is in addition to $20.5 billion for nuclear power investments and $8 billion in advanced fossil fuel technologies. The Department of Energy document announcing these guarantee programs provides no discussion on the extent of the guarantees, or a broader assessment of their financial implications. See http://www.doe.gov/media/Loan_Guarantee_Program-Implementation_Plan_April_2008.pdf.
[4] The $4 billion underwrites more than $20 billion in loans, but as explained in Appendix 2 not all of the loans underwritten create net new investment in the economy.

guarantees will not deliver as large a boost to spending and jobs as the direct public investments.

Conclusion

In the midst of the severe financial crisis and deepening recession, it is imperative that the Federal government take action as soon as possible to counteract the downturn. First and foremost, this means increasing employment within the United States as quickly as possible and with the highest degree of efficiency—i.e. getting the most employment bang for the taxpayers' bucks. With these aims in mind, I have presented an economic stimulus program focused on three areas: educational services, public infrastructure, and green investments. As I show, a program that combines these areas will have the capacity to generate nearly 3 million new jobs in the short run in response to an increased outlay of government spending of $150 billion. Over the longer term, at least another 400,000 jobs should be created because public infrastructure and green investments will create an enhanced climate for private business investment. That level of government spending will be used to finance direct government programs but also incentives for private businesses both through tax credits and loan guarantee programs.

Of course, the demands on the government budget are already heavy, at present. But I show that, in the current economic emergency, allowing the fiscal deficit to expand—even up to $1 trillion dollars—is manageable, and is not inconsistent with historical experiences, most especially the fiscal management by the Reagan Administration amid the severe recession of 1982-83.

Chairman MILLER. Mr. Beach.

STATEMENT OF WILLIAM BEACH, DIRECTOR, CENTER FOR DATA ANALYSIS, THE HERITAGE FOUNDATION

Mr. BEACH. Mr. Chairman, Ranking Member McKeon and other members of the committee, it is a pleasure to be with you this morning to testify on behalf of a dimension which has been mentioned, but I think I am going to mention a little more, and that is how can we use the tax window to actually expand jobs and stimulate the economy.

The main question we have before us is what should Congress do? I recommend that Congress address economic policies that really do create good-paying jobs in three interrelated areas, all of which affect near-term and long-term economic performance; a tax policy, energy policy and long-term spending. I am going to focus most on the first and the second.

Investors are driven in general by comparative rates of return when making investment decisions between various opportunities. If two business opportunities are possible, but one has a better rate of return than the other, then the investor will choose the superior opportunity, the one with the higher rate of return.

Suppose, though, that outside factor intervene, a flood, a war, regulatory changes, and this otherwise superior investment now carries more risk than the inferior one. The investor discounts the rates of return for the greater amount of risk, and if the rate of return on the first opportunity is still superior, the investor chooses the same opportunity. If, on the other hand, the risk is too great to choose the otherwise superior opportunity, the investor may take the more cautious approach of avoiding risk and placing funds in the opportunity with the otherwise lower rate of return.

So what can increase risk? Of course, there are many factors. If we are talking about the situation today in the markets, risk is enormous. But public policy commonly really looms very, very large. Tax increases, especially if they are on capital, increase the cost of capital and lower investment returns. When investors are uncertain about whether taxes will increase or stay the same, they can still act as though taxes have risen if they judge the risk of an increase to be nearly equal to the actual increase. And rising uncertainty can have the effect of driving down investments, making an economy that is weak even weaker, so I say.

Among the first actions that Congress can take is in addressing the current slowdown, and, of course, the slowdown in employment, is to pronounce definitively on the tax increases scheduled for 2009 and 2011. There are projects, new businesses and expansions of existing businesses that would be undertaken today if Congress signaled that taxes would be lower in 3 years. But if you decide not to do that, at least signal the direction that you are going to go in order to reduce risk.

Then there are some other ideas that Republicans and Democrats have commonly joined hands together in the past to do, accelerated depreciation and bonus expensing. We know from past experience that accelerating the tax depreciation of capital equipment and buildings or 1-year expensing of business purchases that otherwise would be depreciated over a longer period of time is excellent in terms of jumping the economy. This is certainly the record in the last slump.

Taxes on capital gains and dividends. We also have recent experience with reducing the tax rate on long-term capital gains and on dividend income. If Congress were to reduce the tax rates by 50 percent for the next 2 years, the cost of capital to businesses would fall and investments stability would be enhanced. Indeed, if Congress were to approve a temporary zero capital gains tax rate for new stock issues, troubled banks could raise more capital from the private markets, as opposed to going every other day to the Treasury for a handout.

If Congress were to make the tax reductions of '01 and '03 permanent and lower the corporate profit rate from 35 to 25 percent, which I think is an excellent idea and I join Mr. Hansen in corporate tax rate reduction, I estimate the following economic effects would ensue: More jobs. By making the 2001 and '03 tax reductions permanent and reducing the corporate profits tax rate by 1,000 basis points, we estimate an average of 2.1 million more jobs would be created on average over the next 10 years. Indeed, 3.4 million jobs would be created based on the current baseline in 2018 alone.

Overall economic activity would rise. These tax changes dramatically increase the level of national output and the growth rate of the economy increases a full half percentage point in 2011 and 2012 when taxes would otherwise increase.

More after-tax household spending. These tax changes dramatically improve household income, partly because the economy is so much healthier and partly because the average tax burden falls. The average household would have about $5,140 additional to spend after taxes. In 2018, the end of our forecast period, that rises to $9,7509 after inflation and after the payment of taxes.

In the last 2 seconds, I would like to mention that I also, like Dr. Bernstein, have a new book. It is a good time to mention it here. This one goes directly to the issues that are before this committee, and it was published by Pugh Charitable Trust on a grant that we have, and it is "The Indicators of Economic Mobility: What You Can Do to Invest in People and Families to Make Sure That the Next Generation is Better Off Than the Current Generation."

Thank you very much.

[The statement of Mr. Beach follows:]

Prepared Statement of William W. Beach, Director, Center for Data Analysis, the Heritage Foundation

The stock market turmoil that has captured everyone's attention is rooted in the ongoing crisis in credit markets and aggravated by the slowdown in general economic activity that stems from the ills of the financial sector. It is all the more spectacular by the extraordinary highs and lows that equity markets are recording. It almost seems that what is truly predictable about today's investment markets is just how unpredictable they have become.

Yet, the current situation on Wall Street and in bourses around the world is not altogether new territory. We have experienced amazing changes in stock market indexes before, and we have seen recovery in each instance. What is new to everyone except the very few who can remember market activity during the early 1930s is the high level of risk aversion that surrounds virtually every transaction. The LIBOR/Fed funds spread, a reliable measure of risk, has reached record levels in the past four weeks; and the Federal Reserve lost all control of their Fed funds target rate in the middle of September and has failed as of yet to recapture it. (See the attached Figures 1, 2, and 3.) Despite some of the boldest moves ever made by the government of the United States to tame these fears, a high intolerance to risk continues.

We are at an odd moment in the evolution of these economic challenges: there is great hope but little evidence that the credit market fixes will work; and there is increasing concern but, again, little evidence that the financial crisis will push the general economy into a severe recession. My own sense is that we have passed into a mild recession that could become significantly worse and long-lived if Congress and other governments make wrong or ineffective policy decisions. Recessions that begin in credit markets last longer than those that stem from shocks to aggregate demand or supply. This one appears that it could be with us for a long while unless we execute highly effective actions to reduce its impact. As we learned from the last recession, recovery in the nation's job markets can take a great deal longer than the recovery in output or in the financial sector.

There is also an increasing awareness that the roots of the current crisis are firmly planted in public policy mistakes, which includes excessive liquidity produced by decisions by the Federal Reserve. The engaged public appears to understand that staunching the current flow of bad economic news requires that the root causes of this crisis be handled. Congress and the past two Administrations bear responsibility for expanding the spectrum of home mortgages into segments of the population that were not ready for the financial responsibilities of mortgage credit. The Fed bears responsibility for fueling the feverish pace of speculation surrounding mortgages, and regulatory bodies must own up to their failure to rein in these market excesses.

Congress also finds itself at the center of debate over how best to respond to the deepening economic slowdown. Indeed, there is widespread expectation that the House and Senate will send the President legislation very soon to stimulate the economy. Many who find themselves out of work or have experienced declines in their incomes or businesses doubtless look forward to congressional action. Now, the question is, what should Congress do?

As I will argue later in my testimony, Congress obviously should do nothing to harm the economy; it should let the Federal Reserve lead the effort to stabilize economic activity; and it should keep its focus on crafting long-term, pro-growth economic policy. Most importantly, Congress should make no change to basic policies that would signal increases in risk either through raising taxes or through increasing burdensome regulations. It also should be extremely wary of any legislation that could in any way be interpreted as America withdrawing from international product or capital markets. Congress can ill afford to repeat the awesome errors of its predecessor in the early days of the Great Depression and retreat from the world economic stage.

Congress should take this moment of slow growth to do what it does best: set broad economic policy. In this instance, Congress should concentrate on signaling to investors and workers alike that its principal focus will be on improving progrowth economic policy, mainly in the areas of tax, regulatory, and spending policies. Serious work by the Congress in these areas will create greater predictability for investors and business owners and assure workers that they will have a better chance of improving their wages through increased productivity. Efforts to enhance the long run may very well have immediate, short-run benefits as economic decision makers reduce the risk premium they place on starting new businesses or expanding existing enterprises.

I recommend that Congress address economic policies in three interrelated areas, all of which affect near- and long-term economic performance: (1) tax policy, (2) energy policy, and (3) long-term spending.

Nearly every significant general slowdown in economic activity is a good time for congressional policymakers to ask: Are we doing everything we can to support long-term economic growth? That is, slowdowns are good opportunities to return to policy fundamentals and ascertain that Congress has explored all possible avenues and acted upon them to allow the economy to grow.

I am convinced the Congress is not the best policymaking body for addressing the short-run challenges of the economy. That role is better played by the Federal Reserve System. So much of Congress's activity is tied to the budget and appropriation processes, which take time to reach legislative results. Moreover, Members of Congress frequently do not have the time or background for keeping pace with financial markets, the ebb and flow of economic data, and the actions of economic institutions in the same way as the Fed, or even as the economic agencies of federal and state governments. These institutional factors explain why congressional action often occurs after the need for action has expired and why the actions it takes often are not as targeted as deemed necessary.

However, there are areas of economic policy where congressional action can be timely and targeted, though it may not intend to be short-range in focus at all. Those areas involve the reduction of investment risk.

Investors are driven, in general, by comparative rates of return when making investment decisions between various opportunities. If two business opportunities are possible but one has a better rate of return than the other, then the investor will choose the superior opportunity—the one with the higher rate of return. Suppose, though, that outside factors intervene (a flood, war, regulatory changes) and this otherwise superior investment now carries more risk than the inferior one. The investor discounts the rates of return for the greater amount of risk, and if the rate of return on the first opportunity is still superior, the investor chooses that same opportunity. If, on the other hand, the risk is too great to choose the otherwise superior opportunity, the investor may take the more cautious approach of avoiding risk and placing funds in the opportunity with the otherwise lower rate of return.

Tax Policy Changes

What can increase risk? Many factors, of course, but public policy commonly looms large. Tax increases, especially if they are on capital, increase the cost of capital and lower investment returns. When investors are uncertain about whether taxes will increase or stay the same, they still can act as though taxes have risen if they judge the risk of an increase to be nearly equal to an actual increase. And rising uncertainty can have the effect of driving down investments in riskier undertakings.

Make the tax reductions of 2001 and 2003 permanent: Thus, among the first actions Congress can take to address the current slowdown is to pronounce definitively on the tax increases scheduled for 2009 and 2011. There are projects, new businesses, and expansions of existing businesses that would be undertaken today if Congress signaled that taxes would be lower in three years. Since nearly all major capital undertakings last beyond this three-year period, it is likely that making all or most of the Bush tax reductions permanent would stimulate economic activity today as well as in 2011.

I am probably not the only one here today who knows of businesses that are preparing now for higher taxes in 2011. They are preparing themselves by reducing their riskier projects and providing for stronger cash flows in 2010. It is altogether possible that there are projects being cancelled today that would otherwise go forward if taxes were not scheduled to rise in 2011. At times like the present, the speech of policymakers is as important as the policy actions they take. The decision makers in business and investment are watching Washington closely to discern the direction Congress will take in responding to this crisis. If that direction includes tax increases, then investors will find more favorable economies to support and business owners will, as much as they can, locate their expanded activities in other countries with more favorable tax regimes.

Thus, Congress should signal today what it plans to do on taxes in two or three years. For my part, I urge the Congress to make permanent the key provisions of the 2001 and 2003 tax law changes. Maintaining lower tax rates on labor and capital income will encourage both labor and capital to work harder now when we need that greater activity.

Accelerated depreciation: In addition, we know from past experience that accelerating the tax depreciation of capital equipment and buildings or one-year expensing of business purchases that otherwise would be depreciated over a longer period of time for tax purposes can help during periods of slow growth. This was certainly the record in the last slump.[1]

Taxes on capital gains and dividends: We also have recent experience with reducing the tax rate on long-term capital gains and on dividend income. If Congress were to reduce these tax rates by 50 percent for the next two years, the cost of capital to businesses would fall and investment stability would be enhanced. Indeed, if Congress were to approve a temporary zero capital gains tax rate on new stock issues, troubled banks could raise more of the capital they desperately need without having to go to the Treasury Department.

Lower the corporate profits tax: In one area of fundamental tax policy there is now nearly universal agreement: our federal business taxes are far too high. The tax rate on corporate profits is the second highest in the world. Why is it not the firm policy of the government of this country to ascertain that the corporate profits tax is always below the average corporate income tax of other industrialized countries? Such a policy would enhance our competitive standing worldwide and significantly reduce the incentive for U.S. firms to relocate to lower tax countries.

The current high rate affects the location decisions of businesses that end each tax year with taxable income and every business decision by taxable and non-taxable corporations who estimate the costs of buying new equipment and expanding operations. Congress should follow the lead of its Ways and Means Chairman and decrease the income tax on corporations. In fact, it should dramatically drop that rate.

If Congress were to make the tax reductions of 2001 and 2003 permanent and lower the corporate profits tax from 35 to 25 percent, I estimate the following economic effects would ensure:

- More jobs: By making the 2001 and 2003 tax reductions permanent and reducing the corporate profits tax by 1000 basis points, an annual average of 2.1 million more jobs are created. Indeed, 3.4 million jobs above a current law baseline are created in 2018 by newly energetic businesses.

[1] Matthew Knittel, "Corporate Response to Accelerated Tax Depreciation: Bonus Depreciation for Tax Years 2002—2004," U.S. Department of the Treasury, Office of Tax Analysis, Working Paper No. 98, May 2007.

• Overall more vigorous economic activity: These tax changes dramatically increase the level of national output. The growth rate of the economy increases a full half percentage point in 2011 and 2012, when taxes will otherwise increase under current law. The annualized growth rate jumps by 0.3 of a percent, and Gross Domestic Product averages $284 billion more over a 10-year forecast window than would prevail under current law. By 2018, GDP is $321 billion higher.

• More after-tax household spending: These tax changes dramatically improve household income, partly because the economy is so much healthier and partly because the average tax burden falls. The average household would have $5,138 dollars more to spend or save after paying their taxes. By 2018, this amount is $9,750 (after subtracting inflation).

Do not depend on demand-side stimulus: Demand-side stimulus (tax rebates, the child tax credit, and the 10 percent tax bracket) do little to change the course of the sluggish economy. Certainly for tax rebates we have just passed through a laboratory experiment of sorts. President Bush signed legislation earlier this year that gave each taxpayer a $600 tax rebate ($1,200 for married taxpayers). Congress hoped that these rebates would stimulate consumption and prevent the economy from falling into a recession. While the jury is still out on this experiment, initial and supporting evidence for this view looks very thin.

More than likely, the tax rebate of 2008 will join those of 2001 in falling well below expectations as a way to stimulate the economy or move it from a prolonged sluggish growth trend. Indeed, the contraction in investment, and thus job creation, did not begin to improve until after the 30 percent partial expensing in the 2002 act and the 50 percent partial expensing in the 2003 act, which also cut the tax rates on dividend and capital gain income. Congress has enacted depreciation and expensing stimulus plans under Republican and Democrat majorities.

Energy Policy

Rapidly increasing prices for gasoline and petroleum-based energy generally slowed the economy, helped bring about our current recession, and their effects continue to impede job and income growth. If Congress acts to expand energy supplies, forward-looking prices will fall and economic activity will shed off the drag that stems from this sector.

Let me illustrate. Economists working with me in the Center for Data Analysis at Heritage estimated the economic effects of a $2.00 increase in retail unleaded gasoline.[2] We have just experienced such an increase over the past 14 months. We found that

• Total employment falls by 586,000 jobs
• After-tax personal income falls by $532 billion
• Personal consumption expenditures fall by $400 billion, and
• Significant personal savings would be spent to pay for the increased cost of gasoline.

These national level results reflect the economic effects of price changes. That is, disposable income falls because the economy slows below its potential. In addition, households must spend more in gasoline.

We looked at the economic effects on three types of households. Let me describe the effects on one of these: a married household with two children under the age of 17. For this household, disposable income falls by $1,085; purchases of goods and services falls by $719; and $792 is taken out of personal savings just to pay the gasoline bill.

Some analysts argue that gasoline consumers can adapt to higher prices by changing their driving patterns and their automobiles. However, new research by Jonathan Hughes, Christopher Knittel, and Daniel Sperling (all from the University of California-Davis) shows that families today have little opportunity to quickly adapt to higher prices. Most working families have two income earners who commute by automobile to work. They live in suburbs away from mass transit opportunities. Their children have extensive after-school activities to which they are transported more often than not in an SUV. Today's short-term price and income elasticities are a full ten times smaller than those estimated using data from 20 years ago.[3]

[2] See Karen A. Campbell, "How Rising Gas Prices Hurt American Households," Heritage Foundation Backgrounder No. 2162, July 14, 2008, at *http://www.heritage.org/Research/Economy/bg2162.cfm.* A copy of this report is attached to this testimony as Appendix 1.

[3] See Jonathan E. Hughes, Christopher R. Knittel, and Daniel Sperling, "Evidence of a Shift in the Short-Run Elasticity of Gasoline Demand," National Bureau of Economic Research Working Paper No. 12530 (September 2006).

These lower elasticities mean that it is much harder for consumers to adapt to gasoline price shocks today than two decades ago. For most, their primary option is to reduce their consumption on other items and take funds out of savings to pay for the higher priced gas. Doing so, of course, slows the economy and affects everyone for the worse.

There are many economic problems facing Congress, from slowing global economic activity to persistently bad news from our financial sector. Congress can act on some of the economic fronts before it, but its ability to affect the nation's economic future is limited. On energy, however, its actions to increase supplies in the short and long run could accomplish some good, particularly for workers looking for jobs and families hoping to keep their children in violin lessons and little league baseball.

I am a free trader who believes imports are central to our economic vitality and future economic strength. However, our heavy reliance on foreign oil producers (imported oil now constitutes over 60 percent of our daily petroleum demand) has made us subject to price variations due to supply disruptions, supply extortion, and booming world demand. I believe that increasing the domestic production of petroleum and refined oil products would have a positive effect on our domestic economy, largely through creating more jobs and income.

In another study prepared by economists in my Center, we asked what would be the economic effects of increasing domestic production of petroleum by 10 percent. The U.S. currently consumes 20 million barrels per day, of which around 65 percent originate from foreign sources. If domestically sourced petroleum increased by 2 million barrels per day, what would be the economic effects.

Our analysis indicates that such an increase would

- Expand the nation's output as measured by the Gross Domestic Product by $164 billion and
- Increase employment by 270,000 jobs.

Congress exercises enormous authority over petroleum mining, largely through its regulation of off-shore and federal land oil reserves. Authorizing more oil mining in these reserves today would begin to wean the U.S. from the economically harmful reliance on such high amounts of foreign petroleum.

One of the more tragic features of recent energy policy actions by Congress is how often it has failed to increase access to energy resources on the grounds that doing so would not have any effect on supply or price for years. While possibly correct from an engineering standpoint, this excuse for inaction makes no sense economically. If Congress were to announce greater access to proved reserves, mining activity would immediately begin, capital and talent would leave other parts of the world and travel to the United States, forward pricing markets would feel the downward pressure on prices that impending supply increases make, and ordinary Americans would not discount their own economic futures as much as they do today.

Spending Policy

Increase confidence in the U.S. economy by addressing long-term spending challenges. While the attention of most policymakers will be on immediate responses to the current slowdown, everyone should attend to a factor that is increasingly important to confidence in the U.S. economy: the seeming unwillingness of Congress to seriously address the enormous financial challenges from entitlement spending. Many investors and organizations that play key roles in the future of the U.S. economy are worried about long-term growth given the fiscal challenges posed by Social Security's and Medicare's unfunded liabilities. The Financial Times recently reported that Moody's lead analyst for the U.S. warned that the credit rating agency would downgrade U.S. treasury government debt if action was not soon taken to fix entitlements.

Thus, at a time when the economy is slowing and the voice of Congress, as well as its actions, can affect economic activity, policymakers should take concrete steps that will announce their intention to address unfunded liabilities in these important programs. While reforms in these programs may be beyond what this Congress can accomplish, it is possible to signal change by reforming the budget rules.

Currently, the federal budget functions as a pay-as-you-go system, with a very limited forecast of obligations and supporting revenues. We just do not see in the official budget what may happen over the next 30 years. The five- and ten-year budget windows do not permit Members or the general public to sense the obligations that are coming beyond that ten-year time horizon.

A good first step in addressing the long-term entitlement obligations of the United States would be to show these obligations in the annual budget. This could be done by amending the budget process rules to include a present-value measure of long-term entitlements. Such a measure would express in the annual budget the current dollar amount needed today to fund future obligations. Such a measure has been endorsed by a number of accounting professionals, including the Federal Accounting Standards Advisory Board.

A solid second step would be to convert retirement entitlements into 30-year budgeted discretionary programs. Such a move recognizes that mandatory retirement funding programs for millionaires that crowd out discretionary spending programs for homeless war veterans do not make any sense at all. If we are to contain entitlement spending and reform the programs driving those outlays, then a paradigm shift likely will be required. Recognizing Social Security and Medicare as discretionary programs helps to force attention on changes that will assure their survival well into the 21st century.[4]

Chairman MILLER. Thank you very much to all of the witnesses for your testimony.

Ms. Stevens, I there is kind of a dual message in this for you. One, it isn't about you in the sense of your talents, your skills and your obvious presence. You are caught up in a much larger downturn in this Nation. But the bad news is you are caught up in a much larger downturn in this Nation that, as I said at the outset, is affecting millions of individuals like you who are going out every day making every effort to try to connect to a new employment opportunity, in-field, out-of-field, completely new, trying to provide for household income, and are finding it more difficult every day, not easier every day, more difficult every day, because your ranks are being joined by those who have involuntarily lost their employment, their jobs.

I really want to thank you again for your testimony. I don't know if you want to comment on anything you heard here as you are sitting here listening. I want you to feel free to do so. You can raise your hand later if you hear something you want to comment on, all right? You have special status as a witness. These guys raise their hands, they get nothing. You raise your hand, you will get recognized.

Thank you again for your testimony. I would like to make a couple of comments and use my time. One is I don't want to suggest, and Mr. Beach has touched upon that tax policy that is under consideration both within the leadership and certainly within the Congress. It is not the core of this committee's jurisdiction. In fact, the other committee will argue it is not at all in our jurisdiction. But that will be determined too.

As many of you commented on, we had the rebate policy earlier in the year. That is when people thought this was a different kind of problem for the economy. At that time, if you remember, people were still arguing it was going to be a V downturn, down sharply, up quickly; then it was going to be a U; and now we have this sort of elongated L that people now really no longer want to speculate on where the end of that is. They say 2009 out of convenience, but all of them immediately then tell you it could be longer.

What we are starting to see is you have a situation in which money is rapidly being extracted from the economy, either because of the loss of wages, as Mrs. Stevens so incredibly testified to. We see the loss of investment being made. We see simply the loss of assets, the loss of equity. I think someone can correct me, but I think the number was over the last several years up until a year

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[4] See Stuart M. Butler, "Solutions to Our Long-Term Fiscal Challenges," testimony before the Committee on the Budget, U.S. Senate, January 31, 2007.

ago, we were pulling about $700 billion to $800 billion out of home equity, and most it was being spent in real time. That has ceased because obviously it is not available because of the credit crunch and people are too far in debt.

This morning we look at the headlines and we see that General Motors and other employers are reducing their contributions to 401Ks, they are reducing their contributions to health care, they are freezing their contributions on other benefits. That obviously has ramifications because people now see that their retirement funds will be less than they thought because the contributions will be less. We all love the miracle of compounded interest, but it works the other way too if you don't take advantage of it.

So people are really looking out at a situation where they will have fewer resources, and clearly they are not going into the market to spend them as they did in the past. Apparently, again from this morning's papers, they are not going to restaurants, they are not going to stores, they are not going to the movies as often, they are not doing a lot of things, and the question is obviously for us, as you testified, is how do we get this to jump-start.

Just as I can, without belaboring this because it really isn't our jurisdiction, but this question of whether you get a bigger bang for tax cuts, we have had some discussions of this at the leadership amongst economists, or in this kind of public spending that you outlined.

Jared or Mr. Beach, do you want to just talk on how you see that?

Mr. BERNSTEIN. I will give you one statistic. Bill Beach suggested accelerated depreciation as a job creation measure. There is a very good, often cited authoritative study by the group moodyseconomy.com which looks at the bang for buck for all of the stimulative measures that we have discussed and all the others as well.

I think there are 12 or 13 measures, and the very lowest on that list is accelerated depreciation, 27 cents per dollar of GDP investment. That is, invest a dollar in accelerated depreciation and GDP grows by 27 cents. Invest a dollar in unemployment insurance benefits and the bang for the buck is about $1.75. That is $1.75 for UI extension, 27 cents for accelerated depreciation. Food stamps is about $1.65. Infrastructure is about $1.60. As I said, all the way down that is accelerated depreciation. This is what I think is commonly referred to as supply side economics, and it has been shown to be uniquely ineffective in terms of job creation.

Chairman MILLER. Mr. Beach?

Mr. BEACH. Well, I have to dispute that. Absolutely. I wouldn't be earning my buck if I didn't.

Every recession is a little different than every other recession. That is the first thing you as members must keep in mind very, very clearly. You hear testimony and people use averages and they say the typical recession. We are not in a typical recession.

Chairman MILLER. No one is using the word "typical" at this stage of the game.

Mr. BEACH. That is good, because I think that is the beginning of wisdom. This is a recession that started in credit markets. They always last longer if they are in credit markets.

You can't address this either with exclusively tax cuts or exclusively infrastructure. You have to do humanitarian things immediately; food stamps, unemployment insurance. Those are the sorts of things that you have to step forward and actually produce, because people will be hurting. But don't bet the ranch on that getting you out of this recession. As important as those are, we need to stimulate two things simultaneously.

On the one hand, we have to go into credit markets and reduce the cost of capital in such a way as to augment what the Federal Reserve and the Treasury are doing. You have a job of augmenting their mission. You don't have a unique mission. You are a partner in all of this.

Your part of this is to direct your members who are in Ways and Means and Finance on the Senate, in a positive move on the tax side. That has to be part of your picture. I think everybody on this panel has testified that rebates really didn't work the last time. And you just nailed it, because we didn't——

Chairman MILLER. In fact, rebates worked for the purpose for which they were instituted. Most people have testified they carried us through a quarter that we would not have gotten through with that growth.

Mr. BEACH. About 30 cents of the dollar was spent.

Chairman MILLER. I understand. That was for a different purpose. If you talk to the Secretary of the Treasury or President of the United States or leader of the House it was for a different purpose.

Mr. BEACH. But now you know that the recession that you were addressing back in the spring is not the recession that you thought you were addressing. So it has to be a combination. And my mission here this morning is to say that the tax handles which Congress controls are powerful handles in the combination of public policy responses that must be made in order to move us into a shorter run as opposed to a longer run. And Dr. Pollin is holding up his hand.

Chairman MILLER. Dr. Pollin, you are not going to talk on this point on my time, but you can talk about it later. But I wanted to ask you a question.

One of the things that we have been told, and this includes Mr. Hansen's group, and when we started the Innovation Project for the Democratic leadership that later became the COMPETES Act that passed and was signed, was we were told by people in the technology industry if you want a new generation of technology, invest in energy; that just as telecommunications drove a generation of technology, Craig Barrett said at one point this is where you would go, both for the future of the country in terms of balance of payments, foreign oil, dependency, all those other issues, and also the issue of whether or not you would drive a new generation of technology as you try to become a more efficient energy user.

One of the interesting things I am going to ask you is you are sort of seeing a convergence here where if you do the public investment policy right in terms of green, energy efficiency, all of those characteristics, you start to see a confluence of benefits beyond the simple creation of the job. You start to see policy implications for foreign oil dependency, for energy use, for climate change. You start to see these other things kick in in terms of that investment policy.

If you went over and invested in the broadband, you start to see not just simple job creation, but business creation. You start to see other opportunities that come from that. You may also see opportunities to cut down on commuting, to cut down on people traveling for the purposes of conducting businesses because they have those resources. I am just kind of interested in that in this hearing, and I will give you, Dr. Pollin, a chance to respond, and then I am going to go to Congresswoman Woolsey and we will start there.

Mr. POLLIN. Thanks. Yeah, I mean, there are two basic ways to invest in a green economy that will have massive short-term benefits, as well as long-term benefits; and one is, of course, energy efficiency, and the other one is in renewable energy.

The investments in energy efficiency, at this point, seem to me to be no-brainers. We are dealing with known technologies. Again, an example is retrofitting existing buildings. We can invest in retrofitting the public sector buildings starting tomorrow. There are 800,000 construction workers who have lost their jobs. We can put them back to work. We can get these projects going.

They're relatively short-term projects and will pay for themselves. I mean, there are various—it depends on building types, but on average, you will see a full return on your investment within about 5 years, and you will create, you know, hundreds of thousands of jobs just from that alone.

Now, with respect to renewable energy, in terms of tax credits, we do know that the renewable energy tax credits, which you had stalled and now you have restored, are very effective. The market is extremely responsive. We saw a doubling—the last time you held back on the renewable tax credits and then increased them, you saw a doubling, for example, in investments in wind energy. So those things are there before us.

I do think that the first priority for now in terms of short-term, big kick into the energy area is energy efficiency. And you will get the most jobs, it will be done fast, the technologies are there, and you will fight global warming. You will increase energy independence. You will create a lever against future rises in the price of oil.

Chairman MILLER. Thank you.

Congresswoman Woolsey.

Ms. WOOLSEY. Thank you, Mr. Chairman. Just to follow up on what Dr. Pollin just said, don't forget national security when you make that list of what energy independence will make.

Ms. Stevens, you're delightful, you're wonderful, and thank you for being here.

Ms. STEVENS. Thank you.

Ms. WOOLSEY. All the rest of us, everybody here needs to use Ms. Stevens right now as our example of a talented, smart, qualified individual who is out of trouble—I mean, out of work and in trouble. Imagine then what happens to the entry-level worker, the basic high school graduate if—the older worker who's lost their job because, guess what, they got paid more than the middle-level worker, and they were one of the first to be let go. We have trouble all over.

So my question is mainly to Mr. Pollin and Mr. Hansen: We're talking about creating jobs. We're talking about, certainly, infrastructure and 800,000 workers that are out of work and green technology jobs which are, I believe, the jobs of the future for the United States of America if we are wise enough and quick enough to step up to the plate and bring this technology home. It's being created in your area, Mr. Hansen. Those are the brains. Let's not give it away to a foreign country.

Do we then—in our stimulus package, should we also include an education and training component that we will invest in? Not, probably, many of these 800,000 construction workers—they probably are not totally ready for the green technology changes to our buildings. I mean, they need some help. They need to learn some things.

Ms. Stevens, use her as our example. How do we move her from the insurance industry into the green technology industry? I'm a human resources person, too. She can move any place; she's very talented, believe me. But not everybody can. So we need—so should we in our stimulus package be including training and bringing existing workers into these new jobs?

Mr. POLLIN. I think that——

Ms. WOOLSEY. Go ahead.

Mr. POLLIN. Absolutely, the green sector is the future of this economy. We may not have any future unless we build that green sector starting now.

At the same time, I want to emphasize that, yes, we do need training. We do need people to learn how to operate new kinds of work in buildings, in public transportation, and there's a lot of research and development in renewable energy and using the Internet.

At the same time, I want to emphasize, virtually all the employment that's going to get created through green investments are for people doing things not that different than what they do now. There is this notion that the green investments is something esoteric. Part of it is esoteric.

There are my colleagues at the University of Massachusetts, for example, that are researching new ways of using biofuels. That requires a lot of training, and it all may go bust; we don't know. But there's also a huge swath, the overwhelming majority of investments are in known technologies. There are people doing things that they are going to do otherwise. They are going to be roofers putting on solar panels. They are going to be machinists. They are going to be truck drivers delivering solar panels as opposed to oil pipe.

So, yes, we do need the education and training component, but no, I don't want people to have the impression that we will be stymied, we can't get people into jobs now. We can. We can move things right now.

Ms. WOOLSEY. In, particularly, existing infrastructure, roads and bridges. Those jobs are just sitting there waiting to go.

Mr. Hansen.

Mr. HANSEN. Well, I think the investment in education and training is extremely important. First of all, we have companies today that are looking for employees that have technology backgrounds, and they can't find them. A lot of that is, we need to educate people so that they are able to fill those jobs and do it here in the United States.

We do a lot on—we do as an organization around the country in trying to promote STEM education, trying to work with organizations all across the country on creating programs to help get students and teachers more involved in STEM education.

The other thing is, a lot of the research—R&D spending that we're talking about with organizations like DOE and the National Science Foundation and NIST, that keeps a lot of technical professionals employed working on things that create job opportunities, also, in addition to keeping them employed. So the training aspect is huge.

I'd also like to just add one other thing back on the energy R&D question because I think a lot of times people don't really understand exactly all the things that come out of that kind of research. And I'll give you one example out of our industry. If you look at an iPod, a lot of what's in that iPod comes out of DOE research. You know, lithium ion batteries come directly from that kind of research. And all kinds of other things that pertain to the circuitry and the protection of those systems, I mean, it comes out of that research.

We wind up storing a lot of things that sometimes we don't have any knowledge that we're going to create when we do those things. I could give you an example. I mean, it's not exactly what we're talking about.

If you look at GPS technology that we use for a national security purpose, nobody really knew, even though the Air Force used to say that there would be some commercial utilization of that technology, they had no idea how broad that would be.

Ms. WOOLSEY. I can use an example. I come from the telecommunications industry, 1969, and after Kennedy's Apollo program that—whoever knew how important an integrated circuit would be and what could happen from that point on?

Thank you, Mr. Chairman.

Chairman MILLER. Mr. Loebsack.

Mr. LOEBSACK. Thank you, Mr. Chairman. It's great to be here today and listen to the experts on the panel, all of them—in particular, Ms. Stevens. I really do appreciate your being here and sharing your personal story.

I might just say at the outset, Rockwell Collins in my district does a lot with GPS and, in particular, the handheld GPS receivers for our warfighters in the field. It's remarkable the improvements that they've made along those lines.

Earlier this year, I introduced a bill intended to spur investment in our crumbling infrastructure. It's the Green School Improvement Act, and it focuses on helping schools repair and renovate using green technology, and I was able to cooperate with Congressman Chandler and Congressman Dale Kildee and many other members of this committee to incorporate provisions of that bill into the 21st Century Green High-Performing Public Schools Facilities Act. And that bill was incorporated into our stimulus package, as you probably know, that we voted on and passed here in the House, right at the end of September, beginning of October. So I'm really happy, of course, to hear from folks about the importance of green technology.

And, Dr. Pollin, in particular, I'd like to ask you—you've already elaborated a little bit on how quickly any investments in infrastructure could have an effect on the economy. Could you be a little more specific with respect to educational investments and green schools in particular?

Mr. POLLIN. Well, first, the big picture: I mean, what are the things in the green area that can be implemented immediately? Certainly, the whole range of building retrofits is an area that is just waiting to be done tomorrow, as soon as you pass your legislation. Again, we have—from September '07 to September '08, we've lost 800,000 construction jobs, and these types of projects can be done right away.

In the area of public transportation, we have enormous opportunities. I mean, the argument has always been that, well, people don't like public transportation, they want their cars. Well, what happened when energy prices went up is people switched to public transportation. I think we ought to invest in simply improving, expanding those services.

Now, what about construction of educational buildings? Well, as Jared Bernstein mentioned and is documented more fully in his testimony and other work by EPI, there are things such as in the area of educational structures that have been sitting and waiting to be implemented now. Of course, you cannot start a building from scratch and expect it to be on line in a matter of months, but these things are waiting. We have documented that.

So there are things that are ready and waiting to be done. They will have a massive short-term impact. They will have almost 100 percent domestic content, which I know everyone cares about, and they will benefit the economy long term.

Mr. LOEBSACK. Thank you.

Dr. Bernstein, in your testimony you outlined the importance of investment in public infrastructure, and you cite one example of investments that could help quickly spur the economy as investment in combined sewer overflow systems, something that's not particularly sexy, obviously, out there in the world to talk about. But I'm very interested in that, in no small measure because in the 2nd District of Iowa, we have a lot of smaller, mid-size and smaller communities that, of course, are facing EPA mandates, and they've got to spend a lot of money, in some cases tens of millions of dollars to separate the sewer systems. Ottumwa, Iowa, is one place where we're looking at $160 million over the course of 20 years.

Can you talk about how you think that investments in that kind of infrastructure are really important at this time and obviously to spur economic activity?

Mr. BERNSTEIN. Much in the spirit of what Bob Pollin was talking about, in terms of activities that are ready to go in the sense that they are needed but either underfunded or simply ignored, there are 770 communities in 33 States with a total of about 9,500 identified combined sewer overflow problems, much like the one you just mentioned, releasing approximately 850 billion gallons of raw, partially treated sewage annually. EPA estimates that somewhere between 25- and 75,000 sewer overflows occur each year;

and according to the National Association of Clean Water Agencies, communities throughout the Nation have more than $4 billion of wastewater treatment projects that are ready to go to construction if funding is made available, and we outline those in greater detail in the written testimony and other documents we have.

So there is—that's kind of the exciting part of this, and I grant you maybe exciting is an unusual word for toxic overflow, but the point is exciting in the sense that we're talking about this in the context of infrastructure in a recovery package. These are projects that are ready to go that have good jobs associated with them and that are currently constrained for resources.

Mr. LOEBSACK. Thank you very much. And I do want to mention, too, obviously in many cases in these smaller communities—if I might just take an extra 30 seconds, we're talking about—really if these communities are not helped, we're talking about a huge tax bill that's going to be in terms of water costs, the usage, and how much it's going to cost individual members of the community just for their water.

So I think it's all the more—I think that's all the more reason why we have to have this kind of package at this point to help those communities in the long term as well.

And I want to thank Ms. Stevens again and wish you all the luck in the world in getting back on your feet. Thank you.

Chairman MILLER. Mr. Courtney.

Mr. COURTNEY. Thank you, Mr. Chairman. I want to thank you for holding this hearing.

Leading up to the vote on October 4, the hype that was being presented in support of that measure, that it was somehow the answer to our economic ailments, obviously, the events over the last few weeks have demonstrated we have a much more deep-seated, broad-based problem; and this hearing, I think, is probably giving some voice to that, particularly from Ms. Stevens. Again, thank you for your testimony.

Dr. Bernstein, I wanted to focus a bit on the State fiscal relief issue which you talked about. The governor of Connecticut, where I come from, just announced a special session of the legislature in the next few weeks to talk about $200 million in spending reductions, deficit reduction. Governor Deval Patrick, up the road in Massachusetts, has announced a billion dollars of deficit reduction. And the feeling from most people in those States is that really this is just the first round of deficit reduction, that there's actually going to be even harder choices being made.

You talked about in your testimony the impact of this trend, that it would, quote, "deepen the negative cycle"; and I was wondering if you could just elaborate a little bit more about how that aggravates a recession.

Mr. BERNSTEIN. Thank you. That's a great question. The States have to balance their budgets, as you well know, and so at a time of economic distress, when their tax revenues are constrained by the diminished consumption that Mr. Blackwell mentioned, by lower property taxes, lower sales taxes, lower income taxes, the only way they can do so is by—they have three channels. One is to tap rainy day funds. And they're doing that. The other two are to raise taxes or to cut services, meaning directly cut services to—

publicly provided services to their citizens, typically in the form of lower public employment. So that deepens the economic cycle that Ron and others have talked about. That's precisely the opposite kind of intervention you'd like to see.

I'll just note on top of that that the other dimension—there's a credit crunch out there, as we all know, and the other dimension of that is that this has significantly raised the cost of borrowing for States; and even though they have sterling borrowing records, very rarely default, they're facing much higher interest rates on their bond issues. And this, too, is leading to cutbacks.

I'll give you one example from a new study by John Irons and you can pull it up at EPI. The Metropolitan Washington Airports Authority recently postponed transfer of a $2.2 billion bond sale to expand terminals at Dulles and Reagan National, forgone infrastructure projects which have so far been estimated to total $100 billion, resulting in more unemployment, less demand for goods and services, and less overall economic activity. That is going on in at least 30 States at this point, those types of reductions.

Mr. COURTNEY. So in 2001, after 9/11, there was an infusion to States, which your testimony mentioned. Again, your comment was that, in retrospect, it appears that it probably got there a little too late. And I guess, sitting here on October 24, we passed a stimulus measure on September 26 which did have an infusion to the States. Obviously, we've lost a month. If this initiative doesn't move forward until after a new President is sworn in, we are talking January. I guess—seeing States already having to move now to address these problems, I guess—I mean, time is of the essence.

Mr. BERNSTEIN. I believe it was—I don't think it was 2001; I think it was 2003. And that's exactly what we want to avoid, you're right. The sooner, the better, particularly from the perspective of States.

Mr. COURTNEY. I guess—and you mentioned the infrastructure piece as well. I mean, the time frame even for some of the stuff that's right on the shelf and ready to move is 30 to 90 days. So every sort of delay that Washington, you know, experiences is just going to keep pushing back the antirecessionary benefit of these kinds of ideas.

Mr. BERNSTEIN. Right. As Ron Blackwell described, there's a vicious cycle, and as employment falters and as assets depreciate, households have less income, they consume less, the economy faces that much more negative downward pressure.

Mr. COURTNEY. Mr. Chairman, I hope the administration who came in here with great urgency last September is listening. I yield back.

Chairman MILLER. Thank you. Mr. Sarbanes.

Mr. SARBANES. Thank you, Mr. Chairman, for holding the hearing.

Ms. Stevens, I just want to commend you for being as calm as you are. I've been sitting for the last few weeks in hearings in the Oversight and Government Reform Committee where we've had this parade of people come forward who are largely responsible for the situation we're in. I mean, it's bad enough to be facing the difficulty you are in, but to face it feeling that it didn't have to be this way makes it just that much worse.

Ms. STEVENS. Not easy.

Mr. SARBANES. And frustrating, I'm sure. So thank you for being here.

I had a few questions related to—well, first one—I guess, Mr. Blackwell, maybe you're the best one to answer it, but talk just very briefly about the difference between a, quote, "good job" and one that we wouldn't characterize as good and particularly in terms of the loss of it. In other words, are there certain kinds of part-time jobs that are being lost that are important to people obviously to their livelihood but aren't maybe being captured in the job loss figures in the same way as the, quote, "good jobs" or "full-time jobs" or whatever?

I'm just trying to get a sense of whether the job loss figures are accurately portraying the actual job loss that's occurring out there.

Mr. BLACKWELL. That's a very good question. I think the gross net job losses that are reported by the Bureau of Labor Statistics, it's a pretty crude figure. It really doesn't express the kind of distress that we see in our labor markets right now for people who are working, as well as the people who are looking for work.

Ms. Stevens mentioned that she's willing to take contract work with no benefits just to be employed. People take part-time jobs when they can't get full-time jobs. People are taking jobs and working every day with no expectation that in the future—somewhere in the future of their life they will be able to stop working and be able to retire and move on to something else and still get—live a dignified life.

American labor anyway has some values at risk here, and this is something that's been going on for 35 years. It's gotten very much more acutely painful lately, and that is, we believe that if you want to work in this country, you should have a job. You shouldn't be looking for a job. You should have a job, and the government should be the organization that has that responsibility to provide those jobs.

Secondly, if you do work, your family should not live in poverty and your family members should have health care and you should have some expectation that at some point in your life you can stop working and still live a dignified life.

Finally, we believe that if you're working and you want to associate with your brothers and sisters at work and form a union and bargain collectively and help improve the quality of the jobs that you all have, you should have that freedom, as American workers today do not.

So I think what you're seeing over a very long period of time in this country is a very different pattern than when I grew up, is a deterioration in the standards of work and the disappearance of really a systematic employment policy and dereliction of duty on the part of the U.S. Government to pursue full employment in this country.

Mr. SARBANES. We've invested in many, many things, but we've not seemed to have invested in the American worker, I think is what you're saying.

Let me ask a question about—I'm going to run out of time, so I've got to decide which one I want to ask.

Dr. Bernstein, you talked about $150 billion, $100 to $150 billion. How do you come up with that number? In other words, would 300 be better to do the job, or do you get to a point of diminishing returns in terms of this kind of a stimulus investment?

Mr. BERNSTEIN. Obviously, it's a very important question because we don't want to spend $1 in a recovery package inefficiently.

I can give you the background. Some of it is in my written testimony, but in my judgment, the State fiscal constraints that I just discussed with Mr. Courtney would amount to about a $50 billion investment that—the Center for Budget and Policy Priorities very closely agrees with that number—infrastructure investment of the kind you discussed in the short term. I believe that system could also absorb about $50 billion. Similarly, the unemployment and food stamp extensions I mentioned would also come to around that amount. That's $150 billion.

Mr. SARBANES. Okay. So it's about what the system can reasonably absorb over a period of time?

Mr. BERNSTEIN. Short of direct payments to households. That $150 billion, in my thinking, is the magnitude of a stimulus, based on the factors I just took you through. To the extent that Congress wants to also send a check to households, which I believe are an effective stimulus, they're less effective than the ones I've mentioned so far, and there's always focus on the first package. So, to me, that's at the back of the line. Once you get past the $150 billion, I think that's where you have to go.

Mr. SARBANES. Well, I'm out of time, but couldn't you expand the number if you were thinking about this direct aid to States, like was just being discussed? I mean, why isn't that an expandable number? Why can't that absorb more, for example?

Mr. BERNSTEIN. Well, the $50 billion comes off of the amount that States are currently—not just currently, but the amount that States are looking at in terms of their budget deficit now and in the near-term future, that number will likely get larger as the negative cycle deepens, as others have mentioned, so there may be more room there.

My estimate is conservative.

Chairman MILLER. Thank you. If I might go back here, this question of what seems to be sort of an emerging consensus that we are going to be looking at something like an 8 percent unemployment rate; and many people think it's higher, some people think it's a little lower, but it's well past where we are today. And also this, again, people arrived at the conclusion at different times. Some people were talking about this many, many months ago. Yet, we were looking at sort of an L-shaped recovery here, both recession and recovery, that would be deep and long now. It just used to be sort of deep and maybe short. And when people look at the market, they realize that's kind of what happened to them here.

We're back to where we were in 2000. People were banking on that they were going to beat the S&P. Well, the S&P got back to 2000; we're in the tank again.

One of the things that came up in the meeting with the Speaker was that when people say, Well, this is going to go out to 2009, was—I think it was you that said, Yes, but unemployment will continue to grow after you recognize either officially or otherwise, you recognize the recovery, that the rate—I think one of the last downturns it went for 19 months. Can you just elaborate on that, because it goes to the question of how you stage it?

You know, tax cuts you can do rather quickly by adjusting withholding tables or what have you. You can do those things, but you'd also better figure out how you're going to have some employment opportunities here if you're going to endure that kind of time and you want the Nation to get out of this deep recession.

Mr. BERNSTEIN. Exactly, and this also has bearing on the infrastructure discussion, because if you believe that any infrastructure program that wasn't in place when the recovery began was not useful, that would be wrong based on precisely this logic. In fact, the unemployment rate did rise for 19 months after the last recession ended.

Typically, at least the way the National Bureau of Economic Research has been dating recessions, when the recession ends, the economy begins to grow in terms of real GDP, but it's not growing fast enough to create the economic activity needed to absorb the people coming into the labor market and to rehire all the folks that got laid off during the downturn.

The forecasts, which I view as fairly optimistic, have a gross domestic product in real terms growing at 1 or 2 percent by the end of the next year. That's still below trend. Trend GDP growth is in the neighborhood of 3 percent. Unemployment also lags. So if these forecasts are correct, and again I believe that you heard at the meeting that they may be optimistic, it's extremely likely that unemployment will continue to rise through 2009 and 2010.

So we unfortunately have the time to implement these measures. Of course, the sooner, as we've stressed, the better.

Chairman MILLER. I think a point that Mr. Loebsack and you responded to, and it's in your testimony, in this question we've tried to say that—somebody said they want dirt to fly in 60 days or 90 days, really projects that are ready to go.

When you look down the list, whether it's submitted from the administration or from different organizations that are involved in different infrastructure projects, you really see a very substantial number of projects that could comply with that edict. I mean, I think it's clear that we want this to be as timely as possible. And in some cases, it's not just a small project. These are projects that have cleared the committee processing and everything else that's in place except that component of Federal funding.

I know in California, through the Southwest to Texas, water recycling projects, there's a huge backlog of projects that are ready to go, where municipalities have put up the money, the States have put up their money, in some cases private organizations have put up the money, and they're simply waiting for that component to go.

Again, we're looking at projects where we start to yield benefits for the Nation far beyond the building of the project. Water recycling may be the most important economic component of the California and Southwest economy if we can both provide economic growth in the cities and maintain a farm economy that has huge export markets for this Nation and internal markets and how we segue that, because we also look like we're not only in a tough recession, we're in a very tough drought. And nobody suggests that we're halfway through it or wherever we are in it, but we know it looks persistent during that period.

I think one of the contexts of this idea of rebuilding America, if you will, is that there's investments that have simply been lacking. As we expand world trade, we're looking at millions of new containers coming to the West Coast, millions of new containers coming to the Gulf Coast, millions of new containers coming to the East Coast, and yet we don't have ports or transportation routes or freight routes on rails that are compatible with that kind of economic growth that we want as a Nation with that kind of growth in world trade that we say we want.

So a lot of this is about sort of clean up, company's coming, that we've got to deal with some of these issues in advance of laying the foundation for long-term economic growth, it appears to me; and the testimony I looked at and the kinds of infrastructure projects that are now on hold that are linked directly to well-founded—the ports of the Gulf. There's no question that we're now seeing a dramatic change in the trade between South America and the United States. You know, we're much more in sequence here on how we trade.

So I just would want to raise that point because the idea that we're recovering and everybody will find a job when everybody's talking about the recovery we'll continue to see this increase in employment.

Ms. Woolsey.

Ms. WOOLSEY. Thank you. I would like to ask Mr. Blackwell a question. You have had an easy go of it so far. I would like to ask you what your opinion is of a $150 billion stimulus package. Is that sufficient? If not, what would you suggest and why?

Mr. BLACKWELL. I think the way that the Congress approached the credit market problem is instructive here. It started out with a proposed $700 billion, and then you graduated access to those funds because we don't know how much we're going to need.

I would say that you need to think about this with the same level of ambition and the same kind of flexibility. We simply haven't been where we are today before. We do not know how much and how long we will need this. I would think an immediate consideration, it does depend on how much you can absorb over what period of time. There is an absorption problem. We don't want to waste money, but we may need government fiscal support for public investment-led recovery.

I think it is very important that this committee think about this as a recovery program, not as a simple stimulus program, in a policy-constrained economic cycle because the Fed can't get this thing going simply by dropping interest rates, as welcome as that is. It is going to take fiscal support, and it may have to be protracted. So I would start with a number closer to $300 billion myself, and I would urge you to have the flexibility to take it longer.

This is an asset-based recession. This is not like the normal policy-constrained recession. And I think it is going to take—and we have some fundamental problems with this, just as I described in my testimony, that I think we have to get after in the long run. We don't want to spend any money that we don't have to spend to get out of this, and we certainly don't want to waste any of it.

Ms. WOOLSEY. Would you recommend some of the funds being spent for training?

Mr. BLACKWELL. Absolutely. I couldn't describe it here, I didn't have the time, but one of the problems here is we borrow as a Nation 5 to 6 percent of our GDP every year. We are not pulling our weight in the world. We have some of the most competitive companies in the world, but our country is not competitive, and ultimately nobody believes that is sustainable sooner or later unless we find some way to produce more in a value equivalent of what we consume. We will be forced to consume less, and that is not the America we want to live in.

This will require that we invest in a world-class workforce to be able to attract the kind of businesses that can allow the country to pull its weight in the world, and it means that we are going to have to invest in a world class infrastructure. Otherwise we are a high-wage, high-standard country. We simply won't have a future in a globalized world unless we have those two ingredients, and right now we are not investing adequately in either. Even if we were outside of the problems of the cycle we are in, we need to spend more on producing the infrastructure that we need to be a successful country in a global economy, and we certainly need to invest more in the skills and the abilities of our workforce.

Ms. WOOLSEY. Thank you, Mr. Chairman.

Chairman MILLER. Mr. Loebsack.

Mr. LOEBSACK. Thank you, Mr. Chair.

First, I want to say to Mr. Beach, I suspect that were there folks on the other side of the aisle here, you might have gotten a little more attention today. But I just want to say I appreciate your comments as well and your contribution to the discussion today.

But I would quickly, however, like to move to Mr. Hansen, if I may, especially when it comes to what you talked about with respect to broadband connectivity. You know, Iowa is a fairly rural State, everyone knows that, perhaps not as rural as some might think. But I have been getting around my district a lot the last 2 years, go back every weekend, and certainly broadband is absolutely critical, I think, in the rural areas of America and not just to Iowa, but all over.

Telemedicine, for example, is something, if you could address that, I would like that. But also you mentioned how important broadband connectivity is for business, and I have been hearing that a lot, especially small businesses, and, of course, how that can create the jobs as well. Both those, could you address both those?

Mr. HANSEN. Yeah. First of all, on just the general business competitiveness, broadband connectivity, broadband speed gives you a variety of other options that really have to do with general productivity and competitiveness. You can do a lot of things in a company if you have that kind of capability, but these two questions that you are asking are really related.

You know, in a rural community in a lot of places today, there is no broadband access at all. There is a fairly large percentage of our population that has no access to broadband. That takes away all kinds of options.

Telework. Telework is a wonderful option that saves energy, allows people to work in the workforce with less cost. It allows you to broaden the workforce in a way that companies and all employers can access a better workforce.

In medicine, if you take a look at just one area, specialists, there are areas of medical specialization where there aren't enough specialists to go around. We have shortages in those areas, and telemedicine allows you basically to take one specialist and deploy them in several other areas so they can basically support emergency rooms in several different communities, several different States, because you have that capability. It allows you to take what you have and deploy it in a way that you are far more efficient.

Mr. LOEBSACK. Thank you.

Chairman MILLER. Will the gentleman yield?

Mr. LOEBSACK. Yes.

Chairman MILLER. Just on that point, my colleague Anna Eshoo wrote a letter to the Speaker on this issue about this being included in a stimulus package, and she suggested there is a number of different ways that you could speed this process up, either immediate expensing of it, you could provide tax incentives. There is a question of whether there could be a bonding for this purpose, broadband bonds, and then advanced wireless, where you would auction part of the spectrum off, and that entity would make a commitment to fill out the Nation 95 percent rural over the next 10 years. Ten years seems like a very long time to get this completed.

But in any case, I am not asking you to take a position on those, but apparently there is a number of ways that different parts of the industry have talked about how this could be funded so that we could expedite this economic asset nationwide, rural communities and across the board. Is that a fair representation? Again, I know there is different attitudes within the industry.

Mr. HANSEN. Absolutely. I would have to say I am in violent agreement with everything she mentioned. I think those are wonderful ways to do it. I think there are some other things we can do. There is S. 1492, the Broadband Data Improvement Act, that was passed, and I think quick implementation of the studies in that bill, I think, would be helpful. I think in the FCC's deployment of spectrum, I think flexible use of licenses so you can get more of it into the hands of people that can make use of it in this industry area and broadband, I think, would be tremendously helpful. So I think all the things you mentioned are good ways to go about it. I think we would be happy to provide for the record some additional ways.

Chairman MILLER. I think it would be helpful. Clearly that is going to be discussed, and I think the point, Mr. Loebsack, again, knowing the Speaker, the focus on the rural communities and its potential for economic growth in services into the rural communities, that would be helpful if you would do that.

Mr. LOEBSACK. I just want to make one final comment. It is really critical for a place like Iowa, as far as telemedicine is concerned, especially places like Iowa where the Medicare reimbursement rates are so low, where it is very difficult, obviously, for us to keep doctors, MDs and other health professionals, and then that access to those folks. It is a real problem. Telemedicine is one way that we can make some progress, I think, in solving that problem as well.

Thank you very much. Thanks to the whole panel.

Mr. BEACH. Mr. Chairman, I wonder if I could just make a quick comment on that.

I was with the Sprint Corporation when we built the first entire fiberoptical system in the United States from the ground up. I was with a company called United Telephone that bought U.S. Sprint. We put that company in place, and among the things that we found most helpful was a competitive environment for that company to go out and merge and develop other companies in partnerships. That was crucial. Building businesses along the fiber hub was enormously important, and so local communities and State governments were crucial, and, I must return to it, we had a much better tax environment at that time.

So, yes, Mr. Hansen is absolutely right, that can create enormous businesses and wonderful opportunities, but you have to have it in the right envelope.

Chairman MILLER. Mr. Courtney.

Mr. COURTNEY. Thank you, Mr. Chairman.

Just quickly, I don't want to put Ms. Stevens on the spot, but I was just kind of curious what your response was to Mr. Blackwell's sort of overall comment that there ought to be some parity about the level of seriousness in terms of how we address this issue, using the bailout bill or the rescue plan, the $700 billion rescue plan as sort of a benchmark. I mean, obviously the whole country watched the Congress move very quickly to address that problem. At the same time, a lot of people have economic issues like you have eloquently described, and just I don't know if you wanted to comment. If you don't, I understand. I just thought I would give you a chance.

Ms. STEVENS. One of the things that actually comes to mind, it is wonderful, and it does seem like there are a lot of opportunities for the future, and that is great. But one of the things I am really thinking about here is, okay, there will be new jobs, but at what price? Will I have to take a pay cut? There is training, that is great, but to who? I don't qualify for financial aid. I would never be able to afford training right now myself and on my own.

Also, a lot of the unemployed are relying on credit cards right now. I am actually in the negative for my unemployment insurance and what that pays versus what my monthly mortgage is. So, you know, yes, my husband's working overtime, but where is the rest of the money coming from? So my debt is going up, and I just want to know that there is going to be something out there for me, you know. Job creation is great, but I just want to know if there is help, and if creation of these positions would be able to find a job for me that I wouldn't have to go into major financial trouble just to be employed.

Mr. BERNSTEIN. Mr. Courtney, can I add one point to that?

Replacement rates, this is the share of lost salary replaced by unemployment insurance, are typically well below 50 percent. We just heard from Ms. Stevens how that can be so difficult in the real lives of unemployed people. As part of a stimulus package, a temporary federally funded initiative to take replacement rates up to

50 to 70 percent would be highly stimulative for the macroeconomy, but, more importantly, provide the unemployed with a much-needed boost. We have done that in the past and, in my judgment, been quite successful.

Chairman MILLER. Mr. Sarbanes.

Mr. SARBANES. Thank you.

So that is another way in which you might expand the amount that you think could be absorbed, right?

Mr. BERNSTEIN. That is included in my $50 billion.

Mr. SARBANES. That going up to 70 percent is included in your 50-?

Mr. BERNSTEIN. Right.

Mr. SARBANES. I wanted to thank Mr. Hansen for the reference to the telework. I coauthored this year the Telework Improvement Act, which is trying to get Federal agencies more into the business of doing this and kind of leading the way. Obviously, private industry has done quite a bit with that, but broadband will allow us to move forward by leaps and bounds.

Mr. HANSEN. It also addresses another problem, and that is the cost of health care. Telemedicine, e-prescribing, e-health, all of these things make—I think that a step in health care reform is making it less expensive, more efficient, better quality, and that is something that results from this kind of deployment.

Mr. SARBANES. One of the themes we are kind of touching on, it seems, in the hearing, but maybe not articulating explicitly, which I am hearing is, you know, we don't have to characterize this as stimulus. We don't have to characterize it as recovery. We can characterize it very fairly as investment, you know, forward-funded investment. I mean, most of the things that you are proposing are things we need to do as a Nation anyway. You know, we may just now be borrowing against the funds that would have been outlaid a little bit further down the line, but all of these things make perfect sense to do, and I am certainly going to present it, as I argued for this plan, as an investment opportunity and all the things that make sense.

On that point, one of you in your testimony, I can't remember which, describes this crowding in concept, and you know it was said that it is a no-brainer that we would commit ourselves to green jobs and so forth. I think you meant because it just makes sense and it is a good investment. But I think it is also a no-brainer, many of the things being mentioned, because you are investing in things that are, in fact, the place the private economy is going to go, the private-sector economy is going next. So you are sort of paving the way or you are teeing that up, as opposed to something that you might say, well, that is an old economy, and it might create some jobs in the short term through public investment, but it is not really getting us closer to where the private economy is going to go. And I think that is the crowding in concept, if I am not mistaken, but maybe you could speak to that. Dr. Pollin.

Mr. POLLIN. The term "crowding in" and the way I used it in the written testimony basically refers to public investments as we have been talking about, enhancing opportunities for private investments. So, in other words, the fact that the public investments, rather than being in competition with, i.e., crowding out, private investments, encourage private investments, create a better climate for private investments. So it is a very important number that I refer to in the written testimony and I mention very quickly.

For 30 years the growth rate of public investment was 3.8 percent. That means it was faster than the average growth rate of the overall economy, which, as Jared said, is about 3 percent. For the last 30 years, it has been 2.4 percent. Why? Again, as Ron Blackwell is saying, we have got to build a more competitive economy. We have got to do well by our workers. We have got to do well by our businesses. So that means we have to raise the rate of public investment. Green public investment is part of the story. It is not all the story, but we have to raise that rate.

Why would we be at a rate that is, you know, a full percentage point or more below where we had been 30 years ago? It is a way to enhance our business environment.

Mr. SARBANES. That is what is so exciting about this, because we are saying this may be our opportunity to begin modeling the kind of public investment that we should be making as a Nation, regardless of the particular economic situation we are in. This is our chance. We have been brought to this realization; now we can begin this new process and this new approach.

Mr. POLLIN. Just one other quick point on that. Investments in the public sector now have the feature of certainty. We are in a highly uncertain business environment. That is exactly why the risk premium in financial markets for the private-sector borrowing is extremely high. We don't know what is going to happen. No matter what the incentives are for business investment, those are going to be very uncertain.

The public investments that occur now are certain. Once you legislate them, they will happen, and they will enhance productivity and create a better environment for the private sector over time.

Chairman MILLER. Thank you.

I would also say, I guess, from a business point of view, if you are going to have to buy cement and steel and copper right now, this would be a pretty good time to do it, wouldn't it? There is a silver lining.

Let me thank you very much for your testimony and your expertise. Obviously this discussion, conversation is going to continue in the Congress. As you may be aware of, a number of the committees have been holding hearings with respect to the recovery, with respect to the problems in the financial institutions and the credit markets of this country.

I think, as my colleagues have pointed out here, we responded very rapidly with respect to the Wall Street bailout, and I think it is very clear not only to my colleagues, but clearly to our constituents as we now move among them during the election season that they clearly believe that there has got to be a Main Street recovery plan. It is just very clear they want a Main Street recovery plan. And how we combine that, you know, how we integrate tax policy and public works and infrastructure and energy policy and broadband and innovation is going to be critical for the success of that policy, but I think it is clear that it has to be done, and it is going to be done by the Congress in relatively short order. Although when you look at the fallout from our current situation, it almost appears that nothing can be done fast enough.

It is just amazing when you look at the wealth that has been stripped from families in terms of the loss of equities, loss of home values, the loss—was it just the other day, four point something trillion dollars in pension assets that has been stripped. I guess if they can all hang on long enough, theoretically that will come back, but some of them don't have that luxury. So we are really talking about a dramatic loss in wealth.

I don't know what the old wealth effect used to be when the market was going up and going down, but when you lose the equity in your home, and you are starting to lose the value of your pension, and the value of your home is continuing to decline, I suspect there is a wealth effect, and I think that is what we are seeing in the general economy, and we are going to have to change that, and the Federal Government may be—in fact, is the only institution that can do that. We hope to be able to do it in a prudent fashion and an efficient fashion and in an effective fashion.

So thank you so much for all of your testimony.

Ms. Stevens, again, thank you. I think you know how much the members of the committee appreciate you taking your time, and we hope that your fortunes change and they change soon. Thank you so much.

Ms. STEVENS. Thank you for having me.

Chairman MILLER. Thank you.

As this panel retires, I would like to ask unanimous consent to introduce into the record a letter from Alan Blinder, professor of economics at Princeton University; a letter from the National Youth Employment Coalition; a letter from the National Urban League; a letter from Congressman Jay Inslee in support of the Green Jobs Initiative.

[The information follows:]

Princeton University Department of Economics
Princeton, New Jersey 08544-1021

Alan S. Blinder
Gordon S. Rentschler
Memorial Professor of Economics
October 22, 2008

Congressman George Miller
House Education and Labor Committee
2205 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Miller,

You asked about my views about where U.S. output and unemployment are heading. They are not very sanguine.

Data lags make it treacherous even to assess the *current state* of the economy around cyclical turning points, much to less forecast its *future path*. Furthermore, the unprecedented recent financial events make this turning point anything but normal. So the uncertainties facing us right now are enormous

That said, recent readings from both official government data and anecdotal reports paint a pretty bleak picture. It is beginning to look like the US economy—in particular, the consumer—fell off a cliff in September. I do not think it is a coincidence that this precipitous drop occurred just as the failures of Lehman Brothers, Washington Mutual, and Wachovia were grabbing the headlines—and the stock market was tanking.

Until very recently, the weakness in our economy was confined mostly to three afflicted sectors: housing, financial services, and automobiles. For example, during the first two quarters of this year, real GDP growth averaged 1.8% at an annual rate, even though residential investment ("housing"), which is now less than 4% of GDP, declined at a catastrophic 19.6% annual rate. Exports, which expanded at an 8.6% annual rate, saved us, while consumer spending limped along at 1% annual rate. Now, however, economic weakness looks to be broadening rapidly. And, with the rest of the world slipping, rapidly rising exports can no longer be relied upon to prop us up.

Most worrisome to me, the consumer seems finally to have given up—or rather been frightened to death—in the third quarter, and especially in September. It now appears that consumer spending declined notably in the third quarter; and I expect it to fall even faster in the fourth quarter. With consumption accounting for 71% of GDP, declining consumer spending more or less dooms GDP growth. The arithmetic is simple and compelling: If the growth rate of consumer spending falls by 5 percentage points (e.g., from +1% to -4%), that takes 3.5 percentage points off the GDP growth rate—which spells recession. The only questions are how deep and how long it will be.

Of course, no one knows either what will happen to consumer credit or how households will react to the credit stringency. And more than credit tightening is in play right now; consumers are just plain scared. But I find the following historical parallel disquieting. In March 1980, President Carter, in an act of desperation, invoked powers that Congress had granted in 1969 to impose credit controls on store charge accounts, credit cards, and the like. He also urged Americans to spend less. What followed, more or less immediately, was not pretty. In the second quarter of 1980, consumer spending plunged at an 8.6% annual rate (for a single quarter) and GDP fell at a 7.8% annual rate—the second-

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worst quarter in post-war history. My worry is that something like that may be happening again right now.

A one-quarter event, such as we experienced in 1980, is one thing. A long and deep recession is quite another. And we are probably in one already. What might a deep recession mean for joblessness?

For reference, the two worst postwar recessions came in 1981-1983, when the unemployment rate skyrocketed from 7.2% in July 1981 to a high of 10.8% in November-December 1982, and 1973-1975, when the unemployment rate soared from 4.8% in November 1973 to a high of 9% in May 1975. The increases were thus 3.6 percentage points and 4.2 percentage points, respectively. In the current episode, the unemployment rate stood at 4.4% in March 2007 and is now up to 6.1%. If the 2008-2009 recession turns out to be about as severe as the previous two big ones, unemployment will top out in the 8-8.5% range. My worry is that we may be heading in that direction.

Another way to put the point is this: The game has changed for the worse; we are no longer fighting to stave off recession, as was the case when Congress passed a timely fiscal stimulus bill earlier this year. Recession is now inevitable. Instead, I think of the manifold efforts that Congress, the Treasury, and the Fed are making to fix the financial system, plus whatever stimulus bill passes Congress next, as aimed at a far less ambitious target: stopping the rise of unemployment before it reaches 8%. The way things look now, I would consider that an achievement.

Regarding the policy choices before Congress today, I would emphasize just two points. First, the winter 2008-2009 stimulus package needs to be a large one—something in the range of 1½ to 2% of GDP seems about right. Second, there should be a strong emphasis on ameliorating the effects of rising unemployment. Extending unemployment insurance benefits is just one obvious component.

I hope these brief comments are helpful to you and to the Committee.

Yours very truly,

Alan

Alan S. Blinder

Prepared Statement of the National Youth Employment Coalition

Chairman Miller, Ranking Member McKeon and Members of the Committee: On behalf of the National Youth Employment Coalition and our 250-plus membership network, I am pleased to submit testimony to the Committee on strategies to address unemployment and promote job creation, particularly as they relate to the nation's disconnected youth and young adults. Across the country, we face a crisis of "disconnected" youth and young adults: individuals between the ages of 16 to 24 who are not in school and not working. Approximately one-third of the 17 million Americans aged 16 to 24 have neither a diploma nor a job.

Job training and employment services for many disconnected youth are less available now than in the last two decades. In crafting a national stimulus package, we urge you to consider policy measures that not only mitigate the impacts of this economic slowdown, but also make smart investments in longer-term, sustained economic prosperity that provide employment opportunities for low-income and disconnected youth and strengthen low-income communities.

Failure to make these investments will have profoundly negative impacts on our nation and our economy. More than 540,000 students drop out of high school each year and the implications of this phenomenon are staggering:

- Three quarters of state prison inmates are high school dropouts, as are 59 percent of inmates in the federal system.
- The death rate for persons with fewer than 12 years of education is 2.5 times higher than for those with 13 or more years of education.
- Ten years from now, at least 200,000-300,000 youth, 5 to 7 percent, will reach age 25 without having successfully transitioned to independent adulthood. About 60 percent will be men; of these, over half will be in prison, while the remaining young men will be mired in protracted spells of long-term unemployment.
- Approximately 16 percent of all young men, ages 18-24, without a high school degree or GED are either incarcerated or on parole at any one point in time;
- The situation is even more dire in minority communities where as few as 20 percent of black teens are employed at any time, unemployment among young black men aged 16-24 not enrolled in school is about 50 percent, and approximately one-third of all young black men are involved with the criminal justice system at any given time.

While it is imperative that we adopt strategies that keep students in high school, we must also recognize the fact that millions of youth and young adult dropouts will not return to traditional high schools because they have "aged-out" from public education systems, or have had such bad experiences in our schools that they are reluctant to return to those settings.

Even in the best of times, fewer than half of all high school dropouts aged 16 to 24 are working. Public/ Private Ventures reported "nationwide, 15 million people between the ages of 16 and 24 are not prepared for high-wage employment. Inadequate education or training is a major reason." Many young people are unprepared to meet the needs of employers or the challenges of higher education. American business currently spends more than $60 billion each year on training, much of that on remedial reading, writing, and mathematics. High school dropouts are unable to enter the workforce with the necessary skills to meet the demands of the nation's global economy.

A recent study conducted for the National League of Cities by the Northeastern University's Center for Labor Market Studies, reported that youth ages 16 to 24 have lost 900,000 jobs since 2002. In September 2008, adult unemployment remained at slightly more than six percent, while youth unemployment (16-19) reached 19.1 percent. The 2008 summer teen employment rate, 32.7%, is the lowest since 1948, a new 60 year historic low. The 2007 year-round teen employment rate of 34.8% is a 10.4 percentage point drop from 2000.

Without adequate education options and training for 21st Century jobs, many of these young people will lack the basic skills necessary for even minimum-wage jobs. If re-engaged into our economy, they are a potentially valuable resource in improving American competitiveness and strengthening the fabric of our nation. If, on the other hand, they remain on the margins, they will potentially drain the economy of needed resources and energy.

In today's competitive labor market, with the demand for advanced and more diversified skills, it is vital that training keep pace with a rapidly changing employment environment. In fact, public investment has lagged substantially. Inflation-adjusted spending for programs that target at-risk youth dropped by 63 percent from 1985 to 2003. Since 2001, funding for youth workforce development and training programs has been cut by 33 percent ($454 million). The Fiscal Year (FY) 2008 consolidated appropriations bill set an all time low for Workforce Investment Activities (WIA) Youth Activities funding at $924 million, coupled with a $245 million rescission of WIA funding applicable to fiscal years 2005 and 2006.

Short Term Stimulus

NYEC proposes the following recommendations to address the short-term needs of these disconnected youth and encourages you to incorporate these measures into a comprehensive economic stimulus bill to set the stage for longer term success.

- Invest $2 billion in funding for youth workforce development and training programs, including summer jobs, year round employment opportunities for out of school youth, and work experience. This investment will contribute immediately to our economy by offering income and opportunities to youth across the nation, and will also improve young people's longer-term employment and earnings prospects by providing meaningful work experience.

• Support investment in the maintenance and expansion of the infrastructure of our nation and thereby create training and employment opportunities for youth and young adults

Long Term Strategy

In the longer term, as there are so few pathways that adequately prepare disconnected young people for the world of work, we make the following recommendations for a $10 Billion annual investment for 5 years to:

1. Invest in Communities Across Systems. Invest $3 billion to target support to 100 communities of high youth distress to build systems and enhance capacity to enable them to build the alternative pathways and supports for reconnecting and transitioning youth. Funds would be available from the U.S. Department of Labor to encourage communities to engage in joint planning, to set benchmarks, and design interventions, at scale, to provide youth with the academic and labor market skills needed for success. This includes support to those communities to work in tandem with their education system to build these pathways. The Secretary shall make grants to local Workforce Investment Boards and eligible entities such as community-based organizations, faith-based organizations, education organizations, and business groups in urban and rural high poverty areas. Communities may use these funds to provide eligible youth a variety of options for improving educational and skill competencies that will lead to long term employment and provide effective connections to employers; to ensure on-going mentoring opportunities; to provide opportunities for training; to provide continued supportive services; and to provide opportunities for eligible youth in activities related to leadership development, decision-making, citizenship, and community service. Funds shall also be available for intensive placement and follow-up services. In applying, eligible entities will have to provide a description of the activities that the local board or entity will provide under this section to youth in the community, a description of performance measures and the manner in which the local boards or entities will carry out the activities to meet the performance measures, and a description of the community support, including financial support through leveraging additional public and private resources, for the activities.

2. Expand opportunities for work experience, internships, and civic engagement Invest $2 billion into new and existing competitive grant programs located in the U.S. Department of Labor, the U.S. Department of Justice, the U. S. Department of Health and Human Services (HHS), the Department of Agriculture (for rural youth), and the Corporation for National and Community Service to greatly expand programs for work experience, internships, transitional and summer jobs, and civic engagement in communities of high youth distress.

Each Federal agency will develop applications and guidelines consistent with the goals of creating and expanding opportunities for disconnected youth to gain work experience through national and community service, internships, pre-apprenticeship and apprenticeship, and other programs.

A percentage of these funds will be available to fund new programs that are based on effective practices in meeting the needs of disconnected youth. A percentage will be available to fund existing programs that have a proven track record in meeting those needs.

In applying, each eligible entity will have to provide a description of how it intends to work with the local boards and eligible entities created in #1 (above) as well as the activities that the local board or entity will provide under this section to youth in the community. Each entity will be required to provide a description of chosen performance measures and the manner in which the local boards or entities will carry out the activities to meet the performance measures, and a description of the community support, including financial support through leveraging additional public and private resources, for the activities.

Finally, this section will provide funds to stimulate innovative collaborations and partnerships between employers and programs that enroll disconnected youth, alternative educational entities that provide such youth with the opportunity to gain a high school diploma or GED, local education agencies, and institutions of post-secondary education. In order to be eligible for such funds, applicants must be able to describe pathways that lead from a youth serving program to a recognized educational institution, to attainment of a credential or degree, to employment.

3. Create and Expand Multiple Pathways to Education and Employment. The high-paying jobs and careers of the future will require levels of education, skill, and technical competence that far exceed those typical of youth coming from distressed communities and school systems. These youth are the least likely to be exposed to exciting new career opportunities in growing areas of the economy where they will be able to earn a living wage. Expanding their horizons and aspirations can only

be accomplished by engaging the corporate sector to help young people explore workplaces and understand the demands, rewards and prerequisites for entry.

Invest $2 billion to build pipelines to create a program of incentives and programmatic support to stimulate business and labor to become aggressively engaged in the creation of alternatives that establish industry specific pipelines for high-risk youth. For there to be meaningful pathways from service to employment, we must understand the skills needed to participate in the economy, how training in those skills can be provided, and how to establish industry-wide certifications that make the training "portable." To be successful, we need incentives to more closely link workforce development to employers and labor to help connect those seeking training and employment to the sources of that training as well as ensuring that the training meets the needs of employers. Workforce professionals must learn the landscape if they are to effectively provide guidance about pre-apprenticeship and other training programs, job search assistance, link young people to mentors who will help prepare them for the world of work, and help to ensure that those seeking the training also have access to other supportive services. Workforce experts will have a crucial role to play in linking those who have training to real, unsubsidized employment.

Funds authorized under this section will strengthen the workforce system so that it can meet the needs of the 21st century and involve employers and labor even more intimately in the development of training, credentialing, and hiring of disconnected youth by making the workforce system more responsive to their needs.

4. Identify, Collect, and Support Effective Practices. $200 million shall be available for activities (for which nonprofit organizations shall be considered eligible entities) to collect information about effective practices, recognize effective programs, provide incentives to those programs, and publish information about how and why they succeed to build knowledge across youth-serving systems. Guidance regarding the measurement of interim and progress measures may be found through resources such as NYEC's "Promising and Effective Practices Network (PEPNet) Guide to Quality Standards for Youth Programs" and "From Data to Results." PEPNet is the nation's premier resource on what works in youth employment and development. Established in 1995, the NYEC PEPNet initiative has been a pioneer in showing youth programs, donors, and policymakers how to combine workforce development, youth development, and challenging education to create quality programs that help vulnerable youth successfully transition to adulthood and the world of work.

5. Provide Transition Support. Invest $2 billion in a new initiative to ensure that disconnected youth receive support, services, and opportunities designed to increase their postsecondary enrollment, persistence and completion similar to what is offered to high school graduates and high achieving students.

Disconnected youth need comprehensive and consistent support, services, and opportunities to help them enter, persist and complete postsecondary education. While postsecondary institutions often offer outreach, access and support service programs to students from low-income backgrounds through some federally funded TRIO programs, these programs typically target high academic achievers.

When program funding and staff capacity allows it, some out-of-school and disadvantaged youth receive critical postsecondary transition support, services, and opportunities from the same community-based youth service organizations that are helping them complete their high school diploma or equivalent. There is a need to increase their academic skills and help them obtain job training and employment. This section of the RAY Act provides funding to community-based youth service organizations and for partnerships between community-based organizations and postsecondary institutions to prepare and support youth to make a transition into and through postsecondary education.

6. Build Organizational and Professional Capacity. Invest $400 million in professional and organizational capacity building for youth-serving systems. In today's competitive labor market, with the demand for advanced and more diversified skills, it is vital to local communities and the national economy that youth-serving systems strengthen their capacity to provide effective training and preparation. Youth service professionals, including intake workers, case managers, job developers, and independent living specialists, are often the first contact or "face" of youth-serving systems and must gain specific knowledge, skills, and abilities (KSAs) to work with this emerging workforce. There is currently no national system of professional development that identifies, builds, and certifies the KSAs of practitioners. Yet professional development has been linked to: professionalization of a field, increased job satisfaction, better youth programs, and improved youth outcomes.

7. Improve Data Collection and Accountability Systems Invest $400 million in data collection, evaluation, and insist on accountability. Federal agencies and grantees serving disconnected youth should publicly report their demographics, service

levels, expenditures and outcomes. This would enable local communities to assess the magnitude of the problem, system performance, who is—and is not—effectively served, and monitor improvement over time. NYEC recommends the following:

• Develop a uniform definition for measuring graduation and dropout rates for local high schools, alternative schools, charter schools, school districts, and states. Establish accountability measures related to graduation rates and hold states and local systems accountable for making progress towards those benchmarks for all youth, not just youth who stay in school.

• Require states to monitor policies and practice that result in youth being "pushed out" or disproportionately tracked to inappropriate educational alternatives

• Incorporate and potentially expand upon the data collection requirements established by the Foster Care Independence Act of 1999, which established the Chafee Foster Care Independence Program and mandated by the implementation of a National Youth in Transition Database (NYTD).

• Provide both incentives and sanctions to state and local child welfare and juvenile justice systems to ensure effective transitional services, including the requirement that at key risk points and before a youth is discharged, there are explicit transition plans to connect youth to key education, training, housing, and support services

We firmly believe that, over the long term, the economic health of our nation depends on investments we make in youth workforce development, secondary and postsecondary systems and that our economy will suffer if we do not increase our national investment in our emerging young workforce—which includes all youth. If re-engaged into our economy, youth who often remain on the margins can be potentially valuable resources in insuring American competitiveness.

Our nation is facing an economic and social crisis—millions of youth lack the opportunities they need to develop the skills they must possess in order to succeed in today's global economy. Investing in job training and employment services for youth will provide immediate economic stimulus and enduring benefits to our youth and to our nation. Funding for youth employment should be a part of any stimulus package you consider in the coming weeks.

Please do not hesitate to contact me for assistance or questions.

Pension Benefit Guaranty Corporation
Schedule of Investment Income/(Loss)
For Fiscal and Calendar Years 2006 - 2008
(dollars in millions)

CALENDAR YEAR	Trust 2006	Trust 2007	Trust 2008*	Revolving 2006	Revolving 2007	Revolving 2008*	Combined 2006	Combined 2007	Combined 2008*
Fixed	$ 1,126	1,833	(1,495)	$ (257)	1,328	354	$ 869	3,161	(1,141)
Equity	2,942	570	(3,875)	0	0	0	2,942	570	(3,875)
Other	(3)	42	23	0	0	0	(3)	42	23
Total Income/(Loss)	$ 4,065	2,445	(5,347) *	$ (257)	1,328	354 *	$ 3,808	3,773	(4,993) *

FISCAL YEAR	Trust 2006	Trust 2007	Trust 2008	Revolving 2006	Revolving 2007	Revolving 2008	Combined 2006	Combined 2007	Combined 2008
Fixed	$ 400	1,471	(678)	$ (7)	282	1,376	$ 393	1,753	698
Equity	1,793	2,988	(4,788)	0	0	0	1,793	2,988	(4,788)
Other	(3)	19	47	0	0	0	(3)	19	47
Total Income/(Loss)	$ 2,190	4,478	(5,419)	$ (7)	282	1,376	$ 2,183	4,760	(4,043)

Notes:
- 2008 data are unaudited. In addition, PBGC's financial statements are audited on a fiscal year basis and not a calendar year basis and thus the last quarter component of calendar year 2007 data are also unaudited.
- The trust funds include assets the PBGC assumes or expects to assume with respect to terminated plans. These assets are generally held by custodian banks.
- Revolving fund premium receipts are invested in U.S. Treasury Securities.
- PBGC's fiscal year is October 1 through September 30.

* Calendar 2008 amounts represent nine months of the calendar year through 9-30-08.

October 23, 2008.

Hon. GEORGE MILLER, *Chairman,*
House Committee on Education and Labor, Rayburn House Office Building, Washington, DC.

DEAR CHAIRMAN MILLER: I am happy to provide some overview comments relating to the Hearings on "Building an Economic Recovery Program: Creating and Preserving Jobs in America," to take place Friday, October 24, 2008.

You will see from my comments that: 1) the U.S. and Global Economies are in recession, which suggests rising joblessness; 2) a second stimulus program, or perhaps better called an Economic Recovery Program, is absolutely needed, particularly to generate jobs, near- and long-term, given the "Long and Deep Recession" that is expected; and 3) federal government spending should be increased, targeted on extending unemployment benefits as an automatic stabilizer, on increased "infrastructure" spending as part of a longer-run program to Rebuild America's infrastructure, aid to states and localities increased to help offset high and rising deficits and where cutbacks in jobs are increasingly likely, and tax credits and permanent tax reductions instituted for middle- and lower-income families.

Policies to aid homeowners in distress on foreclosures, bankruptcies, or refinancing mortgages also would make a lot of sense.

Hopefully, these comments are of help to you and the House Committee on Education and Labor.

Sincerely,

ALLEN SINAI,
Chief Global Economist, Strategist and President of Decision Economics, Inc.

A second stimulus, or now Economic Recovery Program, is essential given the current state and prospect for the U.S. and global economies, which is recession. The timing should be immediate. Policies, fiscal and monetary, are behind-the-curve given lags in gestation, implementation, and in the response of economic behavior to policy changes. Congress can also weigh-in on the Financial Crisis to the Administration, Federal Reserve, and SEC, with or without legislation in-process.

Full-Fledged U.S. Recession; Global Recession a Reality

Recent U.S. economic data show a sharp slide and deterioration in the economy, also so for numerous non-U.S. economies and several global regions.

The U.S. economy in the third quarter is tracking negative for real GDP with a sharp downturn in inflation-adjusted consumer spending of nearly 3%, at an annual rate, and ripple effects to-come, for example in reduced business capital spending. Better foreign trade, that is lower imports, should provide an offset but not big enough to prevent a −0.7% decline for GDP in the third quarter.

The Baseline forecast is then for a −3½% to −4% decline of real GDP in Q4; in Q1:2009, −3% to −4%; a small decline in Q2; and second half growth for real GDP flat-to-up a little. The unemployment rate likely will rise to 7½%-or-more by mid-2009. Price inflation should move lower, particularly for commodity prices, but may be sticky downward given the large role of the services economy in the United States.

The view is a "Long and Deep Recession," extending through most of 2009. The previous longest U.S. economic downturns were 16 months each in 1973-75 and 1981-82. This one probably will be longer.

Why? The Main Causes

1. A "hunkering-down" of consumer spending, with rare outright reductions in consumption spending and an intensification of the downturn because of the financial crisis and credit crunch. All consumer fundamentals are negative at this time.

2. The freezing-up of funds inside the financial system as between bank and nonbank financial intermediaries and a "Credit Crunch" outside the financial system affecting borrowers including consumers, businesses, and government.

Historically, when in force, a "Credit Crunch" can produce sharply declining economic activity; therefore, an even more negative pattern could occur with real GDP potentially off by −3% to −7% from Q4 to Q2:2009.

3. A housing bust and depression in financial services have been both a catalyst and cause of the downturn. A housing boom, then bust after a long period of excesses in housing activity, mortgage finance and mortgage indebtedness was one reason. A housing price bubble then bursting of that bubble, brought down the values of mortgage debt, credit, derivative mortgage products, structured investment vehicles, and financial businesses structured around housing, and continues now.

The housing downturn is the biggest since the 1930s, with housing starts down 64.1%, peak-to-trough, new home sales off 65%, existing home sales down by 35%, and home prices declining by over 15% year-over-year and near 20% peak-to-trough. This represents a bursting asset price bubble, with falling debt and a worsening of financial businesses tied to mortgages and residential real estate activity.

4. The financial services sector, particularly investment banking/brokerage and commercial, banks, also is in recession now. The sector is around 15% to 20% of the U.S. economy and is consolidating and squeezing down to a much smaller size, with a downturn in the volume of activity and large losses of jobs.

Cyclical Processes—About 10 Months Into the Downturn

The recession likely started at the turn of the year, as reflected in a number of key monthly economic indicators although not real GDP. Real GDP is a quarterly statistic and an imperfect, late, summary measure of the state of the economy; the monthly economic indicators do a better job. On this dating, nearly 10 months of the downturn have passed. The cyclical processes to go indicate quite some time left before a recovery can begin.

The role of an Economic Recovery Program would be to cushion the downturn and speed up the onset of economic recovery, hopefully dovetailing with longer-run objectives for the economy.

A housing decline and then bust came first with real estate asset prices tumbling, causing weakening consumption and worsening economic activity from the loss of household wealth and lessened ability of households to borrow.

The declines in housing prices brought down the values of a mountain of housing-derivative mortgage debt, credit, and complicated financial instruments based on the asset values of houses. The Rating Agencies mistakenly rated many of these securities as AAA. Investors willingly bought them, only to find out later that many of the securities lost massive amounts of value and could not be sold at any price.

Financial institutions, both commercial banks and nonbank financial intermediaries such as investment banking/brokerage firms, heavily exposed and involved in the boom of housing-related mortgage debt and finance, saw a shrinking of asset values and balance sheets, a need for capital, and periodic "runs" on financial firms that were capital markets-centric. Considerable capital was required and several large financial institutions—Bear Stearns, Lehman Brothers, AIG, FMNA-Freddy Mac, Washington Mutual, Wachovia, Merrill Lynch—either failed or were absorbed into other relatively strong institutions.

Economic downturn and crunch within the financial system caused distress in financial markets. As a consequence, financial institutions have hoarded funds and refused to lend to one another, fearing default and/or failure. The financial system seized-up and economic and financial activity, as well as equity market prices, suffered. The freezing-up of the financial system still remains, despite huge injections of liquidity, directly and indirectly, by the Federal Reserve and other central banks around-the-world.

A by-product of this has been a significant equity bear market which, in turn, has made IPOs and secondary financing extremely difficult, and the cost-of-capital relatively high. Falling stock prices also reduce household wealth, consumer confidence, and consumer spending. And, financial institutions earnings have suffered.

The Financial Crisis, worsening stock markets, and worsening credit have fed back to intensify the downturn. The U.S. downturn is hurting non-U.S. exports, with a squeeze on the domestic purchasing power of other countries from high oil, energy and food prices impacting to produce a global recession.

Policy actions and responses so far have been too late and too little, which is not unusual—not focused on the places and problems that could alleviate, ease, or cushion the economic downturn and financial crisis, e.g., housing price declines, the consumer downturn, removing bad mortgage-based assets fast enough from financial institutions on current plans to prevent further contraction. Financial markets moving at lightening speed are ahead of policy actions, aggravating the problems.

The result has been an incredible series of swift declines in stock prices, with the major U.S. indices now down nearly 40% from the previous peak; total risk aversion and seizing-up of credit in the financial system and a credit crunch outside; flight-to-quality into U.S. Treasuries; a drying-up of funding in the U.S. and increasingly globally; panic and paralysis.

Policy Actions and the Role of Congress

Much of the distress and economic downturn is stemming from a financial crisis and bursting of several long-time bubbles—housing, credit, debt, financial services businesses, and others. This would normally be handled by the Federal Reserve and U.S. Treasury, but their actions up-to-now have been too slow.

Congress can push for measures in this area to help resolve the financial-side of the crisis. The Congress has oversight and leadership and can respond to some of the non-Congressional actions even if not in legislation.

The role of Congress also should be to motivate additional programs to help cushion the downturn, its fallout, and to establish a base for future recovery and expansion.

Problems to Deal With

There are at least four problems to be dealt with by one-or-more branches of government and/or through multiple policy actions perhaps from multiple sources——

1) Financial Crisis—the tasks.

• unfreezing credit frozen within the financial system and easing the credit crunch outside the system.

• stopping the contraction of balance sheets and financial institution failure fallout—which now amounts to an implosion of the credit channel in the private sector.

• stabilizing financial markets, especially equity markets, also credit which is impeding flows-of-funds in the financial system and through the economy.

2) Recession—the task is to cushion or reverse the forces causing the downturn. Notable is the important role of U.S. consumption in the recession—now the center of the storm.

• U.S. consumption is declining sharply as consumers cut back.

• Housing activity is still declining with continuing housing price declines.

• The financial and credit crisis is leading to massive losses of wealth and restrictions in the availability of funds.

• Declining non-U.S. economies—at least 20 countries of the 47 countries analyzed and forecasted by DE, including the U.S., are probably in some sort of "recession." These countries account for about 75% of total global output.

Policies need to be designed to offset, or reverse, the down thrust of consumption, given that its multiplier effects throughout the U.S. and global economies are quite considerable.

3) Financial Markets Disarray—declines in equity prices and volatility characterize a substantial bear equity market as investors search for appropriate valuations in a situation of declining company earnings, loss of confidence, and a disturbing macroeconomic backdrop. The mechanisms that are intensifying and speeding up the declines of equity prices—including fair value accounting, short selling, and rating agencies ratings—should be impeded.

4) Panic, Loss of Confidence, and Fear—distress selling of assets to raise cash as well as fear and panic selling are characterizing equity markets. Generally, there has been a growing loss of confidence in the ability of any government to stem the declines.

Not all of these problems lie within Congressional jurisdiction. But Congress can contribute to all of them through the deliberations and debates that go on.

A New Stimulus, or Economic Recovery, Package—Size, Diagnosis, Components

One principal of operation for any Economic Recovery Program would be to "fit" actions into a coherent and thematic long-run vision of what needs to be done, e.g., Rebuilding America's Infrastructure; Tax Relief for the Middle Class; Rebuilding and Restructuring the Housing of America; Rewriting the Rules of the Financial System.

This way of looking at it ultimately would be cost- and policy-efficient and better than disparate policy actions from different points without coordination.

Size is important—big enough to make a difference but not too big to cause a significant and sustainable increase in the federal budget deficit.

The recommendations would be around $200 billion, nearly 2% of nominal GDP.

Bush Administration tax reductions over 2001-2005 cumulated to nearly 2% of average GDP per annum over that period. Federal government spending added more to the stimulus. The Reagan tax cuts were approximately 3% of GDP. Federal government spending added to this. The Kennedy-Johnson tax cuts in 1963-64 were 1.6% of GDP. Increased federal government spending also occurred here.

Any fiscal stimulus can be spread over multiple years. Fiscal stimulus and monetary ease together set the stage for an economic recovery and upturn.

The components of the Economic Recovery Program should depend on the diagnosis of problems.

Tax Reductions

The consumer is now the main source of the economic downturn and household financial conditions are the worst since early 1980s. This favors personal income tax rate reductions for middle- and lower-income families. Social Security tax reductions are another possibility, or tax credits.

More supportive to consumer confidence than temporary tax cuts and lasting in effects, as a source of help for household finance, offset to huge losses in household wealth, and increased tax receipts on growth stimulus, would be permanent tax reductions.

$100 billion phased-in over the next three years but passed immediately post-election is one option. Tax reductions could be retroactive for 2008, showing up in reduced withholding by Jan. 1, 2009. The amounts would be: $50 billion in Year 1, $25 billion in Year 2, $25 billion in Year 3.

Income tax rate reductions provide more stimulus than lump-sum tax credits or tax rebates. Cash flow and incentive effects help both consumption and saving.

Capital gains tax and dividend tax rates should be sustained at current levels in order to provide stimulus to equity markets and the financing of new enterprise.

Federal Government Outlays: $100 billion

Federal government outlays of nearly $100 billion would be appropriate, helping in the following areas.

• Support for Homeowners and Housing Prices—this could be through the establishment of a new entity that would deal with foreclosures and homeowner relief. The principal would be to take down the excess supply of mortgages and/or housing to help floor the declines in housing prices; thus, to stop the continuing devaluation of mortgage debt derivative instruments.

A government entity, or agency, as established in the 1930s, or direct purchases of excess supply of housing or mortgages, could be legislated—$20 billion.

• Unemployment Relief—extension to cover the long-term unemployed—$15 billion.

• Infrastructure, Including Education—short- and long-run, with projects on-the-shelf rolled-out that fit longer-run infrastructure needs. Some $20 billion near-term and $80 billion more over 10 years are rough approximations.

• Aid to States and Localities—to offset budget deficits, $20 billion to $30 billion.

The impact of this would be roughly 1½ to 2 percentage points of increased real economic growth in Year I; about half that in additional real growth in Years II and III. The tax revenue feedback from the increased growth would be about $0.20 per dollar of fiscal stimulus.

The Financial Crisis—Potential Actions

The Congress should support the recapitalization of banks by the federal government through equity shares, partial nationalization, management oversight but not government-controlled, and no wiping-out of equity shareholders.

This would mean a temporary bypassing of the private sector credit channel with public funding.

The creation of a new entity that could enter into the LIBOR market as a direct counterparty, or direct guarantor of loans between financial institutions in the LIBOR markets. Some of these functions are being performed by affiliate executives

There should be more flexible mark-to-market accounting and measures to make short selling more costly. Increased margin requirements, and/or reinstatement of the uptick rule come to-mind.

Increase federal insurance of consumer deposits to $350,000 from $250,000.

Rating agencies have to be reformed, with supervisory and regulatory actions to clarify their role.

Reform, supervision, regulation to be moved ahead.

Let me note again that in times of stress and extremis, when markets fail and/or move way out-of-line with fundamentals, mark-to-market accounting, while appropriate as a general rule for transparency, can give false readings, add to financial disarray and conditions that can make a solvent financial institution insolvent, encourage short-selling and further declines in stock prices, and intensify an economic downturn.

Short-selling and circuit-breakers to slow down stock market movements need to be considered, perhaps are necessary, even if shutting-down stock markets, in order to give time for responsible and careful public sector decisionmaking and deliberation.

Prepared Statement of Goodwill Industries International

Goodwill Industries International, Inc represents 184 local and autonomous Goodwill Industries agencies in 48 states and 16 countries that help people with barriers to employment to participate in the workforce. The roots of today's Goodwill Industries International began as a simple idea in 1902 when Rev. Edgar Helms set out to help poor immigrants in Boston's South End by collecting clothes and household items from wealthier Bostonians to give clothing and household items for the struggling immigrants. He discovered, to his surprise, that the immigrants were too proud to simply accept the items. So he took his idea a step further by enlisting volunteers to repair, clean, and sell the items at reasonable prices. He used the revenue to provide wages to the workers—and the first Goodwill Industries store was born.

More than 100 years later, Edgar Helms' idea of "a hand up, not a handout" has become a powerful one. In 2007, the Goodwill Industries network raised more than

$3 billion through its retail, contracts, and mission services operations. Nearly 84 percent of the funds Goodwill Industries raised last year was used to serve more than 1 million different people, including more than 163,000 job placements. As our nation—our World—faces an economic crisis that many experts believe to be the worst since the Great Depression, Goodwill Industries stands ready to continue in its long tradition of enhancing the dignity and quality of life of individuals, families, and communities by eliminating barriers to opportunity and helping people in need to reach their fullest potential though the power of work.

Local Goodwill Industries agencies are seeing first hand the effects of the recent economic crisis. In terms of retail, sales in North America increased by approximately 7 percent during the first eight months of this year, a statistic that is likely to demonstrate that more people, particularly more middle-class people, are shopping at Goodwill Industries stores in an effort to cut costs. On the supply side, donations, Goodwill Industries International has been concerned that donations may decrease as people, short on cash, decide to hang on to the items they have longer than usual. While some local Goodwill Industries agencies, particularly those in areas affected by recent hurricanes, have seen donations decrease, Goodwill Industries agencies nationwide report that the number of drop-offs in North America has remained stable; however it is just too soon to tell. For these and other reasons, Goodwill Industries International has been closely monitoring Congressional efforts to stabilize the financial sector and stimulate the economy. We are hopeful that the package Congress recently passed, the Emergency Economic Stabilization Act of 2008, will be good for both Wall Street and Main Street as Congress intended. We are also encouraged by Federal Reserve Chairman Ben Bernanke's recent testimony before the House Budget Committee, in which he stated that "consideration of a fiscal package by the Congress at this juncture seems appropriate."

Considering the nearly 900,000 lost jobs since January and the 6.1 percent unemployment rate, Goodwill Industries International believes that such a package should reflect a strategy to stimulate the economy while investing in job training that support efforts to restore struggling and discouraged workers to employment. Therefore, Goodwill Industries International was encouraged by Speaker of the House, Nancy Pelosi's September 18 letter to President George W. Bush, which called for a second stimulus bill that invests "in infrastructure for economic growth and job creation here at home." While extending Unemployment Insurance benefits is necessary to extend a lifeline for people who have exhausted or are close to exhausting their benefits, a second stimulus bill should include additional investments in job training. For example, it should include funds such as those proposed in a Senate economic stimulus proposal to provide $300 million for "part-time jobs after school, paid internships, and community service jobs for older youth," and an additional $300 million for employment and training activities for dislocated workers.

Beyond such existing proposals, Goodwill Industries International urges Congress to include significant funding in the second economic stimulus bill that would allow us to do more. For example, with a minimal investment on the front end, our agencies can expand into new areas to increase transitional employment placements until job losses and the unemployment rate show a sustained trend in a positive direction. Goodwill Industries is in a unique position to become an administrative conduit and employer for putting workers into public sector jobs while providing the training and supports necessary to move their careers toward permanent jobs that help stabilize their family financial situation. Such an investment would help stimulate the economy and help restore people to employment in a number of ways. First, the provision of temporary employment would provide a much needed lifeline to unemployed workers. For example, those who have exhausted or those who are likely to exhaust their Unemployment Insurance benefits could be quickly placed in temporary employment, providing an immediate source of income in addition to other available public supports that they will quickly spend on basic needs such as housing, food, and utilities. As this money starts to circulate in the economy, our employment specialists could assist their efforts to find more permanent employment.

While most Goodwill Industries agencies provide transitional employment opportunities, Goodwill's 2007 Annual Statistical report shows that at least 82 local Goodwill Industries agencies in the United States provided more than $61.6 million in paychecks to 11,470 individuals participating in training. Goodwill's Annual Statistical Report includes a wealth of information about all the local Goodwill Industries agencies; however, I'll highlight the contribution made by Goodwill Industries of the Greater East Bay, which provides workforce development services, including transitional employment, job readiness training, and placement services to people facing barriers to employment in Alameda, Contra Costa, and Solano Counties. In 2007, Goodwill Industries of the East Bay reported that 324 individuals earned more than $6.2 million by participating in its paid employment training programs.

As I stated earlier in this testimony, last year, local Goodwill Industries agencies raised more than $3.1 billion through retail, contracts, and mission services. Nearly 84 percent of that revenue was used to provide services and activities, including transitional employment, to help people become productive contributing members of their communities—individuals who face such disadvantaging conditions as welfare dependence, homelessness, a criminal background, or a physical, mental, or emotional disability. During these uncertain times, the unemployment levels and social needs of Goodwill Industries constituents are likely to expand, despite the steady and disturbing trend observed over the past several years of reduced federal funding for workforce development.

Many of our local agencies operate One Stop Centers or function as service providers in the public workforce system. As Members of the Committee know all too well, the Workforce Investment Act expired in 2003. Although Congress has continued to appropriate funds for WIA's expired Adult, Youth, and Dislocated Workers programs, funding levels for these programs have steadily eroded—from $3.9 billion in FY 2002 to $3.2 billion FY 2007. Certainly, the time to reverse this trend is now. A time of recession is no time to cut funding for job training. Goodwill Industries International urges Congress to make funding for and the reauthorization of WIA a top priority. The reauthorization of WIA offers an opportunity to ensure that our public workforce system is responsive to the diverse needs of workers and employers. Goodwill Industries International looks forward to working with Congress and the new Administration toward developing a bi-partisan WIA reauthorization bill that invests in the future of our workforce while assisting individuals with barriers to employment to obtain the job skills necessary to become self-sufficient and meet the needs of our nation's businesses.

Earlier in my testimony, I cited Goodwill Industries of the Greater East Bay to illustrate the positive impact that just one Goodwill Industries agency can have on the communities it serves; yet Goodwill Industries agencies nationwide are making similar contributions that we will gladly share with this Committee. In closing, Goodwill Industries International would like to take this opportunity to extend an open invitation to Members of this Committee—as well as to other interested Members of the U.S. House of Representatives and the U.S. Senate—to visit the local Goodwill Industries agency in your district when it is convenient for your busy schedule. I hope that many of you will accept my offer to get a first-hand look at how Edgar Helm's entrepreneurial vision lives on in the communities you represent and others across the country.

Joint Prepared Statement of Rev. Donald Roberts, President and CEO of Goodwill Industries of Manasota, and Sandra Purgahn, President and CEO of Goodwill Industries of Acadiana

Mr. Chairman, Ranking Member and Members of the Committee, we appreciate this opportunity to submit written testimony outlining our experience in addressing the needs of our local communities, and how those strategies can help the nation address the severe unemployment outlook and spur job growth.

As you may know, Goodwill agencies located on Main Streets across the country see firsthand the impact of the current economic crisis and are uniquely able to tailor their programs to respond to local needs. Goodwill Industries International has submitted separate written testimony which describes the broad activities of Goodwills nationwide. We would like to describe to you the success of our specific programs that resulted from a federal welfare-to-work grant, and how that model of capitalization could be expanded to address the current spike in unemployment and promote job growth. The fundamental assumption tested by our welfare-to-work grant was that the building of new facilities is a long-term investment in job placement as opposed to the short-term investment associated with traditional programs that simply focus on hiring personnel. The fact that the one-time capital infrastructure investment provided to us by the U.S. Department of Health and Human Services (HHS) in 1997 has continued to reap benefits for job placement and training every year since demonstrates that this model works for both the short-term and long-term.

Although Goodwill is often recognized simply for its donation centers and donated goods stores, our most valuable role is through our job training and placement activities. The Goodwill Job Connection concept was initially developed by Goodwill of Manasota in 1988, and was recognized by the American Rehabilitation Association with its "Employment for Tomorrow Award" in 1994. As described in an evaluation of our program submitted to the Administration for Children and Families, our Job Connection model provides services in convenient locations situated throughout

Goodwill community service areas, and are paid for through the donated goods business. Once the new infrastructure is built and operational, these Job Connection services are not dependent on external subsidies for either staff or referrals. The flexibility inherent in this approach allows Goodwill to serve anyone in need without consideration of eligibility criteria, on a timely basis, at no cost to the consumer. In summary, Goodwill can support its own Job Connection programs with the proceeds from its donated goods stores.

Nevertheless, our challenge is related to the capitalization costs of infrastructure to grow our donated goods business, particularly the cost of site acquisition for new donation centers and stores, so that we can meet new and emerging needs in our communities. Congress recognized the potential for a system of capitalizing new Goodwill facilities in Section 413(h)(3)(A) of the Social Security Act, which allowed HHS to grant $10 million combined to our agencies ($7 million to Manasota and $3 million to Acadiana) for the purpose of purchasing additional sites and the construction of new facilities. In exchange, our Goodwill agencies were expected to demonstrate job placements for those leaving welfare to work with Job Connection programs funded by the proceeds from our new donated goods stores. A three-year evaluation of our grant showed that we met and exceeded our placement quotas. The dollars invested by Congress more than ten years ago have created 150 sustainable jobs within Goodwill with an annual payroll of $3.5 million—in 10 years that translates into payroll of $35 million and we are still going. It also resulted in training and placing hundreds of persons into unsubsidized employment through our Job Connection services, which includes job training and placement services—and that number grows every year without any additional federal subsidies and will continue to grow as long as the business continues.

The major target population for Goodwill of Manasota's "Hand-Up" services resulting from our welfare-to-work grant include persons with disabilities, senior citizens, ex-offenders and immigrants with English as second language. The major target population for Goodwill of Acadiana's "Hand-Up" services has been largely women with families moving from welfare to work and a younger population.

The benefits of capitalization can vary based on the needs of the community being served. In addition to our traditional Job Connection services, Goodwill of Manasota created a "Good Partner Coaching" program whereby each Goodwill client/employee is assigned a personal or family coach whose job is to provide financial planning services, address the educational needs of both parents and their children, and provide training to enhance employment opportunities. For our most vulnerable clients, we start with their G.E.D. while providing them with "Opportunity Wages" during their work with Goodwill, and eventually place them in employment outside Goodwill.

Additionally, Goodwill of Manasota is able to provide "Goodhomes" services leading to home ownership for those in our program based upon the concept that a steady paycheck, which often results from vocational training and transitional employment, and a mortgage, the American dream of home ownership, are the two key elements for family stability and economic security.

Goodwill of Acadiana has expanded its services by building certain skills for our clients. For example, we provide work skills such as resume preparation, interviewing, and vocational counseling, as well as life skills such as budgeting and conflict management. Other priorities include computer literacy, interpersonal skills, and educational skills such as G.E.D. preparation and literacy classes. Goodwill of Acadiana's work has often focused on proving a realm of services that allow a single parent to manage work and parenting. Our welfare-to-work grant also has allowed Goodwill of Acadiana to expand its scope of services to youth aging out of foster care who otherwise are at-risk for interactions with our criminal justice system.

The benefits of capitalization go well beyond our Job Connection programs. The welfare-to-work grant provided to each of our agencies in 1997 resulted in immediate benefits to the local economy as we constructed new facilities and began employing those we serve in our new donation centers and in our job training centers and stores. In addition, Goodwill activities are consistent with the nation's commitment to recycling as we divert millions of pounds of recycled goods away from landfills and back into the economy. By moving our clients/employees into jobs, there is the tangential benefit of taxable income generated to support our federal and local governments.

We believe that we must be accountable to the nation's taxpayers who expect their monies to be used in the most effective way possible, not only to simply fund programs but also to build the infrastructure to sustain those programs well into the future. Therefore, we urge Congress to learn from our experience and consider making capitalization a permanent program for addressing the workforce issues facing our nation. The one-time infusion of capital can lead to a lifetime of services for the hardest-to-serve populations.

JAY INSLEE
1ST DISTRICT, WASHINGTON

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OVERSIGHT AND INVESTIGATIONS
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Rep. Inslee Statement for the Record
Committee on Education and Labor
Hearing on Building an Economic Recovery Package to Create and Preserve Jobs
October 24, 2008

Mr. Chairman: I sincerely appreciate your holding this timely hearing to address short and long-term strategies to spur job growth. I also want to thank Robert Pollin from the Center for American Progress for his testimony on the report, "Green Recovery: A Program to Create Good Jobs and Start Building a Low-Carbon Economy," which provides in-depth analysis of how we can solve some of our short term economic troubles all the while providing immediate financial relief to families facing high energy costs and increasing our nation's investment in a clean energy economy.

I strongly believe that the creating a new clean energy job base is our best ticket to economic salvation in any forthcoming economic stimulus package. More than ever, our nation is in need of green recovery, and a substantial federal investment in these areas would both provide immediate financial relief to families facing high energy costs and increase our nation's investment in a clean energy economy.

There are a number of clean energy provisions that fall within the jurisdiction of this committee that will put people to work, from thousands of jobs retrofitting our homes and businesses so that they do not waste energy, to the laying the cable to rebuild our antiquated electrical grid, to building the wind turbines that can convert Midwestern winds to coastline electricity. Importantly, all the while, these jobs are an opportunity to address the long term threat of global warming. Therefore, in the context of a forthcoming stimulus package, I urge the members of the committee to request that a significant portion of funds get dedicated to provisions that will create green jobs.

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*Empowering Communities.
Changing Lives.*

October 23, 2008

The Honorable George Miller
Chairman
House Committee on Education and Labor
2181 Rayburn House Office Building
Washington, DC 20515

Re: Economic Stimulus Package

Dear Chairman Miller:

I applaud you and the members of the Committee on Education and Labor for quickly scheduling a hearing to explore a Comprehensive Economic Recovery and Job Creation legislative package. Job losses in our country are accelerating at an alarming rate and these losses are causing enormous economic distress in American households. The decline of jobs is visiting particular devastation on those who make up the poorest 20% of U.S. households.

I offer these insights as President and CEO of the National Urban League, an institution founded in 1910 that has provided job training and placement to urban and low income workers for decades in predominately African American communities across America. I am also offering you insights based on the community reaction at two recent town hall meetings, one in Baltimore, Maryland on October 14, and the other in Harlem, on October 21, where I encountered an electorate that is very angry about the recently enacted $700 billion bailout. People are asking, "How do I save my house . . . how do we pay for rising food and heating cost …how do I keep the doors of my business open...and most importantly, where are the jobs?" They are asking, "Why isn't Congress doing more to help those who live on the Martin Luther King Boulevards and the Main Streets across America?

Congress needs to address these concerns, with a particular emphasis on disadvantaged workers, people in lower income households, who may not have a high school diploma or the skill sets necessary to earn decent wages. Any jobs package that Congress creates should address the problem of these unemployed or under-employed workers. Including this segment is a win-win for all communities across the country and the nation as a whole. We know that these workers will spend their hard earned money on food, transportation, clothing and housing and will pay taxes. They are important contributors to economic stimulation.

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The Honorable George Miller
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Congress must specifically address the needs of disadvantaged workers by including the following components in its economic recovery and jobs package:

1. Fund proven and successful models of workforce training and job placement by increasing resources in the "Responsible Reintegration of Youthful Offenders" program in the Department of Labor. By making use of existing programs, Congress assures the timely expenditure of funds to educate, train and reintegrate workers between the ages of 16-30 who are under-skilled. This program is already authorized and allows funding for national intermediary organizations that serve chronically disadvantaged populations. I urge Congress to appropriate funds to initiate a competitive grant program targeting national intermediary community based organizations with demonstrated capacity and a proven track record of effectiveness in training young ex-offenders and dropouts to reenter the workplace. **The country cannot afford to fund only state and local governments as a means of job training and job creation.** Often it takes months, and even years, for these dollars to hit the streets after federal and local RFPs are issued. The processes for the deployment of funds at the state and local level are by necessity long and deliberative, thus undercutting the requirement of timeliness which is so essential to the success of a stimulus package. Congress should explicitly utilize non-profit national intermediaries, including national minority non-profit intermediaries to insure the timely delivery of these services to this targeted population.

2. If Congress is going to target infrastructure improvements, then the workforce investment dollars should be targeted to the construction industry jobs that an infrastructure program will create. If the goal is to reignite the construction industry, then Congress should fund pre-apprenticeship programs in that sector.

3. Any infrastructure plan should include more than roads, highways, bridges and levees. It should also mean money for public building construction and renovations of schools, community centers, libraries, recreation centers, parks, etc. Funding infrastructure of this type can be accomplished by increasing funding for the Community Development Block Grant (CBDG) public facilities program that is authorized under existing law that allows for construction of public facilities and improvements for eligible purposes.

4. A percentage of all infrastructure monies should be directed to job training, job placement and job preparation for disadvantaged workers. **Unless Congress specifically targets this population in its legislation these individuals are unlikely to be hired and helped.**

National
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The Honorable George Miller
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The development of any job creation package must take into account the personal and national costs associated with a growing number of young people who are undereducated, who may have had brushes with the criminal justice system and who have never held down a job. The labor market increasingly rewards cognitive skills and education, and punishes those who lack skills and education (through low wages and weak employment opportunities). High school dropouts now fare quite poorly in the labor market throughout their lives and high school graduates without postsecondary training and who lack basic analytical/communications skills also struggle.

The National Urban League is concerned that as we rebuild our economy with better paying jobs, we also consider a large segment of the population, specifically those young adults age 16-30 that are out of school and out of work will not be prepared to compete in a strong global economy. Not only is it unfair to young people themselves, who will not get the opportunities provided by a strong economy, it also imposes a huge social and economic cost on the US in terms of making them more vulnerable to criminal and gang activity, lost economic output, and higher dependency on government programs, etc.

Our proposal fits the criteria for an economic stimulus as it is targeted, timely and temporary. We want to work closely with you and your staff as this proposal is being developed and enacted. I can be reached at (212) 558-5336.

I would be honored if you inserted this letter into the Committee record.

Sincerely,

Marc H. Morial

Chairman MILLER. So thank you very much.

We will now move to our second panel, which is Mr. Millard. Bear with us as we make a transition here.

The second panel will be made up of Mr. Charles Millard, who is the Director of the Pension Benefit Guaranty Corporation. Prior to joining the Pension Benefit Guaranty Corporation, Mr. Millard was the managing director at Broadway Partners, a national real estate investment and management firm, and was the managing director and group head of both Lehman Brothers and Prudential Securities. He also served as president of the New York City Economic Development Corporation and chairman of the New York City Industrial Development Agency. He holds a B.A. From Holy Cross and a J.D. From Columbia Law School. He also informs me he spent some time working on the Hill for our former colleague Millicent Fenwick, who was also a member of this committee.

Welcome to the committee, Mr. Millard. Thank you for agreeing to testify. Before we move on with your testimony, I would like you to please stand and raise your right hand so that I might swear you.

[Witness sworn.]

Chairman MILLER. Please note for the record that the witness has answered in the affirmative, and thank you.

We will proceed now, Mr. Millard, for your testimony. You proceed in the manner you are most comfortable with. Your written testimony will be made a part of the record in its entirety, and you know the light system here on the Hill. Green light, you will be given 4 minutes; and then an orange light; and then, if you can, if you can complete your testimony. But again, we want you to make the points that you desire to make here. Thank you.

STATEMENT OF CHARLES MILLARD, DIRECTOR, PENSION BENEFIT GUARANTY CORPORATION

Mr. MILLARD. Chairman Miller and committee members, I appreciate the opportunity to appear before you today to discuss the state of the Pension Benefit Guaranty Corporation and the defined benefit pension system. Concern about retirement income security is especially important in these challenging economic times.

Created by Congress under ERISA, PBGC is a wholly owned Federal corporation with a three-member Board of Directors; the Secretary of labor, who is the Chair, and the Secretaries of Commerce and Treasury.

Under the Pension Protection Act of 2006, PBGC is headed by a Senate-confirmed Director, and I am proud to be the first person confirmed by the Senate for this important position.

PBGC is self-financed, receives no funds from general tax revenues, and its obligations are not backed by the full faith and credit of the U.S. Government. PBGC's revolving funds receive premiums which are invested in U.S. Treasuries, and PBGC's trust fund holds assets from trustee plans and recoveries from employers which can be invested in more varied holdings, consistent with sound fiduciary principles.

When an underfunded plan terminates, PBGC takes over the plan as trustee and pays benefits to the full extent permitted by law. As you know, PBGC has been in a deficit position for most of its 34 years. At the end of fiscal year 2007, PBGC had a $14 billion deficit with $82 billion in long-term liabilities versus $68 billion in assets.

PBGC staff and our independent auditors are working long hours to ensure that our financial results for fiscal year 2008 will be available by the annual November deadline. We expect the deficit will be somewhat lower for fiscal year 2008, but that it still will be in double digits, somewhere in the range of $10- to $12 billion, and we can go into that further in testimony.

I do want to emphasize that any numbers that I use today are unaudited, as we discussed previously with your staff, Mr. Chairman. We close the books from September 30 until November 15, and it's a very, very hectic time to get books of a $55 billion organization closed. So these are all unaudited. They're obviously subject to change, but they're reasonable estimates.

Despite the current deficit, PBGC does not face an imminent financial threat. Unlike a bank, PBGC is not a demand institution. We pay monthly pension benefits spread over the lifetimes of participants and beneficiaries, not as lump sums.

At the end of fiscal year 2007, PBGC had $55 billion of investable assets. How those funds are invested is a significant factor in our ability to meet our long-term obligations to workers.

In February our Board unanimously adopted a more diversified investment policy to better enable PBGC to meet its long-term obligations. The old policy gave us only about a 19 percent chance of getting out of our deficit in the next 10 years. The new policy, which is designed to take advantage of our long-term time horizon, will give us about a 57 percent chance of meeting that important goal.

As you recently noted, Mr. Chairman, PBGC has suffered an approximately $4.1 million decline in our portfolio for fiscal year 2008. This represents a negative 6.5 percent return on investment compared with a 22 percent decline in the S&P. As a result of our prudent, diversified approach to investments and our slow and deliberate approach to implementing the new policy, PBGC's losses are far smaller than those suffered by most other investors.

PBGC's main sources of information on underfunded plans are the Annual Form 5500 and the additional information from plans required to report under ERISA section 4010.

As you know, the Form 5500 data is typically 2 years old when we receive it. It is difficult to make informed decisions based on such outdated information, especially given the volatile nature of the financial markets.

Section 4010 gives us more current data, but it only applies to a relatively few underfunded plans. These filings play a major role in our ability to identify potential risks to participants and the pension insurance system.

Prior to the PPA, plan sponsors were required to report if total underfunding in their plans exceeded $50 million. PPA replaced the $50 million threshold with an 80 percent funding test. Under this new standard, many long-term filers with plans that are underfunded by significantly more than $50 million will no longer have to file.

In summary, please let me say the following. I would like to make five quick points.

Number one, PBGC's problems, our deficit, are very long-term problems. The people who depend upon us for our pensions and their payments should not be concerned. Basically, our problem is that we take in the assets and the liabilities of plans. So we take in sevens, but we owe tens. We get the sevens now; we owe the tens over time. So people who are watching this hearing should understand that the assets that we have will be paid out over many, many decades, and we hope that over time we will close the deficit.

But taking in sevens now and owing tens later is something people need to understand very well.

Secondly, the new investment policy is designed to give us a better chance to close that gap over time without taking any undue risks. In fact, the standard deviation, one measure of risk, in the new policy is even lower than the standard deviation in the old policy. The diversification of the new policy gives us a far better chance, about a three times better chance, to close the deficit over time.

The old policy was premised on the argument that someday we will have to rely on Congress to write a multi-billion dollar check to close our deficit. The new policy is based on the idea that we should do our best to avoid that eventuality.

Three, the new policy does not say, let's take a bunch of very secure Treasuries and dump them into a bunch of high-risk stocks. It is very, very moderate, very sensible, very consistent with what other large investors in the marketplace would do. It is 45 percent equities diversified; 45 percent fixed income, somewhat diversified; 5 percent real estate; and 5 percent private equity.

It is designed to be diversified enough to avoid a lot of risk but also to give us a chance to, over time, achieve the goal, which is about a 7.5 percent annual return. Somehow the press around this makes it sound like we are trying to shoot the moon. It is anything but.

Finally, we knew that it would take time to implement this policy when we did. So we haven't actually made any of the equity allocations in the new policy yet because we knew we would have to do manager selection and we knew we would have to be guided by market conditions. So that slow and deliberate approach has been very, very strong and has borne very good results for PBGC. Over the last 12 months, we are down about 6 percent in a marketplace where we estimate most pensions are down 15 percent.

Last of all, our deficit on an unaudited basis has gone from approximately $14 billion to approximately $11 billion this year. That is for a variety of things we can talk about. It includes the fact that interest rates that value our liabilities have changed and numerous other factors.

But, in fact, it is counterintuitive to think this, but the PBGC itself is actually sounder today than it was 12 months ago. That doesn't tell us how things are going to be in the future, but our funded status is better, and we have an investment policy that will give us a chance to get out of our deficit. But we have avoided the market turmoil in the implementation of that investment policy.

I look forward to your questions.

Chairman MILLER. Thank you.

[The statement of Mr. Millard follows:]

Testimony of Charles E.F. Millard, Director
Pension Benefit Guaranty Corporation
before the
Committee on Education and Labor
United States House of Representatives
October 24, 2008

Mr. Chairman, Ranking Member McKeon, and Members of the Committee: Good morning. I appreciate the opportunity to appear before the Committee today to discuss the state of the Pension Benefit Guaranty Corporation ("PBGC" or "Corporation") and the defined benefit pension system. Concern about retirement income security is certainly an important focus in these challenging economic times. I want to emphasize that, despite the current economic slowdown, PBGC will be able to meet its benefit payment obligations for a number of years to come.

The need for a pension safety net became starkly evident when, at the end of 1963, the Studebaker Corporation, then the nation's oldest major automobile manufacturer, closed down its U.S. operations and terminated its pension plan. About 4,000 workers age 40-59 lost the bulk of their pensions, receiving only fifteen cents for each dollar of their vested benefits. These individuals had an average age of 52. They had worked for the company an average of almost 23 years.

In 1974 Congress passed the Employee Retirement Income Security Act ("ERISA") which, among other pension protections, created PBGC to insure pensions earned by American workers under private-sector defined benefit plans. Today PBGC insures almost 44 million workers, retirees, and beneficiaries in over 30,000 plans. When a plan terminates in an underfunded condition – because the employer responsible for the plan can no longer fund the promised benefits – the Corporation takes over the plan as trustee and pays benefits to the full extent permitted by law.

PBGC benefit payments are important, often crucial, to the retirement income security of retirees and workers in trusteed plans, many of whom worked decades for their promised benefits. At the end of fiscal year 2007, PBGC was paying benefits to 630,000 retirees and beneficiaries in terminated underfunded plans; another 534,000 participants in these plans will become eligible to start receiving benefits in the future.

Since its establishment in 1974, PBGC has faced many challenges, including economic contraction in certain industries that traditionally have provided defined benefit pensions; inadequate minimum contribution requirements which too often have resulted in unfunded promises at plan termination; premiums that often have been inadequate to meet the financial demands placed on PBGC's insurance program; and employer shifts from defined benefit plans to defined contribution plans, which are not insured by PBGC.

Because of these challenges, PBGC has been in a deficit position for most of its existence. At the end of fiscal year 2007, PBGC had assets of $68.4 billion to cover liabilities of $82.5 billion, resulting in an accumulated deficit of $14.1 billion.[1] PBGC's financial results for fiscal year 2008 are not available at this time, because the Corporation's auditors have not completed the 2008 audit. However, PBGC staff and the auditors are working long hours to ensure that the data will be available by the annual November 15 deadline. While we expect that the deficit will be somewhat lower for fiscal year 2008, we believe that the deficit still remains in double digits – somewhere in the range of $10 to $12 billion.

Generally PBGC pays monthly pension benefits spread over the lifetimes of participants and beneficiaries, not as lump sums. As a result, PBGC has sufficient funds to meet its obligations for a number of years. Nevertheless, over the long term, the deficit must be addressed.

Defined Benefit Pensions

Private-sector defined benefit plans cover 43.8 million American workers, retirees, and beneficiaries. In a defined benefit plan, retirement benefits typically are based on a worker's earnings and years of service with the employer. Defined benefit plans insulate retirees from investment and mortality risk and are intended to be a source of stable retirement income.

Defined benefit plans are funded by employer contributions. The law prescribes minimum contribution requirements, which Congress has tightened over the years to improve plan funding. Benefits under a defined benefit plan are secure if the employer is financially healthy and can afford to make the required contributions. When an employer can no longer afford a plan, the plan is terminated and PBGC guarantees benefits, subject to legal limitations. Amounts above guarantee limits can be paid only if plan assets or recoveries from employers are sufficient to allocate to these benefits.

Thus retirement income security for the workers and retirees covered by private defined benefit plans depends on a combination of sound plan funding and a strong insurance program.

Governance and Financial Structure

PBGC is a wholly-owned federal government corporation with a three-member Board of Directors—the Secretary of Labor, who is the Chair, and the Secretaries of Commerce and Treasury. Until August 2006, ERISA provided that the Corporation was to be administered by the Chairman of the Board in accordance with policies established by the Board, and Board Chairmen appointed non-statutory executive directors who reported to the Chairman. The Pension Protection Act of 2006 ("PPA 2006") established a Senate-confirmed Director to administer the Corporation in accordance with policies established by the Board of Directors.[2] PBGC also has an Advisory Committee appointed by the President.

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[1] There was a $13.1 billion deficit in the single-employer program and a $1 billion deficit in the multiemployer program at the end of FY 2007.

[2] ERISA section 4002(a) as amended.

In May of this year PBGC's board revised the Corporation's bylaws to address concerns expressed by GAO in a July 2007 report. The new bylaws more clearly define the roles and responsibilities of PBGC's board members, representatives, director, and senior management.

PBGC operates two insurance programs, which are financially separate. The Single-Employer program covers 33.8 million workers, retirees, and beneficiaries in about 28,900 single-employer plans. The smaller Multiemployer program – which covers collectively bargained plans that are maintained by two or more unrelated employers – protects 10.0 million workers, retirees, and beneficiaries in about 1,500 multiemployer plans.

Although PBGC is a government corporation, it receives no funds from general tax revenues and by law its obligations are not backed by the full faith and credit of the U.S. government. Operations are financed by insurance premiums, assets from pension plans trusteed by PBGC, investment income, and recoveries from the companies formerly responsible for underfunded trusteed plans (generally only pennies on the dollar).

PBGC's statutorily established revolving funds receive premiums, which are invested in U.S. Treasury obligations. PBGC also has trust funds, which hold the assets of terminated underfunded plans that PBGC has taken over as trustee. The Government Accountability Office has determined that the trust funds can be invested in more varied holdings consistent with sound fiduciary principles.

PBGC pays participant benefits from its revolving funds. PBGC revolving funds are then partially reimbursed by the trust fund. This partial reimbursement results in what is referred to as "proportional funding" of benefits; that is, funded benefits are paid with trust fund assets and unfunded guaranteed benefits are paid with revolving fund assets.

PBGC's administrative expenses are also provided from the revolving fund (also subsequently reimbursed from its trust funds) and are subject to an explicit limitation on obligations through the appropriations process. PBGC's appropriations language provides certain exceptions from this limitation that allow the agency to obtain additional resources in the event of additional plan terminations. As a result of this format, PBGC neither requests nor receives any taxpayer support.

Investment Performance

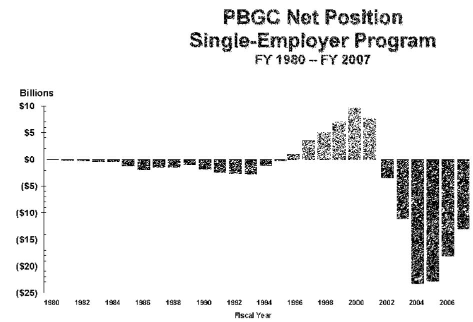
As of September 30, 2007, the value of PBGC's total investments in the single-employer and multiemployer programs, including cash and accrued investment income, was approximately $62.6 billion. Equity securities at the end of FY 2007 represented approximately 28 percent of total assets, compared to 23 percent at the end of FY 2006. As the table below illustrates, the total return on investments was 7.2 percent in 2007, generating $4.76 billion in investment income, compared to 4.2 percent in 2006. As I noted earlier, PBGC's audited financial results for FY 2008 are not yet available. Given the recent market turmoil, however, we expect that the total return on investments in 2008 will be somewhere in the range of -6 to -7 percent.

PBGC Investment Income (Loss)
Trust and Revolving Funds Combined
(dollars in millions)

	FY 2007	FY 2006
Fixed	$1,753	$ 393
Equity	2,988	1,793
Other	19	(3)
Total Income (Loss)	$4,760	$2,183
Rate of Return	7.2%	4.2%

Deficit and Claims History

PBGC's operating results are subject to significant fluctuation from year to year, depending on the severity of losses from plan terminations, changes in the interest factors used to discount future benefit payments, investment performance, general economic conditions, and other factors such as changes in law. Unfortunately, as the chart below shows, the Corporation has been in a deficit position for most of its existence.



Data does not include restored LTV plans in 1986

The $13.1 billion deficit in the single-employer program at the end of FY 2007 is the difference between assets of $67.2 billion and liabilities of $80.4 billion. Liabilities include claims from actual terminations and probable terminations. Probable terminations are claims that are expected to occur and are required to be booked as liabilities under generally accepted accounting standards. Notwithstanding the $13.1 billion deficit in the single-employer program, I want to reiterate that PBGC has sufficient assets on hand to continue paying benefits for a number of years. However, with $80 billion in liabilities and only $67 billion in assets as of the end of fiscal year 2007, the single-employer program lacks the resources to fully satisfy its benefit obligations.

The large accumulated deficit that persists in the single-employer program is due to an unprecedented wave of pension plan terminations with substantial levels of underfunding in recent years. The program posted its largest year-end shortfall in the agency's 34-year history in FY 2004, when losses from completed and probable pension plan terminations totaled $14.7 billion for the year, and the program ended the year with an accumulated deficit of $23.3 billion.

The table below shows the ten largest plan termination losses in PBGC's history. Nine of the ten have come since 2001. The top ten claims are primarily from firms in the steel and airlines industries.

	Top 10 Firms	Number of Plans	Fiscal Year(s) of Plan Terminations	Claims (by firm)	Vested Participants	Percent of Total Claims (1975-2007)
1.	United Airlines	4	2005	$7,503,711,171	122,541	21.5%
2.	Bethlehem Steel	1	2003	3,654,380,116	91,312	10.5%
3.	US Airways	4	2003, 2005	2,684,542,754	57,002	7.7%
4.	LTV Steel*	6	2002, 2003, 2004	2,134,985,884	83,094	6.1%
5.	Delta Air Lines	1	2006	1,740,482,711	13,028	5.0%
6.	National Steel	7	2003	1,275,628,286	33,737	3.7%
7.	Pan American Air	3	1991, 1992	841,082,434	31,999	2.4%
8.	Trans World Airlines	2	2001	668,377,106	32,275	1.9%
9.	Weirton Steel	1	2004	640,480,970	9,410	1.8%
10.	Kaiser Aluminum	7	2004, 2007	602,132,764	18,402	1.7%
	Top 10 Total	36		$21,745,804,196	492,800	62.2%
	All Other Total	3,747		13,193,241,357	1,087,787	37.8%
	TOTAL	3,783		$34,939,045,553	1,508,587	100.0%

Top 10 Firms Presenting Claims (1975-2007) PBGC Single-Employer Program[1]

[1] Data are preliminary.

Total claims for FY 1975-2007 also are concentrated in those industries, with about 41 percent from the airlines industry, about 36 percent from steel and other metals, about 13 percent from other manufacturing industries, and about 11 percent from all other industries.

PBGC Claims by Industry (FY 1975-2007) Single-Employer Program[1]

Industry	Total Claims	
AGRICULTURE, MINING, AND CONSTRUCTION	$613,939,852	1.8%
MANUFACTURING	17,308,736,681	49.5%
Apparel and Textile Mill Products	1,076,787,054	3.1%
Fabricated Metal Products	1,214,284,207	3.5%
Food and Tobacco Products	303,415,234	0.9%
Machinery Manufacturing	1,158,396,474	3.3%
Primary Metals	11,499,713,070	32.9%
Rubber and Miscellaneous Plastics	359,864,357	1.0%
Other Manufacturing	1,696,276,286	4.9%
TRANSPORTATION AND PUBLIC UTILITIES	14,582,003,027	41.7%
Air Transportation	14,205,842,014	40.7%
Other Transportation and Utilities	376,161,013	1.1%
INFORMATION	50,012,420	0.1%
WHOLESALE TRADE	429,453,930	1.2%
RETAIL TRADE	427,810,561	1.2%
FINANCE, INSURANCE, AND REAL ESTATE	793,408,855	2.3%
SERVICES	733,680,227	2.1%
TOTAL	$34,939,045,553	100.0%

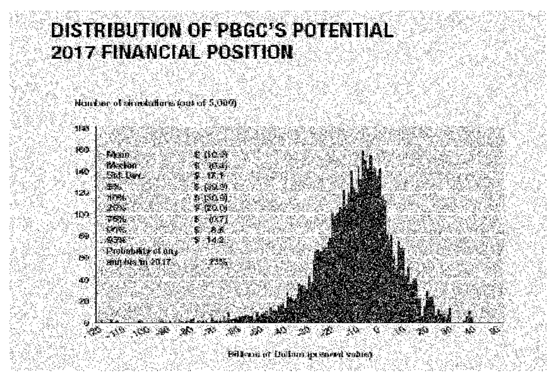
[1] Data are preliminary.

Projections

ERISA requires that PBGC annually provide an actuarial evaluation of its expected operations and financial status over the next five years. PBGC has historically made a 10-year forecast for the single-employer program. The forecast is made using a stochastic model—the Pension Insurance Modeling System ("PIMS")—to evaluate its exposure and expected claims. PIMS portrays future underfunding under current funding rules as a function of a variety of economic parameters. The model recognizes that all companies have some chance of bankruptcy and that these probabilities can change significantly over time. The model also recognizes the uncertainty in key economic parameters (particularly interest rates and stock returns).

The model simulates the flows of claims that could develop under thousands of combinations of economic parameters and bankruptcy rates. PIMS is not a predictive model and it does not attempt to anticipate behavioral responses by a company to changed circumstances.[3] PIMS starts with data on PBGC's single-employer net position (a $13.1 billion deficit in the case of FY 2007) and data on the funded status of approximately 460 plans that are weighted to represent the universe of PBGC-covered plans. The model produces results under 5,000 different simulations. The probability of any particular outcome is determined by dividing the number of simulations with that outcome by 5,000.

Even with the improved deficits in FY 2007, and the legislated premium increases and reforms, the model showed a median and mean deficit of about $10 billion at the end of the 10-year period. Even more significantly, the model indicated that there was only a 23 percent chance that PBGC could reach full funding at the end of that 10-year period.



Source: PBGC 2007 Annual Report.

[3] Additional information on PIMS and the assumptions used in the model are available in PBGC's Pension Insurance Data Book 1998, pages 10-17, which also can be viewed on the PBGC's Web site at *www.pbgc.gov/publications/databook/databk98.pdf*.

Underfunding Exposure

Much of the projected deficit in the PIMS model is reflective of the underfunding in covered defined benefit plans. Most companies that sponsor defined benefit plans are financially healthy and should be capable of meeting their pension obligations to their workers. But the amount of underfunding in pension plans sponsored by financially weaker employers is very substantial. Pension underfunding in non-investment grade companies is classified under generally accepted accounting standards as PBGC's "reasonably possible" of termination and is required to be reported in the notes to PBGC's financial statements.

Recent declines in the stock market have reduced the value of assets held by defined benefit plans. However, a balancing factor has been the increase in interest rates, which has the effect of reducing estimates of discounted future plan liabilities.

PBGC's reasonably possible exposure by industry for FY 2006 and FY 2007 is shown in the table below.

Reasonable Possible Exposure (Dollars in billions)		
Principal Industry Categories	**FY 2007**	**FY 2006**
Manufacturing	$31.4	$37.6
Transportation, Communication & Utilities	19.5	20.5
Services & Other	6.9	7.0
Wholesale and Retail Trade	5.8	6.1
Agricultural, Mining and Construction	1.0	1.2
Finance, Insurance and Real Estate	1.2	0.9
Total*	**$65.7**	**$73.3**

* Numbers may not add due to rounding.

At the end of fiscal year 2008, there remains substantial reasonably possible exposure in airlines and steel. Claims against PBGC's insurance program are a lagging indicator of the economy. Claims generally follow a downturn in the economy by 18 months to two years.

PBGC Actions to Address Underfunding Exposure

In 2007, as in previous years, PBGC engaged in a number of activities to safeguard the pension insurance system, including plan risk assessments, plan monitoring, and negotiation and litigation, to limit risk exposure and losses to pension plan participants and PBGC. PBGC monitored some 2,200 controlled groups, some 3,600 plans, and almost 500 bankruptcy cases. PBGC takes an active role in corporate bankruptcy proceedings on behalf of workers whose pension plans are not fully funded. PBGC encourages plan sponsors to continue rather than terminate their pension plans. When a plan is terminated, PBGC pursues recoveries of the underfunding from the plan sponsor and other related companies that are liable.

The steps PBGC has taken to protect pensions that could be adversely affected by corporate transactions or bankruptcy have made a real difference to plan participants and PBGC. And the companies that cooperated in making good on their pension promises have reason to be proud.

- Since 2005, PBGC has worked with a number of plan sponsors, including 13 auto parts companies that have emerged successfully from Chapter 11 protection without terminating their pension plans. For example, this year, Dana Corporation (53,000 participants), Solutia (19,000 participants) and Dura Automotive (4,300 participants) made contributions required by ERISA during bankruptcy and kept their plans ongoing. Other examples in prior years are Federal Mogul and Tower Automotive.

- In the spring of 2007, PBGC initiated discussions with Daimler and Cerberus that led to additional protections for Chrysler's pension plans (259,500 participants). The plans received $200 million in contributions beyond what is required by ERISA, and Daimler will provide a $1 billion guarantee for up to five years if the plans terminate.

- Delphi's bankruptcy proceedings remain ongoing, and PBGC is continuing its efforts to protect Delphi's pension plans (71,000 participants) and achieve the goal of a successful reorganization. On September 25, 2008, the bankruptcy court approved agreements under which General Motors (Delphi's former parent) will provide financial support for Delphi's restructuring, including a transfer of $3.4 billion in net unfunded pension liabilities from Delphi's hourly plan to General Motors' hourly plan. The first segment of that transfer was made on September 29, 2008, and the remaining amount will be transferred upon Delphi's emergence from bankruptcy. As part of its ongoing efforts to emerge from bankruptcy, Delphi must obtain court approval of a revised plan of reorganization and raise new capital.

As the insurer of America's defined benefit pension plans, PBGC will continue to negotiate protection for workers and retirees in transactions like those described above. These safeguarding activities provide significant protection to the defined benefit insurance system and all its stakeholders.

Pension Data

PBGC's main sources of information on underfunded pensions are the Annual Report Form 5500, which is jointly filed with Treasury, the Department of Labor, and PBGC, and reporting to PBGC under ERISA section 4010.

Form 5500

The principal governmental source of information about the 31,000 private sector defined benefit plans is the Form 5500. The statutory deadline for filing the Form 5500, which provides actuarial data as of the beginning of the plan year, is the last day of the 7^{th} calendar month after the close of the plan year, with an automatic extension of 2.5 months upon request.

ERISA Section 4010

Section 4010 of ERISA provides more current data. Under section 4010 certain controlled groups with underfunded pension plans are required to report actuarial and financial information to the PBGC on an annual basis. This information enables PBGC to identify and monitor potential risks to the pension insurance system, to focus PBGC resources on situations that pose the greatest risks to that system, to assert appropriate claims against members of a controlled group, and to prepare its financial statements.

For information years ending in 2007, PBGC received filings for 119 controlled groups covering 313 plans. These plans reported total liabilities of $253.3 billion and total underfunding of $67.2 billion (both measured on a termination basis).

4010 filings play a major role in PBGC's ability to protect participant and premium-payer interests because the reported information is more current and more relevant than other sources of information. For example, 4010 filings are the only place where sponsors report plan underfunding measured on a termination basis. In addition, financial information is reported for all members of the controlled group, not just the plan sponsor. This is crucial information because members that do not sponsor pension plans often provide a source of recovery for PBGC claims (should any arise) that is not available to other creditors. Without reporting, PBGC might not be aware of the existence of entities with large amounts of assets.

ERISA prohibits disclosure of 4010 information, except for information that is otherwise public (e.g., public filings of financial information with the Securities and Exchange Commission). This is a specific override of the standards under the Freedom of Information Act (FOIA). There are also narrow exceptions for information formally requested by authorized committees of Congress and for litigation. The PBGC may disclose aggregate data for a group of filers as long as the aggregation is large enough so that no one can identify the information of specific filers.

Prior to PPA, the requirement of section 4010 reporting applied if aggregate unfunded vested benefits in the controlled group exceeded $50 million ("gateway test"). PPA changed the 4010 gateway test from a dollar-based test to a percentage-based test.

Under PPA, filing is required if one (or more) plans in the controlled group has a funding percentage below 80%. As a result of this change, many long-time filers with plans that are underfunded by significantly more than $50 million will no longer have to file. Because these are the plans that PBGC is most concerned about, the PPA changes greatly diminished the usefulness of 4010. Many mid-sized plans with low funding percentages but relatively low dollar amounts of underfunding will have to file 4010 information for the first time. Consider these two plans:

	Plan A	Plan B
Assets	$420 million	$380,000
Liabilities	$500 million	$500,000
Underfunding	$80 million	$120,000
Funding percentage	84%	76%

Under pre-PPA law, Plan A would have been required to report 4010 information, but Plan B would not. Under PPA, the result is reversed; despite an $80 million underfunding, Plan A does not report 4010 information, but Plan B with only $120,000 in underfunding does. To reduce the burden on the thousands of very small plans with a funding percentage below 80%, PBGC proposed a regulation on February 20, 2008, to waive the filing requirement for cases where underfunding is less than $15 million.

2006 Pension Reforms

In 2005, the Administration proposed a comprehensive package of pension reforms to shore up PBGC and strengthen funding in ongoing defined benefit plans. During 2006, legislation incorporating some of these reforms was signed into law: the Deficit Reduction Act of 2005 ("DRA 2005"), enacted on February 8, 2006, and the Pension Protection Act of 2006, enacted August 17, 2006.

Premiums

The provisions of the 2006 legislation that have the most immediate effect on PBGC are the premium provisions. The new law increased both the single-employer and multiemployer flat-rate premiums.

Until the enactment of DRA 2005, the flat-rate premium had remained unchanged for single-employer plans since 1991 and for multiemployer plans since 1989. DRA 2005 changed the per-participant flat-rate premium for plan years beginning in 2006 to $30 (from $19) for single-employer plans and to $8 (from $2.60) for multiemployer plans, and provides for inflation adjustments to the flat rates for future years. The inflation-adjusted per-participant flat-rate premium for 2008 is $33 for single-employer plans and $9 for multiemployer plans.

PPA 2006 kept the variable-rate premium paid by single-employer plans at $9 per each $1,000 of unfunded vested benefits and conformed the measurement of underfunding to the PPA changes to the plan funding rules. PPA 2006 also eliminated the full-funding limit exemption from the variable-rate premium, which was a loophole under prior law.

The President's FY 2009 budget again called upon Congress to grant PBGC's Board of Directors the ability to adjust premiums in order to eliminate PBGC's $14 billion deficit over a reasonable period of time and better safeguard workers' benefits. Moreover, under current law, PBGC is required to charge the same premiums regardless of the financial health of the plan's sponsor. Normally, insurance is provided by institutions that are able to underwrite risk, and PBGC should be permitted to assess its premiums in this way. Some

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Chairman MILLER. On your last point, that you have avoided market turmoil because of your prudence, the fact is you have been moving steadily along to adopt the new policy. You simply haven't adopted this yet because you haven't signed the contracts with the entities that would manage those funds for you, is that correct?

Mr. MILLARD. No. We have not—we have taken a few small steps so far in changing some of our——

Chairman MILLER. That was all with the wisdom of the market that you took those few small steps?

Mr. MILLARD. Yes. I mean, for a variety of reasons. We knew we would have to take time.

Let me give you an example specifically, private equity. If we could have implemented everything in February, we wouldn't have. It is not a prudent way to invest in private entity. Private equity, you want to have multiple vintage year diversification. So you would expect a private equity allocation, which in our case would be about $2.8 billion, to be put in place over time, over 2, 3, 4, even 5 years.

That was expected the day the policy was implemented. When the board met, we discussed making sure that we took a deliberative and careful approach to the implementation of the policy. It would have taken some time anyway to find some new managers, but we also even at this very moment are being very concerned about market conditions before we take any actions.

Chairman MILLER. So the only reason you haven't invested is because you understood the downside of this current market and you understood that in February, March and April?

Mr. MILLARD. We took a deliberative approach from the start. It took some time to think of who our managers would be; and, as we found the market turmoil of late, we have been careful about getting into a specific transition.

Chairman MILLER. Okay. You are familiar with the General Accountability Office discussion. Their April—the Congressional Budget Office, excuse me, their April letter to me and their discussion of the asset diversification, the risk of the PBGC's funded status.

Mr. MILLARD. Yes.

Chairman MILLER. How do you recognize their concerns with your policy? This is their comments on your expected new policy.

Mr. MILLARD. Yes. They said it was likely, if I recall correctly, that we would have a better chance of closing our deficit over time, which is exactly the purpose of the new policy. They also highlighted some risks that I don't disagree with. Every policy has risks, and certainly there will be up years and down years, and we are obviously right in the middle of a down year. And they highlighted there are risks in any policy, which is true.

Chairman MILLER. They highlighted there are particular risks with respect to PBGC and that, as they point out, offers a greater expected return with lower—this is a suggestion from, I guess, your consultants—offers a greater expected return with lower risk and assets on the PBGC's portfolio. This strategy reduces the timing match between the Corporation's future pension obligations and the cash flow streams from its investments.

They are addressing that very often you launched the lifeboat in the middle of the storm.

Mr. MILLARD. I am not sure exactly—obviously, I want to be helpful and direct in your answering your question.

Chairman MILLER. That you may receive your greatest burdens at the same time in a down economy.

Mr. MILLARD. Right. And let me respond to that in a couple of ways. It is a pithy statement that some say it is like being an insurer and taking all of the premiums and investing them in Florida real estate. Also, some people refer to it as a Texas hedge.

That is not the case in our actual experience. Our actual experience is that 76 percent of all the liabilities the PBGC has ever taken in come from two industries, steel and airlines. They come because of industry consolidation and industry upheaval. That is the thing that is the most consistent theme in the actual liabilities we take in. Not necessarily recessions.

For example, Bethlehem Steel came to the PBGC in 2002 during a time of economic recovery, although the markets were down. Delta and United Airlines came at a time when the economy was stronger and when the markets, the equity markets, were rising. So the worry that people say, well, you are going to have a recession and pension plans' assets will be down at the very time you take those plans in isn't actually consistent with our experience.

Chairman MILLER. Okay. You in your statement suggested that your loss of 6.5 percent is better than the other pension plans, correct?

Mr. MILLARD. It certainly is better than some, yes.

Chairman MILLER. But on the equity portion of your plan you lost 23.2 percent.

Mr. MILLARD. Approximately consistent with Standard & Poor's, yes.

Chairman MILLER. Yes. So the idea that you are structured, one, differently than many pension plans because of your current policy of fixed income investments, but it is a little disingenuous to suggest that the equity thing is going swimmingly.

Mr. MILLARD. I haven't suggested that anything is going swimmingly. Obviously, this is an unbelievable time, probably, let's hope, a once-in-a-lifetime experience for everybody involved investing in the markets today. I won't say that anything has gone swimmingly, and I don't mean to claim that. Our equity investments are pretty much consistent with other people's equity investments. I am just trying to give you the facts as I know them about where we stand today.

Chairman MILLER. I guess if you want to extrapolate out the new policy in today's markets, the $4.8 billion would look something like more than $8 billion in losses?

Mr. MILLARD. If the new policy had been implemented in February, our experience from February to now—well, let me go back a step. It would have been impossible to implement the new policy in February anyway. As I discussed before, it takes years to layer in some of those asset classes and would have taken many months to layer in some of the others. So it is not the kind of thing that would have all happened at once anyway.

Additionally, it is far more diversified than the current equity portfolio. You are extrapolating our experience, which is mostly right now matched to the S&P, with what the new experience in equities would be, which is not nearly matched to the S&P because it is intended specifically to be far more diversified. So extrapolating an S&P number isn't really a fair characterization of how the new policy would have performed. But I think it is reasonable for us to conclude that it would have performed worse over the last 8 months.

But it is not a policy that is designed to function over 8 months. We take in sevens now. We owe tens over time. Our obligations are not measured in years. They are measured in decades, just like the lives of the Bethlehem Steel workers we need to pay.

So we need to make sure that we do our best not to ask Congress to bail us out with an asset liability matching policy. The old policy tried to match $62 billion in assets with $76 billion—I am sorry if I don't have those numbers exact, but $55 billion in assets—$62 billion in assets with $78 billion in liabilities. Well, as I say to a lot of folks, if you can match 68, 62 and 78, you are hired. Because the old policy locked in the old deficit, and it was premised on the idea that we would come to Congress some day for a bailout.

Chairman MILLER. The new policy you mention is more diversified, and that would be how?

Mr. MILLARD. You mean specifically what are the projected asset classes? Currently, we are in U.S. equities approximately 25 percent; the non-U.S. equities approximately 2 percent; emerging market equities about one-half of one percent; long corporate bonds, approximately 40 percent; long Treasuries, approximately 25 percent; other Treasuries, approximately 4 percent; total fixed income, approximately 69.4 percent; cash, 1.6 percent; and private equity or real estate, approximately 1.8 percent. That is the current.

The new would be 20 percent, U.S. equities; 19 percent, non-U.S. equities; 6 percent, emerging market equities; long corporate bonds, 13 percent; long Treasury bonds, 19 percent; high-yield bonds, 2 percent; emerging market debt, 3 percent; total fixed income, 42 percent; cash, 3 percent; total fixed income and cash, 45 percent; private equity and real estate, 5 percent each.

Now if I can just add one point there, we could pick any one of those and say, you are going to put your money in what? And the point of that is we want a diversified investment policy. We don't want to be subject to just what is the S&P doing on any given day. We don't want to be relying on how are Treasuries doing on any given day. The whole point is the diversification mitigates risks and gives us a better chance to make our payments to the Bethlehem Steel workers and other people like them without having to ask Congress for a bailout.

Chairman MILLER. But you do admit the higher risk component. You are chasing yield. It is very hard to chase yield without increased risk. A lot of people con themselves into that notion, but it is very hard to do.

Mr. MILLARD. Risk and reward are both on a spectrum. Yes, if you sit here in one place and you say, I want more reward, then you will probably have to take more risks to get it. But if you diversify, you can say, well, I will take the exact same risk I am taking. How much more reward can I get, assuming that diversification has a benefit? Or you can say, I will take more diversification. I am happy with the return I am getting. Please lower my risk. Or you can say, I am going to diversify enough to get a little bit more return and a little bit less risk.

And the standard deviation, which is only one measure, there are other measures we can talk about if you like, of the new policy is actually lower than the standard deviation of the old. But just as important is how bad things can get, and how bad things can get is actually safer, if you can call it safer, on a how-bad-things-can-get extreme tale under the new than the old.

I mean, the whole point here is time is on our side. We have decades to pay these people, and we are trying to put ourselves in the best position to make those payments.

Chairman MILLER. So in your equity portions, if you can just review this again for me, your equity portions under the current plan are divided how again?

Mr. MILLARD. Twenty-four percent of our portfolio today, 24.5 percent, is in U.S. equities; 2.1 percent is non-U.S. developed; and one-half of one percent is in emerging markets.

Chairman MILLER. And the second one, non-U.S. developed, that is foreign equities?

Mr. MILLARD. Yes, except not emerging markets. That is an emerging category.

Chairman MILLER. And emerging markets, the third one, is equities?

Mr. MILLARD. Currently, 0.5 percent emerging market equities, yes.

Chairman MILLER. So those are all equities?

Mr. MILLARD. Yes.

Chairman MILLER. Now, in the new plan, if I understand what you said, you have emerging market equities, which would be consistent with what you do now, some percentage. You allow 2 percent for junk bonds?

Mr. MILLARD. Yes.

Chairman MILLER. I think there is a euphemism for junk bonds.

Mr. MILLARD. We call them high yield.

Chairman MILLER. Right, high yield. Until the day they don't yield. Emerging market debt?

Mr. MILLARD. Yes.

Chairman MILLER. That is in what form?

Mr. MILLARD. The form that our managers will buy, and that is an important point to make. PBGC doesn't say, you know, I think we would like to have——

Chairman MILLER. Well, what have you discussed in that form? What form? Do you expect to buy Treasury notes of foreign governments, of emerging markets?

Mr. MILLARD. Give me one second.

Yes. It could be the debt of a foreign government. It could be the debt of a company in one of those countries.

Chairman MILLER. Would it be the actual debt or would it be a securitization of that debt?

Mr. MILLARD. I think the expectation is that it would be the debt itself.

Chairman MILLER. Have you discussed it, the securitization?

Mr. MILLARD. It could possibly be securitization as well.

Chairman MILLER. I mean, to a great extent, emerging market debt is marketed as a securitized product. Because, otherwise, some people could not get their debt to market without absorbing a cost. We can expect that that might possibly be securitization.

Mr. MILLARD. I think we could expect that it could be. We could also expect it would also be direct. But the point I want to emphasize is it is diversified.

Chairman MILLER. I understand it is diversified. I will concede the point it is diversified. I want to know what it looks like. So, in fact, it can be securitized debt of foreign companies. It can be securitized debt of foreign countries.

Mr. MILLARD. Yes, it could be.

Chairman MILLER. And I assume it would be insured? Are you going to buy A-rated debt? Are you going to buy triple-A debt? Are you going to buy BB debt? What are you going to buy?

You are chasing yields. It is of some pertinence here as to what it is, because you have obviously made the decision to chase yields.

Mr. MILLARD. I wouldn't say we made a decision to chase yields.

Chairman MILLER. Well, why would you do it? Of course you have.

Mr. MILLARD. I would say—expressing it as chasing yield makes it sound as though——

Chairman MILLER. Everybody does it. I mean, any investment advisor is always trying to tell you we think we can do better on this side. You then have to decide what the risk is for the yield that you expect. There is all kinds of ways you can discuss it, but that is the basic premise. And we see people place great bets, institutions place great bets to chase yield. We just were looking at a number of cities and counties that made that bet in this last economy and the risk overwhelmed the bet.

But that is what people do. That is risk and reward. You can attach all the terms you want. So it is important as to what are the components of the emerging market debt. It is important to know the components.

Mr. MILLARD. No, I am not saying it is not important to know it. Of course it is important to know it.

Chairman MILLER. That is why I am asking.

Mr. MILLARD. Okay. And I believe I have answered. It can be securitized. It can be direct debt of a company, you know, the actual bond of the company.

Chairman MILLER. I am asking if one of the vehicles by which securitized debt became acceptable was because it was insured?

Mr. MILLARD. I'm not sure I know what you mean by "insured." I mean, if we buy the debt of the government of Brazil, no, I don't——

Chairman MILLER. But if you buy securitized debt of Brazil and Zimbabwe and a lot of other people, you are not buying that instrument itself. That is one decision. The other decision is to buy a securitized tranche of debt. This is not foreign right now to anybody, and that would be a different decision.

Mr. MILLARD. Correct. And that decision——

Chairman MILLER. And that allows for that.

Mr. MILLARD. And that decision is not one I would ever attempt to make myself.

Let me be very clear here: PBGC does not pick the debt of Brazil or the bond from the company in China. We pick managers——

Chairman MILLER. I understand that. The world is littered with institutions who relied on other people to make those choices for them. They all hired the smartest people in the room. I mean, that is just a casualty of the system. That is the system. You shouldn't be making those decisions. You should hire somebody who knows how to do it. But that is not an insurance policy to success.

Mr. MILLARD. I didn't promise it is. And to make very clear, I am not guaranteeing that this new policy will succeed. I will tell you that it gives us a much better chance of being out of our deficit over time.

Chairman MILLER. And the GAO tells us that they think the risk is much higher. So we have a difference of opinion. We are just trying to sort this out.

Mr. MILLARD. Actually, that is not the what GAO said. The GAO used a different set of assumptions that were not the GAO's assumptions. They were J.P. Morgan's assumptions. And they said, under these assumptions, you would get a different answer, which would have a higher standard of deviation. GAO did not in any way conclude that that proved that the new policy was riskier.

Chairman MILLER. And private real estate would be what components?

Mr. MILLARD. When you say "what components"——

Chairman MILLER. What would that be? Would that be REITs? Would that be actual investment in real estate? Would that be mortgages? Would that be securitized mortgages? Would that be residential properties?

Mr. MILLARD. We are actually in the process of consulting with a variety of consultants right this moment to reach those conclusions, but likely, trying to be helpful here, I can't say it is going to be A, B and C.

Chairman MILLER. I just want to know if that component is allowed. I am not asking for a conclusion. I want to know if that is the component.

Mr. MILLARD. If it is allowed under the board policy——

Chairman MILLER. I don't want to know what the board policy is. At some point, you will tell us.

Mr. MILLARD. We have provided it. It is a public document. It is on our Web site. The investment policy statement—I mean, I can hand you a physical one right now, if you like. It is a public document. And under that policy, those kinds of investments would be permitted.

What we are going to do in real estate, we have not reached a conclusion yet, but likely—again, I am trying to be as transparent as I can, yet we don't know this answer. We are talking to real estate investment professionals now about what it should look like. Likely, it will have some components of——

Chairman MILLER. So in each of these categories——

Mr. MILLARD. You asked me a question. I am just trying to tell you what it is likely to hold.

Real estate is likely to hold some funds of funds in large U.S. office properties, possibly some funds that invest in retail, perhaps some European office buildings, with managers whose names I can't say because we don't know yet, but of the kinds of real estate investors that I think would give you as much comfort as you can have about a sober, careful, not-trying-to-shoot-the-moon policy of diversifying into real estate.

Chairman MILLER. And venture equity. That would be——

Mr. MILLARD. Private equity can include venture capital. It can include lots of other classes as well. Without knowing the final breakdown that we will conclude to have, I would guess that, of our

5 percent in private equity, chances are 1 to 1.5 points of that will be in venture.

So let's say—just trying to be conversational here with numbers we haven't made decisions on yet—it would be something like 1.5 percent of our portfolio. Again, please don't hold me, because it could change, but about 1.5 percent of our portfolio would be in venture capital.

Chairman MILLER. The numbers—I don't know that these are your numbers. Just, for example, the venture equity you have 5 percent. That is the upside limit. It could be 1.5, as you say?

Mr. MILLARD. No. No. Private equity we are permitted to have 5 percent.

Chairman MILLER. You have is a category called venture equity.

Mr. MILLARD. I don't think we have ever listed a category called venture equity.

Chairman MILLER. Private equity I guess can include buyout and venture.

Mr. MILLARD. Right. Our expectation is that that 5 percent will be broken down approximately 3.5 to 4 points more large cap and mid cap buyout and 1 to 1.5 points venture. So that would mean that 1 to 1.5 percent of our portfolio, if that is where we come out, would be invested in venture capital.

Chairman MILLER. So just trying to conclude and not to put words in your mouth, in each of these categories—junk bonds, emerging market debt, private real estate, venture equity and emerging market equity, excuse me—all of those allow for a range of investments within those categories from what today would be considered very risky—you probably wouldn't make those choices today looking at the market—to a more staid investment within that category of emerging market equities or junk bonds or what have you.

Mr. MILLARD. I am sorry. I am not following the question. I am sorry.

Chairman MILLER. Again, you have defended each one of these as being prudent based upon what they allow under those categories, and all I am saying is you can go from a very risky investment under emerging markets or you can go for a very prudent investment under emerging markets, but both of them are in fact allowed.

Mr. MILLARD. Within the class of private equity right now, the board's decision to have 5 percent in private equity was not prescriptive about how much of that should be venture and how much of that would be a buyout. That is a decision that PBGC staff is considering.

Chairman MILLER. Right. I understand that. And my point is that, in emerging market debt, it could be securitized debt, it could be the actual instrument, it could be a Treasury bond of the state of Brazil or what have you. In private real estate, it could be securitized real estate or it could be actual mortgages or it could be, I guess, an investment share in a development. That is not unusual for pension plans.

Mr. MILLARD. It could be those things. But what we are looking at, without having reached a conclusion yet, is approximately 75 to 85 percent buyout in our private equity, which would leave 1 to 1.5

percent venture. And in the real estate area, no, we are not looking at securitized mortgages; we are looking at people that buy——

Chairman MILLER. I am not suggesting that you are. I just want to know the ranges. You have an old adage in life, if you can handle the worst, you can probably handle the best. And I just want to know the range of decisions that are available to this board over this long-term that you are talking about. Because you are launching a new policy, and one of the things we see is that people lose their memories about the last downturn, the last bubble, the last uptick, the last growth pattern. Whatever it is, we kind of lose our memories over a 10-year period here.

So I just want to know what we are setting in motion, and this is why we were trying to have these discussions with you prior to this, what we were setting in motion here so that the Congress will understand. Because a lot of times we get to be surprised by the people who want to use your facility. They don't necessarily give you a lot of warning.

You can anticipate it. You have done some work in the auto parts business. You have done some work with what I guess I call Chrysler and General Motors trying to anticipate where you would be, where the taxpayers would be and where the retirees would be.

But, again, in your business, every now and then, you can get a surprise. Most of the things we have learned about Wall Street in the last year have been a surprise to everybody. They are not playing all their cards up here.

Mr. MILLARD. And you are right that we tend to forget things. But in today's moment, we can tend to forget that over 20, 25, 30 years, a diversified policy that has equities as a greater than 30 percent portion of it is a lot more likely to pay the bills over time, and the diversification can help mitigate some risks. The whole point here is we are not investing this money to do better between February of 2008 and September of 2008.

Chairman MILLER. I understand that. You also would, I assume—well, I will come back to that. I want to let my colleagues have time. I am sorry I have expanded my time here.

Ms. WOOLSEY. You are the chairman, Mr. Chairman.

Chairman MILLER. But fair, as always.

Ms. WOOLSEY. But always fair, knowing that you are the chairman.

This is so frustrating. I am sitting here thinking that if I am frustrated with this conversation between our chairman and the director of the PBGC, imagine what the average, every-day pensioner and the companies that have pension commitments, imagine what they are thinking. They must be, you know, spinning, because I certainly am.

So I wanted to ask a question, and I think the chairman asked the question, but I am going to ask it, so maybe you can talk to me, so maybe I will get it. And maybe the pension people, people with commitments and expectations, will get it, too, because, as the director of the PBGC, given the current state of this economy, where we absolutely know that more employers are going to be unable to make good of their pension commitments to their workers, what would you do, in straightforward language, to adjust to the situation we are in right now?

I mean, in part of your answer, could you please tell me what you meant by outdated information, 2-year old information? I mean, how much of what you are deciding is based on 2-year information?

Mr. MILLARD. Well, we have some information about the plans throughout the United States. They have to file a thing called the Form 5500. They file it. They are required to file it nearly a year after the information is current. And through processing, et cetera, it takes us sometimes as much as 2 years before we have current information. And even if we had it that very day, it is not very detailed. That is number one. The general matter of reporting that we are permitted under law to receive from corporation pension plans throughout America is not very in-depth.

Secondly, there is a form called the 4010 form. The 4010 form is required to be filed. Under the old law, it was required to be filed if your underfunding was greater $50 million of underfunding. And the new says if your funded status is below 80 percent funded.

Those two things are very, very different, and we have actually ended up getting fewer 4010 forms, which are the more current ones, than we used to, because fewer people are required to file.

Even more concerning is the fact that if you have a $1 billion pension plan that is 81 percent funded today, then it is not required to show me the detail that I would like. But if you have a $100 million pension plan that is 78 percent funded today, they are. So the one that presents me a $22 million potential by liability for PBGC, I get all the information that I want. But the one that shows me a $180 million potential liability for PBGC, I don't get the more detailed filings.

Ms. WOOLSEY. So I can assume in my question to you, what would be one of the things you would change, would you change that?

Mr. MILLARD. Yes. In fact, we would change it for sure. We actually asked for better 4010 information in the Pension Protection Act, but did not get it.

Ms. WOOLSEY. All right. What would be your response with the current information on, we're down 6 compared to the market of 15 percent, and we're down 23 percent in equity markets; what would you do to change that, if you could?

Mr. MILLARD. What we are trying to do is implement a long-term policy, but we are trying to do in a deliberative and careful way.

Ms. WOOLSEY. What would you do?

Mr. MILLARD. This is what we are doing. We are looking at the marketplace. We are talking to transition managers. We are evaluating their best judgment about how we should implement a multidecade policy at a time of market turmoil.

Ms. WOOLSEY. So you are ready for this market turmoil? Are we going to wait long-term to be ready?

Mr. MILLARD. Well, how ready PBGC is, is probably best measured, if you want a snapshot, and I am very reluctant to offer snapshots, because we all know they change, right? I mean, we use a certain rate to value our liabilities. That interest rate went up this year. That means the value of our liabilities went down. I don't find that all that comforting, because when interest rates go down, the value of those liabilities go up. But PBGC will have to pay a

U.S. Air stewardess or flight attendant a certain amount of money 27 years from now. Whatever that money is, let's call it $1,000 a month, that is not going to change. If interest rates drop and the value of our liabilities go up tomorrow, or if interest rates go up more and the value of our liabilities go down tomorrow, we still owe that flight attendant $1,000 a month 27 years from now.

So we are trying to keep our eye on a different North Star which is not focused on the funded status snapshot of any given month or 3-month or even couple-of-year period. We are focused on trying to make sure that we can pay those bills without turning to Congress to bail out the deficit. So that is why we are in the process of focusing on this policy.

But if you ask, how is PBGC, because that is really I think part of your question, if you want the snapshot answer, in fact our deficit will have dropped from approximately $14 billion to approximately $11 billion over the last fiscal year, partly because the value of our liabilities has gone down, other factors and mortality tables that help us calculate the liabilities, et cetera.

Ms. WOOLSEY. Okay.

Thank you, Mr. Chairman.

Chairman MILLER. Mr. Courtney.

Mr. COURTNEY. Thank you, Mr. Chairman.

You know, listening to you sort of frame the new policy with language like the long-term and the long view, I mean, given the moment that we are in right now, it sort of reminds you of another observation by an economist during the Depression that said, in the long run, we are all dead.

At some point we do have to focus on what is right in front of us right now. We just had a whole table full of economists testify before you, right and left, who all had pretty grim prognosis about where we are in terms of not just 2008 but 2009 and possibly into 2010.

I mean, the staff here has provided us with information about the losses that other pension plans have taken just in the month of September of 2008. And it suggests that your sort of reassuring words that, in past recessions, there wasn't a run on the plan, because, you know, we shouldn't use recessions as necessarily a warning or a precondition that there is going to be a strain on the plan. I mean, what I heard earlier this morning was something a little bit deeper and more deeply rooted in terms of what we are up against right now.

So I guess the question I have is this: You have made this change in policy to invest in a broader range of instruments. Again, the report we have is that you lost $3 billion in equity investments. I mean, if we hadn't done that, wouldn't we be in a better position today, I am not talking about the long-term, but today, to deal with the challenge we face today?

Mr. MILLARD. No. The investment performance for fiscal year 2008, which concluded September 30th, and these are, again, I want to emphasize unaudited numbers, is based principally on the prior policy. We have made very small changes so far in transitioning into the new policy because as we went into manager selection and as we talked to transition managers and we saw what was happening in the fixed-income markets, we saw things like the liquidity crisis, et cetera; it made sense to not only have a long-term strategy, we are not market timers, we are not trying to be a market timer, have a long-term strategy that is designed to pay our bills over time without having to turn to Congress for a multibillion dollar bailout, and at the same time as we transition, to do so in a deliberate and measured way.

Mr. COURTNEY. Then your testimony is then that this loss was not the result of any new policy?

Mr. MILLARD. Correct. The decline in our portfolio, the portfolio was approximately 70 percent equities in September a year ago, and other than the fact that equities have dropped, we have not changed our allocation yet. We have interviewed managers. We have prepared to make transition, but we haven't moved anything yet. We will do so very, very deliberatively. Obviously, I can't say specifically too much, like tomorrow we are going to sell, and nothing is happening tomorrow, X amount of fixed income. We would not want to say that to the world at large.

Sorry, I think I mixed the 70 and the 30. It was 70 percent fixed income last September, and it has stayed approximately 70 percent fixed income, other than the fact equities have gone down. We did not make the shift yet, even though we have prepared ourselves to do so.

Mr. COURTNEY. I guess the other question I would like to follow up on is, again, your comment that past recessions have not necessarily triggered a run on the plans necessarily. I assume you were here for at least a portion of the other testimony and just your own analysis of where we are headed over the next 18 months to 24 months, do you have any concern that this is going to be a little—that that sort of feeling that recessions don't necessarily cause a problem may be different this time, given the fact that pension plans are taking a huge hit out there?

Mr. MILLARD. I was only trying to answer the question about our policy and its relationship to recessions. I am very concerned about the future. I certainly am not an economist, and I wouldn't want to try to predict it, but like any well-informed American, I look at what is going on in the economy, and I am very concerned. And I am concerned about the funded status of the plans that we insure. I am concerned about making sure that promises made by these corporations are promises that they can keep. I am concerned about making sure that companies do fully fund their plans so we don't end up with more things like U.S. Air and Bethlehem Steel, who we thought were fully funded and we found out that they weren't. Yes, I am concerned.

Mr. COURTNEY. Thank you.

Chairman MILLER. Mr. Sarbanes.

Mr. SARBANES. Thank you, Mr. Chairman.

What is the benefit that—if I am a worker and a retiree and the pension plan that my company is supposed to be standing behind, they can no longer stand behind, so now I am relying on the PBGC, correct?

Mr. MILLARD. Yes.

Mr. SARBANES. So what is the level of benefit I am getting when the PBGC steps in, in relationship to the original bargained benefit that I would get? What is the relationship? I am not getting the full benefit, correct?

Mr. MILLARD. We have a guaranteed limit. The most that we pay right now is $51,000 a year. If your pension is to pay you $45,000 a year, then you get that full amount from PBGC, and about 85 percent of the people we pay actually do receive the full pension that they were promised.

Mr. SARBANES. And what does pension include? Does it include health care benefits that were going to be part of that?

Mr. MILLARD. No.

Mr. SARBANES. No. But that was part of the original bargain. In other words, when a plan says it is fully funded and is still under the control of the private employer, is the dollar figure that they are looking at one that is including the defined pension benefit plus, for example, health care benefits that were part of that equation, or not?

Mr. MILLARD. No. The pension plan does not include health care benefits. But to your point, in our view, companies should not be making promises that they cannot keep. And while I don't have a role in the health care issue you are getting at, it is the same point, right? Companies should not make promises they can't keep. And PBGC is on the hook for the pensions, but, no, we are not on the hook for health care.

Mr. SARBANES. So a company may be making a promise that includes quota promise for the "pension" and a promise with respect to the kind of health care coverage or benefits that you might have as a retiree. But the part of the promise that you back up at the capped level of $51,000 is just the part that has to do with that pension benefit.

Mr. MILLARD. Right.

Mr. SARBANES. So with respect to the other piece, they are out of luck.

Mr. MILLARD. Well, it is not what PBGC does.

Mr. SARBANES. I understand. I understand that that is not what you do. I am just in constant quest of whether we actually have a real pension system in this country, and I keep finding evidence that we don't.

What is the best kind of scenario under which a company ends up coming to you to back them up? And what is the worst kind of scenario, from your standpoint?

Mr. MILLARD. Well, if a company is in distress, sometimes there are things that we can do to try to avoid having the PBGC take over the plan, and that is, in a sense, I don't want to say it is a good situation, but to answer your question, it is the better kind of situation.

So, for example, right now, Delphi is in bankruptcy, but they have kept their plans. Frequently, by the way, partly through the negotiations of PBGC, a company can be in bankruptcy, but we try to fight to have them exit bankruptcy with their plan still intact.

That is one of the most important things we can do, is to have a seat at the table to negotiate keeping that plan intact, so that the people who might not get their full benefit, in other words, the people whose pensions would be above $51,000, still can get the amount above. And, of course, secondly, so PBGC is not on the hook for the underfunded status.

So, in the Delphi case, we negotiated very, very hard between Delphi and General Motors to get General Motors to take part over part of the Delphi plan. We were successful in that. In our success in that, we reduced our exposure to Delphi by about $1 billion this year,

Mr. SARBANES. Let's take that example. Because if the fact that General Motors has now stepped in to assist or backstop the Delphi pension obligation is viewed by you as a positive, then what do you say about the fact that General Motors is now in serious condition?

Mr. MILLARD. Well, that almost gets to the part of your question. General Motors' pension plan, some of the information I have is confidential, but I would just say is reasonably well funded. So, obviously, the company is having tremendous difficulty. So I can't predict whether General Motors will file for bankruptcy ever or never. Obviously, I hope it is never. But their pension plan and the security of those workers involved is better today than it was before.

Mr. SARBANES. I don't understand a lot about this. But if General Motors pension plan is reasonably well-funded, are those funds sort of escrowed, segregated, somehow protected against being invaded by the other fortunes of the company, or is it sort of well-funded today, but tomorrow it may not be well-funded or protected?

Mr. MILLARD. Those are segregated funds. You put $100 in the pension plan. You are not able to take it out because business is going badly. You may have to put more in if the assets go down. You may have to put less in if those assets go up.

So, in other words, and I hate to use this example, but if General Motors were in bankruptcy, chances are PBGC would say whatever entity exits bankruptcy should keep this plan in tact, because if it is well funded, then keeping that plan alive is not going to be so difficult for that company that is exiting bankruptcy, and that is what we do all the time.

Dana and Dura are two auto parts companies in the last year or so that we did this successfully. We have had a run of about 13 auto parts companies that have been in bankruptcy and that we have helped negotiate to make sure those plans stay in tact upon exiting from bankruptcy, they can't just use the PBGC and the bankruptcy policy to shed those obligations.

Mr. SARBANES. Can I just ask one more question? What is the average percentage status of being funded that the plans that end up coming to you are at, if you understand my question?

Mr. MILLARD. Around 70 percent. It can change from year-to-year. But what I said in the beginning, we inherit sevens, but we owe tens. As a rule of thumb, it has been around 70 percent.

Mr. SARBANES. Has there been any trending on that or not? In other words——

Mr. MILLARD. Sorry, I misspoke. When they come to us, it is in the 50 to 60 percent range. We are about 70 percent funded. And no, there hasn't been much change in the level of funding of plans that come to us.

Mr. SARBANES. Are you expecting or projecting or modeling that you are going to start getting more funds coming to you that are at a lower percentage of the funded status?

Mr. MILLARD. Well, as I said before, it is more about industries than it is about specific funded status of companies. If I can give you an example, health care is an industry that we are concerned about, small hospitals in particular. So we are actually dealing with a lot of health care agencies in States and small hospitals to help them understand better their own pension obligations.

Hospitals are very thin margins. They are not-for-profits. They don't have as much money to put into their pension plans, and the nurses and the janitors who work there are depending on those hospitals, so we are looking across the country at hospitals to try to help them solve some of their problems. Not because of a measurement of how well-funded are they, but more because of the question of how is that industry doing? How are those hospitals in general doing?

Mr. SARBANES. Thank you.

Chairman MILLER. Thank you very much.

I want to thank you for coming this morning and testifying. We have had a spat, I know, about your testimony and documents, and some of the questions about documents remain, and I will pursue those.

I do have to say I appreciate your explanations, but I am not sure I am satisfied. Maybe it is witnessing the trauma in the community I represent and across the country of this particular economic downturn and the breadth of it.

I would say that diversification is not a defense in this downturn unless, of course, you are into Treasuries or something, and there the defense was simply to hold on to your own. People pay into the Treasury and take their money; it is not a great defense.

So I worry that we not cloak this policy, that may be legitimate. I disagree with it at the moment. I am not persuaded at this point, that those phrases have a different meaning today, and we have to recognize them in what may be a different market for a considerable period of time.

The concern is that losses that are unrealized become realized because of the demands of that market at the same time; I think that is what some of the critics of this plan have said. You have refuted that with your sense of history of how plans come to you or participants come to you.

But I think it is incumbent upon this committee to tease those efforts out. I mean, most people were quite stunned to see a $4 billion loss in this market in the PBGC. Those who are aware of your function realize you are sort of the last-stop pension plan for America's workers and the level of trust security that they imagine or assume, probably more to assume, is very, very high. I think those expectations have got to be met.

I appreciate that you want to characterize your losses at 6 percent, but in the part that is controversial here in terms of investment policy, the losses are 23 percent. So you don't necessarily stand out differently than many others, other State pension plans or public pension plans or others. Everybody is having a tough time right now. And I think it raises questions about that investment policy. It may be that you go forward and PBGC works out for them, or it is modified further. I hope there is some ongoing assessment based upon this market.

But, again, the previous panel and many of the economists commenting on the market and in other meetings, we had suggested that for individuals or for pension plans or for companies to recover those holdings could be considerable. I appreciate there is a lot of people running around today saying this is the bottom, this is the bottom, buy everything, buy, buy, buy, buy, and other people are saying no. As we found out prior to this crash, we were only back to where we were in 2000. So we went sideways. It took a long time to get there, and essentially, we ended upside ways where people were in 2000.

I find it interesting that just a few weeks before nationally recognizing the extent of the financial problems, the hottest words in foreign debt were BRICs. Now a lot of people don't know whether BRICs are going to survive, whether Russia, India and China are going to survive, their economies, in their current forms. One is considering going back to the IMF. Others are deciding whether or not they want to consider sort of thug capitalism or not.

But those were the havens a few weeks ago, and today they are gone, in the sense of presenting the kind of opportunity that people envision they would. So the trajectory around here is rather rapid, and I think that is why I have tried to insist upon a full airing of this policy.

I don't think we as a Congress can empower the GAO and the CBO and then say, well, that doesn't count. So we will have them back, and we will sort of figure this out, and people will make their decisions. But how long it takes and how long you have to carry this loss that doesn't reflect October and what that means down the road is going to be very important to America's working people.

A lot of people think that they are in a far more precarious position now than they have ever witnessed in their adult life, and I think that that means it is incumbent upon the government to be prudent about what we are doing in that context.

I am not suggesting you aren't. You have a game plan, and you have defended it. I am not sold at this point, but you are certainly entitled to your defense. But Wall Street and this country is littered with people that had game plans designed by the brightest people in the room, and some of them are on their way to jail. And some of them are on their way to wherever they go next.

But those old touchstones don't necessarily hold for the American public when they are thinking about their money, and most of all of this was done with other people's money. This was other people's money that was put into the securitization, put into the deficit swaps. This was all other people's money.

I appreciate the fees and commissions that have been exorbitant, but it was only enabled by other people's money, and a hell of a lot of it was people's pensions that they were relying on, where they have seen about $4 trillion stripped out of those assets in all the various pension and 401(k) plans that we have.

So it is my intent, with the consent of my members, that we are going to continue this discussion about this decision by PBGC, because I think in fact both the Congress and the country are entitled to have this laid out on the table to its fullest extent.

So I want to thank you very much for your defense of this, but we will continue to do this. I will leave the record open for that purpose, both for members and members of the public. Thank you.

With that, the committee will stand adjourned. I thank my colleagues for coming to participate in these hearings. I know it is a difficult time of year in terms of schedule, but we all know that we have an awful lot of work to do in the next few weeks and months.

Thank you. The committee is adjourned.

[Statements submitted by Members follow:]

Prepared Statement of Hon. Jason Altmire, a Representative in Congress From the State of Pennsylvania

Thank you, Chairman Miller, for holding this important hearing on economic recovery and job creation.

It is clear that the financial crisis is having an enormous impact on jobs and employment. More than 2.2 million American workers have lost their jobs in the past 12 months. New claims for unemployment benefits are at their highest rate since just after 9/11. This employment crisis is expected to grow. Employers have signaled that they will move to cut jobs and reduce costs in the face of a recession. Experts predict that the unemployment rate could be at 8 percent by the end of 2009.

I look forward to hearing from our witnesses about strategies for stimulating employment and job growth. I hope that we can work together to develop a plan that helps American workers on the road to economic recovery.

I also look forward to hearing from Pension Benefit Guaranty Corporation (PBGC) Director Charles Millard. The PBGC protects the pensions of nearly 44 million American workers and retirees. In this time of financial crisis, it is more important than ever to ensure that PBGC is fiscally sound.

Thank you again, Mr. Chairman, for holding this hearing.

Prepared Statement of Hon. Howard P. "Buck" McKeon, Senior Republican Member, Committee on Education and Labor

This year has been a difficult one for working families. The American economy has shed jobs month after month, and the stock market rollercoaster has shaken the confidence of investors and savers alike. It is clear that we need a bold and decisive plan to spur economic growth and job creation.

Unfortunately, the Democratic majority in Congress has failed to advance this type of pro-growth strategy. Instead, they have outlined an economic stimulus package that will cost upwards of $300 billion without providing the long term stability or job creation that our economy so desperately needs.

We know the ingredients necessary to economic recovery. We know that tax relief will help struggling consumers and job-creating American businesses, and we know that a long term strategy for energy independence will help keep energy costs down while putting Americans to work. We also know what won't work. We know that higher taxes on businesses are chasing American jobs overseas, and that American companies are now at a disadvantage compared to their international peers. We also know that big government programs can create more red tape and federal bureaucracy than actual good-paying American jobs.

There are some steps that should be taken—indeed, that we could have taken earlier this year, before we reached this point of economic distress—right here in the Education and Labor Committee. For instance, the Workforce Investment Act has not been renewed in a decade. In today's economy, it is absolutely imperative that we strengthen the job training programs under WIA, which help Americans who have lost their jobs or those seeking better employment to get the skills, training, and job placement assistance they need to re-enter the workforce.

The title of today's hearing is, "Building on Economic Recovery Package: Creating and Preserving Jobs in America." It's an appropriate focus for our committee, and for Congress. This hearing follows two prior in which we looked at a different angle on the current economic downturn, namely how it has impacted workers' retirement security. I would note that PBGC Director Charles Millard is offering testimony today, and I'm sure we'll take his findings and counsel into consideration alongside the witnesses who testified at our previous hearings on retirement security.

But with regard to the topic at hand today, I would say simply this: now is not the time for politics. It is not the time for partisan finger pointing. The question of how to create and preserve American jobs in a struggling economy is more than a political talking point; it is a question of the livelihood of real American families.

I hope today's hearing was called not as a means to score political points less than two weeks before an election, but in a genuine effort to foster a dialogue about pro-growth policies and economic recovery. I hope that we can reach across the aisle and work together to provide real reforms that create good jobs, lower energy costs, and allow our employers to compete. And I hope that today's hearing is not the final step but a first step in this process.

[Whereupon, at 12:53 p.m., the committee was adjourned.]

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