TAKE TWO: THE PRESIDENT'S PROPOSAL TO STIMULATE THE ECONOMY AND CREATE JOBS

HEARING

BEFORE THE

SUBCOMMITTEE ON REGULATORY AFFAIRS, STIMULUS OVERSIGHT AND GOVERNMENT SPENDING

OF THE

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TAKE TWO: THE PRESIDENT'S PROPOSAL TO STIMULATE THE ECONOMY AND CREATE JOBS

TUESDAY, SEPTEMBER 13, 2011

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON REGULATORY AFFAIRS, STIMULUS OVERSIGHT AND GOVERNMENT SPENDING,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:07 a.m. in room 2154, Rayburn House Office Building, Hon. Jim Jordan (chairman of the subcommittee) presiding.

Present: Representatives Jordan, Issa, Buerkle, DesJarlais, Kelly, Kucinich, and Cummings.

Staff present: Robert Borden, general counsel; Will L. Boyington, staff assistant; Molly Boyl, parliamentarian; Adam P. Fromm, director of Member services and committee operations; Linda Good, chief clerk; Tyler Grimm, professional staff member; Christopher Hixon, deputy chief counsel, oversight; Justin LoFranco, press assistant; Mark D. Marin, senior professional staff member; Becca Watkins, deputy press secretary; Jaron Bourke, minority director of administration; Lisa Cody, minority investigator; Kevin Corbin, minority staff assistant; Ashley Etienne, minority director of communications; Jennifer Hoffman, minority press secretary; Adam Koshkin, minority staff assistant; Lucinda Lessley, minority policy director; and Ellen Zeng, minority counsel.

Mr. JORDAN. The committee will come to order.

Today's hearing is on the President's job stimulus package that was just delivered to Congress yesterday.

We will start with an opening statement from the Chair and then from our friend and ranking member, Mr. Kucinich, then get right into testimony.

In early 2009, President Obama sold the stimulus as a solution to the recession and skyrocketing unemployment. The President worked with House and Senate Democrats to pass the stimulus as quickly as possible, promising that the unemployment rate would not go above 8 percent once the bill was passed.

The administration assailed critics by claiming there was a consensus amongst economists that a massive spending bill was in the country's best interest. The President and others claimed the stimulus would create 3 to 4 million new jobs. Yet, over two and a half years later, 1.7 million fewer Americans have jobs at a cost of $825 billion to taxpayers. The unemployment rate has climbed above 8 percent, as we all know. It was 8 percent the month the President signed the stimulus and stayed above that point ever since.

Currently, only 55 percent of Americans have full-time jobs and 25 million Americans are unemployed or cannot find full-time jobs. That is more than twice the population of the State the ranking member and I come from. Last month, the U.S. economy had zero job growth, the first month that has happened since the Second World War.

No matter how you look at the stimulus, it has simply failed to live up to the administration's promises. However, President Obama has never admitted any failure. Instead, he has continued to mislead the American people by praising the benefits of the stimulus package and at times, has claimed "it worked exactly as we anticipated." Now the President wants more.

Last Thursday, he announced he wanted a new $447 billion stimulus package. The President claimed that this new American Jobs Act will "provide a jolt to an economy that has stalled," almost the exact same language Vice President Biden used to describe the 2009 stimulus when he said it would provide a "necessary jolt to our economy."

We all know that the first stimulus did not provide that jolt but the similarities between 2009 and 2011 go beyond the administration's rhetoric. The Stimulus Part II contains many of the same spending priorities that failed to create jobs under the first one, throwing hundreds of billions of dollars in tax money around at ill advised projects that did not create jobs the first time and will not create jobs under a second so-called stimulus bill.

We need an honest discussion about our economy and not just rhetoric. Millions of unemployed Americans are depending on it. Before we consider the President's second package, we must examine the results of the first one to learn from them and to prevent ourselves from making the same mistakes.

I have said many times, if big government spending was going to get us out of this mess, for goodness sakes, we should have been out of it a long time ago. That is all the government has done for the last 3 years. You can even take that back to the previous administration to some degree. This administration has obviously taken it to a whole new level and as the facts point out, it does not work.

Instead of rushing to pass additional spending, we need to ensure that any new legislation is carefully crafted and actually facilitates job creation. Today's hearing brings together economic and financial experts from a wide array of backgrounds to discuss this so-called second stimulus. I hope this hearing will bring to bear what we have learned over the past several years and how we can move forward to create an environment favorable to job creation and economic growth, one that is conducive to job creation and not an impediment to that fact.

With that, I now recognize my good friend, the distinguished Member from Ohio, Mr. Kucinich.

Mr. KUCINICH. Thank you very much, Mr. Chairman.

The most recent figures paint a stark picture of the U.S. economy. Employers did not add any jobs in August and only 35,000 jobs were added over the last 3 months. Unemployment remains at

9.1 percent and although the economy added 2.4 million private sector jobs between February 2010 and July 2011, these gains were partially offset by the loss of 402,000 public sector jobs at the State and local level during the same period.

The problem we are facing is growth is too slow. The Economic Policy Institute just released a report that found there are approximately 11.1 million fewer jobs than needed and 6.8 million fewer jobs than when the recession started. To bring down the unemployment rate and to stay even with the adult population growth, our economy should be creating 400,000 jobs per month. As the EPI report notes, over the last 6 months, the economy has added only an average of 144,000 jobs each month. In August, most private sector jobs added were in social services or health care.

Mr. Chairman, I have several documents I would like to put into the record by unanimous consent. The first is the Paul Krugman analysis. Chairman Issa issued a staff report claiming that the entire stimulus failed. One of the key assertions in this report is that the stimulus somehow destroyed a million jobs. To support this conclusion, Chairman Issa's staff report cites a single study, one study, an analysis issued in May 2011 by researchers at Ohio State University. Unfortunately, this study has been widely discredited by economists because of its flawed methodology.

The first document I would like to enter into the record is an analysis by economist and Nobel laureate Paul Krugman called "Stupid Stimulus Tricks."

Mr. JORDAN. Without objection.

[The information referred to follows:]

The New York Times
The Conscience of a Liberal
PAUL KRUGMAN

MAY 18, 2011, 2:54 AM

Stupid Stimulus Tricks

So there's another the-stimulus-didn't-work paper (pdf) making the rounds, and as usual being seized on by people who have no idea what the issues are with this kind of estimation.

Basically I'm with both Dean Baker and Noah Smith here, but I thought I might add some more general discussion.

What this study claims to do is estimate the effect of the stimulus by looking at cross-state comparisons. So the first thing we should understand is just how difficult it is to do that.

Remember, the stimulus was not big compared with the economic downturn. The original Romer-Bernstein estimate was that it would, at peak, reduce unemployment by about 2 percentage points relative to what it would otherwise have been. And most of that effect was supposed to come through measures that would have been common to all states: tax cuts, transfer payments, etc.. At most, differences between predicted effects among states should have come to no more than a fraction of a percentage point off the unemployment rate.

Meanwhile, there were large differences in actual unemployment changes by state. Here's the change in the unemployment rate from 2007 to 2010:

BLSChange in unemployment from 2007 to 2010

Obviously there were factors other than the stimulus driving the great bulk of these differences. At the top are the "sand states" that had the biggest housing bubbles; at the bottom, cold places where nobody lives.

To tease any effect of the stimulus out of these interstate differences, if it's possible at all, would require very careful and scrupulous statistical work — and we'd like to see some elaborate robustness checks before buying into any results thereby found.

The latest anti-stimulus paper shows no sign of that kind of care. It makes no effort to control for the differential effects of bubble and bust. It uses odd variables on both the left and the right side of its equations. The instruments — variables used to correct for possible two-way causation — are weak and dubious. Dean Baker suspects data-mining, with reason; the best interpretation is that the authors tried something that happened to give the results they wanted, then stopped looking.

Really, this isn't the sort of thing worth wasting time over.

Mr. KUCINICH. I just want to cite one paragraph. It says, “So here is another the stimulus didn’t work paper making the rounds and as usual being seized upon by people who have no idea what the issues are with this kind of estimation. The instruments, variables used to correct for possible two-way causation are weak and dubious. The best interpretation is that the authors tried something that happened to give the results they wanted, then stopped looking. Really, this isn’t the sort of thing worth wasting time over.”

The second analysis I want to be made part of the official record is an analysis by Dean Baker. This is an analysis that also faults the methodology of the Ohio State University report.

Mr. JORDAN. Without objection.

[The information referred to follows:]

The Stimulus Did Not Create Jobs: The 35,496th Try

Written by Dean Baker
Tuesday, 17 May 2011 19:13

BOOKMARK

Yes, they are back again. We have another paper claiming that the stimulus did not create jobs. Timothy Conley and Bill Dupor, professors at Western Ontario University and Ohio State respectively, have a new study of state level employment that purports to show that the stimulus cost more jobs in the private sector than it created in the public sector. I'll just quickly note a few problems with the paper.

With an exercise like this, you always have to worry about the problem of cherry picking. It is very easy to run 1000 regressions in an hour. Inevitably, you find 4 or 5 of these 1000 that show you almost anything. (Our standard of significance is a result that you would not get by random chance more than 10 times in a hundred. This means that if you ran 1000 regressions of things that had nothing to do with each other, you would expect 100 of them to have statistically significant results.)

For this reason, you usually want to run your regressions a variety of different ways to show that the results do not depend on some arbitrary specification. It doesn't look like they have done this, or at least they did not show much evidence of such robustness tests in their paper.

Their results depend on pulling out four private sector industry groups (lumped together) and measuring the stimulus against trend job growth in these industries. Even for these four industry groups , most of the results are only marginally significant. It is clear from their tables that if they took all private sector jobs, their results would be insignificant. So, how did they decide on lumping these four industry groups together? It certainly is not a standard break out. It does raise a suspicion that they ran many different regressions and then discovered that they got the results they wanted with these four industries lumped together.

There are many other peculiar items here. Their instrumental variable for stimulus spending is very strange. While it makes some sense, it would be interesting to see how the results are affected by using other equally plausible instruments. They do some sensitivity analysis here, but not nearly as much as I would like to see.

What about the length of the employment trends used in the analysis? It would be interesting to see if the results are sensitive to this, especially when we had such an extraordinary period. Did they test for different trend lengths? If they did, they didn't show it.

They also have the peculiar result that in one specification they find no significant effect of stimulus on public sector job creation, yet do find a significant loss of jobs in the private sector. Both sides of this are troubling. It really is hard to believe that the stimulus did not even create jobs (or prevent job loss) in the public sector. What exactly did those boneheads do with the money, eat it? In you didn't find that the stimulus created jobs in the public sector, then it seems likely that your instrumental variable is not capturing the effect of the stimulus very well.

The other problem is that their story of private sector job loss depends on the stimulus actually creating jobs in the public sector. Their story is that the stimulus employed people in the public sector who otherwise would have been employed in the private sector. If the stimulus didn't actually employ any one in the public sector, then how do we explain the job loss in the private sector?

It also would have been nice to see a variable for the drop in house prices by state. The economics profession as a whole was too thick to notice the $8 trillion housing bubble on the way up, or to realize that its collapse would have any impact on the economy. Now that the collapse of this bubble has led to the worst downturn since the Great Depression, one might think that economists would finally start paying attention to it.

Helene Jorgensen and I ran a few regressions on employment that had the decline in house prices as an independent variable. The results were highly significant in every specification. A few are shown here. (We controlled for reverse causation by taking the price decline in the period prior to the big plunge in employment.) At this point, it should be economic malpractice to run state employment regressions without including a housing price variable.

One last point that is very peculiar, they divided the stimulus by state spending rather than state population or GDP. This implies that $1 billion in stimulus spending should create more jobs in a state with a small budget than a large budget. I can't see any reason why this would be the case.

In short, there are many unusual aspects to this analysis and very little effort to determine whether these quirks are driving the results. For my money the analysis by Feyrer and Sacerdot is a far more serious effort to measure the state by state effects of the stimulus. I have a short discussion of the paper here.

Mr. KUCINICH. I just want to quote a paragraph in there that says, “With an exercise like this,” talking about the report, “you always have to worry about the problem of cherry picking. For this reason, you usually want to run your regressions a variety of different ways to show the results do not depend on some arbitrary specification. It doesn’t look like they’ve done this or at least they didn’t show much evidence of such robust tests in their paper.”

Finally, the CBO report, I ask unanimous consent that this be entered into the record.

Mr. JORDAN. Without objection.

[The information referred to follows:]

CBO

Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output from April 2011 Through June 2011

August 2011

CONGRESSIONAL BUDGET OFFICE
SECOND AND D STREETS, S.W.
WASHINGTON, D.C. 20515

Preface

The American Recovery and Reinvestment Act of 2009 (ARRA) contains provisions that are intended to boost economic activity and employment in the United States. Section 1512(e) of the law requires the Congressional Budget Office (CBO) to comment on reports filed by recipients of ARRA funding that detail the number of jobs funded through their activities. This CBO report fulfills that requirement. It also provides CBO's estimates of ARRA's overall impact on employment and economic output in the second quarter of calendar year 2011. Those estimates—which CBO considers more comprehensive than the recipients' reports—are based on evidence from similar policies enacted in the past and on the results of various economic models.

Benjamin Page and Felix Reichling of CBO's Macroeconomic Analysis Division wrote the report under the supervision of Wendy Edelberg and William Randolph. Jared Brewster, Mark Lasky, and Joshua Shakin contributed to the analysis. John Skeen edited the report, Jeanine Rees prepared it for publication, Monte Ruffin printed it, and Linda Schimmel handled the distribution. This report, along with previous reports on the topic, is available on CBO's Web site (www.cbo.gov)

Douglas W. Elmendorf

Douglas W. Elmendorf
Director

August 2011

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Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output from April 2011 Through June 2011

In February 2009, in response to significant weakness in the economy, lawmakers enacted the American Recovery and Reinvestment Act (ARRA). The legislation's numerous spending and revenue provisions can be grouped into several categories according to their focus:

- Providing funds to states and localities—for example, by raising federal matching rates under Medicaid, providing aid for education, and increasing financial support for some transportation projects;
- Supporting people in need—such as by extending and expanding unemployment benefits and increasing benefits under the Supplemental Nutrition Assistance Program (formerly the Food Stamp program);
- Purchasing goods and services—for instance, by funding construction and other investment activities that could take several years to complete; and
- Providing temporary tax relief for individuals and businesses—such as by raising exemption amounts for the alternative minimum tax, adding a new Making Work Pay tax credit, and creating enhanced deductions for depreciation of business equipment.

When ARRA was being considered, the Congressional Budget Office (CBO) and the staff of the Joint Committee on Taxation estimated that it would increase budget deficits by $787 billion between fiscal years 2009 and 2019. CBO now estimates that the total impact over the 2009–2019 period will amount to about $825 billion. By CBO's estimate, close to half of that impact occurred in fiscal year 2010, and about 85 percent of ARRA's budgetary impact was realized by the end of June 2011.

Various recipients of ARRA funds (most recipients of grants and loans, contractors, and subcontractors) are required to report, after the end of each calendar quarter, the number of jobs funded through ARRA. The law also requires CBO to comment on those reported numbers.[1]

During the second quarter of calendar year 2011, according to recipients' reports, ARRA funded more than 550,000 full-time-equivalent (FTE) jobs.[2] Those reports, however, do not provide a comprehensive estimate of the law's impact on U.S. employment, which could be higher or lower than the number of FTE jobs reported, for several reasons (in addition to any issues concerning the quality of the reports' data).[3] First, some of the jobs

1. Public Law 111-5, sections 1512(c) and 1512(e); 123 Stat. 115, 288. This report is the eighth in CBO's series of quarterly reports. For the previous report, see Congressional Budget Office, *Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output from January 2011 Through March 2011* (May 2011).
2. Data compiled from recipients' reports (on jobs funded and other information) are shown at www.recovery.gov. Recipients were asked to calculate FTEs by taking the total number of hours worked in a quarter that were funded by ARRA and dividing the total by the number of hours that a full-time employee would have worked in that quarter.
3. For a discussion of data quality, see Government Accountability Office, *Recovery Act: Opportunities to Improve Management and Strengthen Accountability over States' and Localities' Uses of Funds*, GAO-10-999 (September 2010), www.gao.gov/new.items/d10999.pdf.

included in the reports might have existed even without the stimulus package, with employees working on the same activities or other activities. Second, the reports cover employers that received ARRA funding directly and those employers' immediate subcontractors (the so-called primary and secondary recipients of ARRA funding) but not lower-level subcontractors. Third, the reports do not attempt to measure the number of jobs that were created or retained indirectly as a result of recipients' increased income, and the increased income of their employees, which could boost demand for other products and services as they spent their paychecks. Fourth, the recipients' reports cover only certain ARRA appropriations, which encompass about one-fifth of the total either spent by the government or conveyed through tax reductions in ARRA; the reports do not measure the effects of other provisions of the stimulus package, such as tax cuts and transfer payments (including unemployment insurance payments) to individual people.

Estimating the law's overall effects on employment requires a more comprehensive analysis than can be achieved by using the recipients' reports. Therefore, looking at recorded spending to date along with estimates of the other effects of ARRA on spending and revenues, CBO has estimated the law's impact on employment and economic output using evidence about the effects of previous similar policies and drawing on various mathematical models that represent the workings of the economy. On that basis, CBO estimates that ARRA's policies had the following effects in the second quarter of calendar year 2011 compared with what would have occurred otherwise:

- They raised real (inflation-adjusted) gross domestic product (GDP) by between 0.8 percent and 2.5 percent,
- Lowered the unemployment rate by between 0.5 percentage points and 1.6 percentage points,
- Increased the number of people employed by between 1.0 million and 2.9 million, and
- Increased the number of full-time-equivalent jobs by 1.4 million to 4.0 million, as shown in Table 1. (Increases in FTE jobs include shifts from part-time to full-time work or overtime and are thus generally larger than increases in the number of employed workers.)

The effects of ARRA on output peaked in the first half of 2010 and have since diminished, CBO estimates. The effects of ARRA on employment and unemployment are estimated to lag slightly behind the effects on output; CBO estimates that the employment effects began to wane at the end of 2010 and continued to do so in the second quarter of 2011. Still, CBO estimates that, compared with what would have occurred otherwise, ARRA will raise real GDP in 2012 by between 0.3 percent and 0.8 percent and will increase the number of people employed in 2012 by between 0.4 million and 1.1 million.

CBO's current estimates reflect small revisions to its previous projections of the timing and magnitude of changes to federal revenues and spending under ARRA.

Although CBO has examined data on output and employment during the period since ARRA's enactment, those data are not as helpful in determining ARRA's economic effects as might be supposed because isolating the effects would require knowing what path the economy would have taken in the absence of the law. Because that path cannot be observed, the new data add only limited information about ARRA's impact. (For a list of recent research that analyzes the economic effects of ARRA, see the appendix.)

Measuring ARRA's Impact Using Recipients' Reports

ARRA requires primary and secondary recipients of more than $25,000 from appropriations made under the law to report a variety of information each calendar quarter. That group includes most grant and loan recipients, contractors, and subcontractors, but it excludes individual people. The information to be submitted includes the amount of funding received and spent; the name, description, and completion status of the project or activity funded; the number of jobs funded; and, for investments in infrastructure, the purpose and cost of the investment. Recipients who filed second-quarter reports in July 2011 reported the number of jobs on

Table 1.

Estimated Macroeconomic Impact of the American Recovery and Reinvestment Act, 2009 to 2012

	Change Attributable to ARRA							
	Real Gross Domestic Product (Percent)		Unemployment Rate (Percentage points)		Employment (Millions of people)		Full-Time-Equivalent Employment (Millions)[a]	
	Low Estimate	High Estimate	Low Estimate	High Estimate	Low Estimate	High Estimate	Low Estimate	High Estimate
	2009 (Calendar Year Quarter)							
Q1	0.1	0.1	*	*	*	*	*	0.1
Q2	0.8	1.4	-0.2	-0.3	0.3	0.5	0.4	0.7
Q3	1.2	2.5	-0.3	-0.6	0.6	1.2	0.9	1.7
Q4	1.5	3.4	-0.5	-1.1	0.9	1.9	1.4	2.8
	2010 (Calendar Year Quarter)							
Q1	1.8	4.4	-0.7	-1.5	1.3	2.8	1.8	4.0
Q2	1.7	4.6	-0.8	-1.9	1.4	3.4	2.0	4.9
Q3	1.4	4.1	-0.8	-2.0	1.4	3.6	2.0	5.2
Q4	1.1	3.5	-0.7	-1.9	1.3	3.5	1.8	5.0
	2011 (Calendar Year Quarter)							
Q1	1.1	3.2	-0.6	-1.8	1.2	3.3	1.6	4.7
Q2	0.8	2.5	-0.5	-1.6	1.0	2.9	1.4	4.0
Q3	0.7	2.1	-0.5	-1.3	0.8	2.5	1.1	3.4
Q4	0.4	1.4	-0.3	-1.1	0.6	2.0	0.8	2.6
	2012 (Calendar Year Quarter)							
Q1	0.3	1.0	-0.3	-0.8	0.5	1.5	0.6	2.0
Q2	0.3	0.9	-0.2	-0.6	0.4	1.2	0.4	1.4
Q3	0.3	0.7	-0.2	-0.5	0.3	1.0	0.3	1.1
Q4	0.2	0.6	-0.1	-0.4	0.3	0.8	0.2	0.8
	Calendar Year Average							
2009	0.9	1.9	-0.3	-0.5	0.5	0.9	0.7	1.3
2010	1.5	4.2	-0.7	-1.8	1.3	3.3	1.9	4.8
2011	0.8	2.3	-0.5	-1.4	0.9	2.7	1.2	3.7
2012	0.3	0.8	-0.2	-0.6	0.4	1.1	0.4	1.3

Source: Congressional Budget Office.

Note: * = Between -0.05 and 0.05.

a. A year of full-time-equivalent employment is 40 hours of employment per week for one year.

the basis of the number of employee hours paid for with ARRA funds in the quarter.[4]

4. Specifically, recipients were instructed to calculate the number of FTE jobs funded through ARRA by counting the total number of hours worked that were funded by ARRA during the second quarter, divided by the number of hours in a full-time schedule for a quarter. For details and examples, see Office of Management and Budget, "Recovery FAQs for Federal Contractors on Reporting," www.whitehouse.gov/omb/recovery_faqs_contractors/#report15.

According to those reports, 550,621 full-time-equivalent jobs were funded by ARRA during the second quarter.[5] However, the reported number of jobs funded is not a comprehensive measure of ARRA's effect on overall

5. For the number of jobs by agency, see "Top Agencies, as Reported by Recipients (Apr 1–June 30, 2011)," www.recovery.gov/Pages/TextView.aspx?data=jobSummaryAgency&topnumber=200&qtr=2011Q2.

employment, or even of those provisions of ARRA for which recipients' reports are required. The actual impact could, in principle, be significantly larger or smaller than the number of jobs reported.

If, for example, recipients' reports include employment that would have occurred without ARRA, the impact on employment suggested by the reports could be too great. Some people whose employment was attributed to ARRA might have worked on other activities in the absence of the law—for example, a business might have bid on other projects if its resources had not been committed to projects funded by ARRA. In the case of government employees, state or local taxes might have been raised in the absence of ARRA funding (or transfer payments might have been reduced) to pay for some of the jobs that were counted as funded by ARRA.

Conversely, the reported figure could be too low because the reporting requirement is limited to primary and secondary recipients of funds and thus excludes lower-level recipients, such as subcontractors hired by a main subcontractor. Thus, if expenditures under ARRA led to increases in employment among lower-level subcontractors and vendors, those effects would be missed by the reports.

Recipients' reports also do not include indirect effects that could increase or decrease the impact on employment. Among those effects are potential declines in employment in other businesses or economic sectors as demand shifts toward the recipients of ARRA funding—a phenomenon often called the "crowding out" effect of government policies. Conversely, spending under ARRA could lead to higher employment at companies that are not directly connected to that spending—for example, because of additional purchases made by people who would be unemployed were it not for ARRA funds. CBO estimates that, under current conditions, the positive indirect effects outweigh the negative indirect effects. Taken together, in CBO's estimation, ARRA's indirect effects boost the law's impact on economic output and employment.

Finally, the recipients' reports reflect only about one-fifth of the total amount of spending increases or tax reductions that are attributable to ARRA's provisions. The reports cover direct government purchases of goods and services, grants and loans to private entities, and some grants to states and localities, but they do not cover tax cuts or increases in transfer payments to individuals. The tax reductions and spending that are not covered by the recipients' reports probably had substantial effects on purchases of goods and services and, therefore, on employment.

Measuring ARRA's Impact Using Economic Models and Historical Data

CBO used various economic models and historical data to guide its estimate of the way in which output and employment are affected by increases in outlays and reductions in revenues under ARRA. CBO's assessment is that different elements of ARRA (such as particular types of tax cuts, transfer payments, and government purchases) have had different effects on economic output per dollar of higher spending or lower tax receipts. Multiplying estimates of those per-dollar effects by the dollar amounts of each element of ARRA yields an estimate of the law's total impact on output. To produce estimates of ARRA's total impact on employment, CBO combined that estimate with estimates of how changes in output affect the unemployment rate and participation in the labor force.

CBO's Modeling Approach

CBO used evidence from models and historical relationships to determine estimated "multipliers" for each of several categories of spending and tax provisions in ARRA, as shown in Table 2. Each multiplier represents the estimated direct and indirect effects on the nation's output of a dollar's worth of a given policy. Therefore, a provision's multiplier can be applied to the budgetary cost of that provision to estimate its overall impact on output.

Direct effects consist of immediate (or first-round) effects on economic activity. Government purchases of goods and services directly add to the nation's output on a dollar-for-dollar basis. For reductions in taxes, increases in transfer payments, and increases in aid to state and local governments, the size of the direct effect depends on the policy's impact on the behavior of recipients. If someone receives a dollar in transfer payments and spends 80 cents (saving the other 20 cents), production increases over time to meet the additional demand generated by that spending, and the direct impact on output is 80 cents. Similarly, if a dollar in aid to a state government leads that government to spend 50 cents more on employees' salaries (but causes no other changes in state spending or revenues, with the other 50 cents used to reduce borrowing or build up rainy-day funds), the direct impact on output is 50 cents.

CBO reviewed evidence on the responses of households, businesses, and governments to various types of tax cuts and transfer payments to estimate the size of those policies' direct effects on output.[6] For example:

- A one-time cash payment is likely to have less impact on a household's purchases than is a longer-lasting change to disposable income because the one-time payment has a smaller effect on total lifetime disposable income.

- Increases in disposable income are likely to boost purchases more for lower-income than for higher-income households. That difference arises, at least in part, because a larger share of people in lower-income households cannot borrow as much money as they would wish in order to spend more than they do currently.

- Changes to corporate taxes that primarily affect after-tax profits on past investment generally have a smaller impact on output than do policies that alter the return from new investment.

Government policies also can have indirect effects that enhance or offset the direct effects. Direct effects are enhanced when, for example, a government policy creates jobs and those who are hired use their income to boost consumption. Direct effects also are enhanced when greater demand for goods and services prompts companies to increase investment to bolster their future production.

In the other direction, substantial government spending can cause a shift in resources (including employees) away from production in other businesses and sectors to government-funded projects. That indirect crowding-out effect could cause growth in employment among recipients of ARRA funding to be offset by declines in employment elsewhere in the economy. Increases in interest rates are one possible mechanism for such crowding out: Higher interest rates discourage spending on investment and on durable goods such as cars because they raise the cost of borrowing. However, because the Federal Reserve has kept short-term interest rates very low, that mechanism does not appear to have been an important factor through the second quarter of 2011. By another mechanism for crowding out, activities funded by ARRA could reduce production elsewhere in the economy if they used scarce materials or workers with specific skills, creating bottlenecks that hindered other activities. That effect, too, was probably much smaller in the past two years than it might have been otherwise because of high unemployment and a large amount of unused resources (as well as the diversity of activities funded under ARRA).

In estimating the magnitude of indirect effects, CBO relied heavily on estimates from macroeconometric forecasting models, informed by evidence from other types of models and from direct estimation using historical data. (For more details about those sources of information, see the appendix.)

CBO grouped the provisions of ARRA into general categories and assigned high and low multipliers to each. The ranges between high and low were chosen judgmentally to encompass most economists' views about the direct and indirect effects of different policies. The multipliers indicate the cumulative impact of policies on GDP over several quarters, and they should be understood to apply to periods when the Federal Reserve is holding short-term interest rates about as low as possible and would not tighten monetary policy in response to a fiscal stimulus, as over the past two years. For instance, CBO estimates that a one-time increase of $1 in federal purchases of goods and services in one calendar quarter last year raised GDP above what it would have been otherwise by a total of $1 to $2.50 over several quarters. That cumulative multiplier of $2.50 at the high end of the range comprises increases in GDP of roughly $1.45 in the quarter when the federal spending occurred, roughly 60 cents in the following quarter, and roughly 45 cents in later quarters combined. By the end of 2015, when monetary policy is assumed to be fully responsive to fiscal stimulus, the estimated multipliers would be reduced by two-thirds.

The multipliers are applied to outlays when they occur and to changes in taxes or transfer payments when they affect disposable income. CBO's estimates, therefore,

6. On household spending, for example, see Jonathan A. Parker and others, *Consumer Spending and the Economic Stimulus Payments of 2008*, Working Paper 16684 (Cambridge, Mass.: National Bureau of Economic Research, January 2011); Matthew D. Shapiro and Joel Slemrod, "Did the 2008 Tax Rebates Stimulate Spending?" *American Economic Review*, vol. 9, no. 2 (May 2009), pp. 374–379; Sumit Agarwal, Chunlin Liu, and Nicholas S. Souleles, "The Reaction of Consumer Spending and Debt to Tax Rebates: Evidence from Consumer Credit Data," *Journal of Political Economy*, vol. 115, no. 6 (December 2007), pp. 986–1019; and David S. Johnson, Jonathan A. Parker, and Nicholas S. Souleles, "Household Expenditure and the Income Tax Rebates of 2001," *American Economic Review*, vol. 96, no. 5 (December 2006), pp. 1589–1610.

Table 2.

Estimated Output Multipliers of Major Provisions of the American Recovery and Reinvestment Act of 2009

Type of Activity	Estimated Output Multipliers[a] Low Estimate	High Estimate	Major Provisions of ARRA
Purchases of Goods and Services by the Federal Government	1.0	2.5	Division A, Title II: Other; Title IV: Energy Efficiency and Renewable Energy; Title IV: Innovative Technology Loan Guarantee Program; Title IV: Other Energy Programs; Title V: Federal Buildings Fund; Title VIII: National Institutes of Health; Title VIII: Other Department of Health and Human Services
Transfer Payments to State and Local Governments for Infrastructure	1.0	2.5	Division A, Title VII: Clean Water and Drinking Water State Revolving Funds; Title XI: Other Housing Assistance; Title XII: Highway Construction; Title XII: Other Transportation
Transfer Payments to State and Local Governments for Other Purposes	0.7	1.8	Division A, Title VIII: Education for the Disadvantaged; Title VIII: Special Education; Title IX: State Fiscal Stabilization Fund; Division B, Title V: State Fiscal Relief Fund
Transfer Payments to Individuals	0.8	2.1	Division A, Title I: Supplemental Nutrition Assistance Program; Title VIII: Student Financial Assistance; Division B, Title I: Refundable Tax Credits;[b] Title II: Unemployment Compensation; Title III: Health Insurance Assistance[c]
One-Time Payments to Retirees	0.3	1.0	Division B, Title II: Economic Recovery Payments
Two-Year Tax Cuts for Lower- and Middle-Income People	0.6	1.5	Division B, Title I: Making Work Pay Credit; American Opportunity Tax Credit
One-Year Tax Cut for Higher-Income People	0.2	0.6	Increase in Individual AMT Exemption Amount
Extension of First-Time Homebuyer Credit	0.3	0.8	Extension of First-Time Homebuyer Credit

Continued

account for the different rates of spending for various types of appropriations and, similarly, for the timing of different tax cuts or transfer payments. In some cases, when different elements of a single provision were estimated to have different multipliers, the total cost of a provision was divided among more than one category. In those cases, the provision is shown in Table 2 in the category to which most of its budgetary cost applied. Provisions that affect outlays (including refundable tax credits) are identified by the same names used in CBO's cost estimate for the conference agreement on ARRA.[7] Provisions that affect revenues are identified by the names used in the revenue estimate prepared by the staff of the Joint Committee on Taxation for the same legislation.[8]

The ranges for multipliers in Table 2 are unchanged from those that CBO has used in its analysis of the economic effects of ARRA since early 2010. Although CBO has

7. See Congressional Budget Office, cost estimate for the conference agreement for H.R. 1, the American Recovery and Reinvestment Act of 2009 (February 13, 2009).

8. See Joint Committee on Taxation, *Estimated Budget Effects of the Revenue Provisions Contained in the Conference Agreement for H.R. 1*, JCX-19-09 (February 12, 2009), www.jct.gov/x-19-09.pdf.

Table 2. Continued

Estimated Output Multipliers of Major Provisions of the American Recovery and Reinvestment Act of 2009

Type of Activity	Estimated Output Multipliers[a] Low Estimate	High Estimate	Major Provisions of ARRA
Corporate Tax Provisions Primarily Affecting Cash Flow	0	0.4	Deferral and Ratable Inclusion of Income Arising from Business Indebtedness Discharged by the Reacquisition of a Debt Instrument; Clarification of Regulations Related to Limitations on Certain Built-In Losses Following an Ownership Change; Recovery Zone Bonds; Qualified School Construction Bonds

Source: Congressional Budget Office.

Notes: Provisions affecting outlays (including refundable tax provisions) are identified by the same names used in CBO's cost estimate for the conference report on H.R. 1. Provisions affecting revenues—all of which are included in Title I of the American Recovery and Reinvestment Act (ARRA)—are identified by the names used in the Joint Committee on Taxation's (JCT's) estimate (see www.house.gov/jct/x-19-09.pdf).

Some provisions include individual elements that have different multipliers, by CBO's estimate; in those cases, the provisions are listed with the multiplier used for the majority of the 2009–2019 budgetary cost.

The economic impact of three tax provisions with budgetary costs over $5 billion was analyzed using a different methodology, and their effects cannot easily be summarized by a multiplier. Those provisions were titled "Extend by Three Years the Placed-In-Service Date for Each Section 45 Qualified Facility" and "One-Year Extension of Special Allowance for Certain Property Acquired During 2009" in JCT's estimate and "Health Information Technology" in CBO's estimate. Some other provisions, with total budgetary costs of less than $7 billion, were included in the analysis but are not shown in the table.

AMT = alternative minimum tax.

a. The output multiplier is the cumulative impact of spending under the provisions on gross domestic product over several quarters. The ranges shown in the table assume that the Federal Reserve is holding short-term interest rates about as low as possible and would not tighten monetary policy in response to a fiscal stimulus.

b. This provision was previously listed under "Two-Year Tax Cuts for Lower- and Middle-Income People," but this report and CBO's previous reports about ARRA have treated that provision as having the same economic impact as transfer payments to individuals.

c. This provision is a reduction in taxes, but it is treated as having the same economic impact as transfer payments to individuals.

continued to review research on the economic impact of various government policies—and some new research has emerged—CBO judges that the evidence, taken as a whole, continues to support roughly the same ranges for multipliers.

The estimates of ARRA's effects on output were translated into estimates of the effects on the unemployment rate, total employment, and FTE employment in a series of steps. First, the impact on the output gap—the percentage difference between actual and potential output—was calculated.[9] Next, the effect of the change in the output gap on the unemployment rate was estimated using the historical relationship between those two measures.[10] Then, the effect of changes in the unemployment rate on the labor force was taken into account: If unemployment declines and the economic environment improves, discouraged workers and people who have chosen to pursue activities such as education rather than work will tend to return to the labor force. Together, the estimated effect on the unemployment rate and the effect on the labor force were used to estimate the impact on the number of people employed. The change in FTE employment was then estimated using the historical relationship between changes in hours per employed worker and changes in the

9. Potential output is the level of production that corresponds to a high rate of use of labor and capital.

10. Changes in the output gap affect unemployment gradually over several quarters. Initially, part of a rise in output shows up as higher productivity and hours per worker rather than as reduced unemployment.

gap between the unemployment rate and CBO's estimate of the natural rate of unemployment.[11] Because higher spending and lower taxes can affect output and unemployment for some time after they occur, the impact of ARRA on employment in the second quarter of 2011 depended partly on the law's effect on spending and revenues in previous years.

A key advantage of the model-based approach used in this analysis is the ability to provide estimates of the total effects throughout the economy of the government spending, transfer payments, and tax cuts resulting from ARRA. By focusing on the net change in employment, that approach captures both the jobs created and the jobs retained as a result of ARRA.

A key disadvantage of the model-based approach is the considerable uncertainty about many of the economic relationships that are important in the modeling. Because economists differ on which analytical approaches provide the most convincing evidence about such relationships, they can reach different conclusions about those relationships. In addition, each study involves uncertainty about the extent to which the results reflect the true effects of a given policy or the effects of other factors. For those reasons, CBO provides ranges of estimates of ARRA's economic effects that are intended to encompass most economists' views and thereby reflect the uncertainty involved in such estimates.

11. The natural rate of unemployment is the rate that arises from all sources except cyclical fluctuations in economywide demand for goods and services.

Change from CBO's Previous Estimates of the Impact of ARRA

The current estimates of the impact of ARRA on output in the second quarter of calendar year 2011 are slightly smaller than those presented in May 2011. Although CBO modestly increased its estimate of ARRA's impact on federal spending in 2011 (mostly reflecting slightly higher estimates of outlays this year for energy efficiency and education programs), the agency also shifted estimated federal spending by small amounts between quarters of the year.

The current estimates of the impact of ARRA on output and employment in 2012 are larger than those presented in May 2011. Although CBO slightly lowered its estimate of ARRA's impact on federal spending in 2012, the agency also changed its assumptions about future actions by the Federal Reserve. CBO now anticipates that the Federal Reserve will keep the federal funds rate close to zero through the fourth quarter of 2013, whereas previously, CBO had expected the Federal Reserve to begin raising the federal funds rate at the end of 2011. Under the prior assumption, the direct boost to the demand for goods and services provided by ARRA in 2012 would have been partly offset by slightly faster increases in interest rates; under the current assumption, that dampening effect does not occur.

Appendix: Evidence on the Economic Effects of Fiscal Stimulus

The Congressional Budget Office (CBO) based its estimates of the economic effects of the American Recovery and Reinvestment Act of 2009 (ARRA) on information from various sources: macroeconometric forecasting models, general-equilibrium models, and direct extrapolations of past data. Macroeconometric forecasting models incorporate relationships among aggregate economic variables that are based largely on historical evidence. General-equilibrium models, by contrast, are built on explicit assumptions about the decisionmaking of individual people and businesses. Direct extrapolations of past data are generally based on correlations among economic variables in the past or on the effects of specific types of policy events in the past.[1]

Macroeconometric Forecasting Models

In analyzing ARRA's economic effects, CBO drew heavily on versions of the commercial forecasting models of two economic consulting firms, Macroeconomic Advisors and Global Insight, and on the FRB-US model used at the Federal Reserve Board. Those models assume that the economy has an underlying potential output determined by the size of the labor supply, the capital stock, and technology. They also assume that actual output can change relative to potential output because of shifts in aggregate demand for goods and services from households, businesses, and the government. With those basic assumptions, the details of interactions among economic variables in the models are based largely on historical relationships, informed by theories of how those variables are determined (for example, the theory that total consumption depends mostly on disposable income, wealth, and interest rates).[2] Because they emphasize the influence of aggregate demand on output in the short run, the macroeconometric forecasting models tend to predict greater economic effects from demand-enhancing policies such as ARRA than some other types of models do.

Macroeconometric forecasting models of this sort are used widely, and they underlie most of the forecasts offered to the clients of economic consulting firms. In addition, the models that CBO uses generally produce results that are roughly in line with the consensus of private-sector forecasters, as compiled in the *Blue Chip Economic Indicators*. However, some analysts criticize this sort of model for being based on historical relationships among aggregate economic variables, such as income and consumption, rather than being built up from clearly specified rules governing the behavior of households and businesses. In particular, some critics argue that models based on historical relationships will not provide accurate predictions in the face of new policies or new circumstances. Partly to address that concern, CBO presents a range of possible effects rather than a single number for each economic variable.

To reflect current economic conditions—in which there is considerable uncertainty about the financial and economic outlook and in which short-term interest rates are low and are expected to remain so for some time—CBO altered the models' usual formulation to reduce the extent to which interest rates respond to increases in output.[3] Under more normal economic conditions, higher interest rates would offset roughly two-thirds of the cumulative impact of stimulative policies on gross domestic product over two years.[4]

General-Equilibrium Models

Some skeptics of the efficacy of stimulus have cited the results of an alternative class of models, which tend to imply more modest economic effects from such policies. In those models, people are assumed to make decisions about how much to work, buy, and save on the basis of current and expected future values of the wage rate, interest rates, taxes, and government purchases, among other things. In the basic form of such models, stimulative policies tend to crowd out a significant amount of other economic activity, and multipliers tend to be less than 1—meaning that such policies have less than a dollar-for-dollar impact on output.

Some analysts favor the rigor of that approach to modeling behavior; however, for several reasons, others view this class of models as not well-suited to analyze the effects of countercyclical fiscal policy. In particular, this class of model does not typically incorporate involuntary unemployment: In such models, people can work as many hours as they choose at the wage rate determined by the market. In addition, this type of model is generally predicated on the assumption that people are fully rational and forward-looking, basing their current decisions on a full lifetime plan. The extreme version of the forward-looking assumption implies that people expect eventually to pay for any increased government spending or reduced revenues in the form of tax increases and that they incorporate those expected payments—even if beyond their own lifetimes—into their current spending plans. Thus, they are assumed to curtail their consumption when government spending rises because their lifetime income and that of their heirs have fallen by the amount of the eventual taxes. For the same reason, in such models, cash transfer payments and tax refunds have little or no effect on current consumption. People also are generally assumed to have full access to credit markets, so they can borrow to maintain consumption in the face of a temporary loss of income. Finally, in these models, monetary policy often follows the rule that increased output or inflation implies higher inflation-adjusted interest rates, an assumption that does not correspond to current conditions, in which interest rates are low and expected to remain so for some time.

Recent research has shown that relaxing some of those modeling assumptions can result in much higher multipliers.[5] CBO has incorporated the results of that research into its view of the effects of government policies. However, the research results appear to be too dependent on particular assumptions for CBO to rely on them heavily.

Extrapolations from Historical Data

Another type of research uses historical data to directly project how government policies will affect the economy on the basis of how economic variables such as output and consumption have behaved in the past relative to government spending and revenues. However, estimates of economic effects from this research vary widely and are sensitive to the period and estimation strategy used.[6] Many estimates of this sort suggest that crowding-out effects dominate in the case of government purchases so that the impact on output tends to be less than one-for-one and tends to diminish over time. Some estimates, however, suggest multipliers higher than the range estimated by CBO. Multipliers for tax cuts are generally estimated to be higher than those for spending and to grow over time.[7]

One pitfall of this approach is that the direction of causation between policies and the economy is not always clear. For example, poor economic conditions can prompt the government to enact policies such as ARRA in an effort to boost economic activity. If weak economic performance led to such a policy, it would not be accurate to ascribe that performance to the policy, rather than vice versa. Likewise, if states and localities reduced purchases and laid employees off when their budgets deteriorated in a recession, it would not be accurate to blame the recession on the cuts in government spending. When causation runs in both directions in this way, the historical correlation between variables is not always the best guide for predicting the effects of a new policy proposal.

One strategy that has been applied to overcome that obstacle is to try to isolate the economic impact of specific policies that are arguably unrelated to economic conditions. One such policy is spending during wartime, which is driven by national security concerns rather than economic conditions.[8] However, the effects of additional federal spending during wars might not be indicative of the effects of increases in federal spending at other times. For example, during World War II, the rationing of many goods might have reduced the indirect effects of government spending on private consumption and investment.[9] Another such policy is federal spending that is allocated across states on the basis of criteria other than states' economic conditions. Examples include federal outlays for the military and grants provided through ARRA.[10] However, using the cross-state variation in federal spending to estimate the effects of that spending on state economies misses two potentially important effects: spillovers from recipient states to other states (such as shifts in resources from other states or increases in demand for output from other states) and any crowding out of investment owing to nationwide increases in interest rates.

More generally, most studies based on historical evidence estimate the effects of policies under average economic conditions. Under current conditions—in which interest rates are apt to be less affected than usual by expansionary government policies and in which there are large amounts of idle resources—the effects would probably be greater than they were, on average, in the past.[11]

1. For critical reviews of approaches to measuring fiscal multipliers, see Jonathan A. Parker, "On Measuring the Effects of Fiscal Policy in Recessions," *Journal of Economic Literature* (forthcoming) and Valerie A. Ramey, "Can Government Purchases Stimulate the Economy?" *Journal of Economic Literature* (forthcoming).

2. The FRB-US model differs from the other two forecasting models in that it explicitly incorporates the influence of expected future developments on current outcomes.

3. Stimulative policies such as ARRA can lead to higher interest rates in two ways. First, if they increase economic activity, they can prompt the Federal Reserve to raise interest rates to combat inflation. However, that effect has been smaller than usual during the past two years and is likely to remain so in the near term. The federal funds rate (the interest rate directly controlled by the Federal Reserve) has been near zero since late 2008 and is unlikely to be increased significantly until economic conditions have improved substantially. Interest rates on short-term government securities, which tend to move closely with the federal funds rate, also are unlikely to rise for some time. Therefore, CBO estimates that expansionary government policies are likely to have less effect on interest rates now than under more normal conditions, which implies less crowding out. Second, stimulative policies can influence longer-term interest rates if they create expectations of higher inflation-adjusted interest rates or higher inflation in the future. In particular, policies that imply increases in future deficits could lead to higher current interest rates to the extent that people expect that the deficits will crowd out private investment and result in a lower capital stock (which tends to imply both higher rates of return on capital and higher interest rates). However, the policies in ARRA are temporary and thus are unlikely by themselves to have a large impact on the interest rates that people expect beyond the next few years.

4. CBO assumes that as the recovery progresses, the Federal Reserve will see less need to provide monetary stimulus. Under CBO's current macroeconomic forecast, that assumption implies that in the fourth quarter of 2013, the Federal Reserve will gradually begin to offset fiscal policy actions by raising interest rates (or engaging in other actions to tighten monetary policy) in order to reduce the risk in later years of excessive inflation.

5. An International Monetary Fund review of the estimates of seven different models illustrates the importance of the assumed interest rate response in this type of model. See Günter Coenen and others, *Effects of Fiscal Stimulus in Structural Models*, Working Paper 10/73 (Washington, D.C.: International Monetary Fund, March 2010). For other examples of model estimates that incorporate a lower-than-usual response of interest rates to policy changes, see Michael Woodford, "Simple Analytics of the Government Expenditure Multiplier," *American Economic Journal: Macroeconomics*, vol. 3, no. 1 (January 2011), pp. 1–35; Robert E. Hall, "By How Much Does GDP Rise If the Government Buys More Output?" *Brookings Papers on Economic Activity*, no. 2 (Fall 2009), pp. 183–231; Lawrence Christiano, Martin Eichenbaum, and Sergio Rebelo, "When Is the Government Spending Multiplier Large?" *Journal of Political Economy* (forthcoming); and Troy Davig and Eric M. Leeper, *Monetary–Fiscal Policy Interactions and Fiscal Stimulus*, Working Paper 15133 (Cambridge, Mass.: National Bureau of Economic Research, July 2009). For examples of models that include liquidity-constrained or "rule of thumb" agents, see Marco Ratto, Werner Roeger, and Jan in 't Veld, "QUEST III: An Estimated Open-Economy DSGE Model of the Euro Area with Fiscal and Monetary Policy," *Economic Modelling*, vol. 26, no. 1 (January 2009), pp. 222–233; Lorenzo Forni, Libero Monteforte, and Luca Sessa, "The General Equilibrium Effects of Fiscal Policy: Estimates for the Euro Area," *Journal of Public Economics*, vol. 93, no. 3–4 (April 2009), pp. 559–585; and Jordi Galí, J. David López-Salido, and Javier Vallés, "Understanding the Effects of Government Spending on Consumption," *Journal of the European Economic Association*, vol. 5, no. 1 (March 2007), pp. 227–270. For model estimates in which government spending can contribute to future production, see Eric M. Leeper, Todd B. Walker, and Shu-Chun Susan Yang, *Government Investment and Fiscal Stimulus in the Short and Long Runs*, Working Paper 15153 (Cambridge, Mass.: National Bureau of Economic Research, July 2009). For a model that incorporates financial frictions in the form of a wedge between the interest rate paid by businesses on loans and the rate received by households on savings, see Jesús Fernández-Villaverde, "Fiscal Policy in a Model with Financial Frictions," *American Economic Review*, vol. 100, no. 2 (May 2010), pp. 35–40.

6. See Eric M. Leeper, "Monetary Science, Fiscal Alchemy" (paper presented at the Federal Reserve Bank of Kansas City symposium "Macroeconomic Challenges: The Decade Ahead," Jackson Hole, Wyo., August 27–28, 2010) for a discussion of the complexities involved in estimating the economic effects of fiscal policy.

7. See Tommaso Monacelli, Roberto Perotti, and Antonella Trigari, *Unemployment Fiscal Multipliers,* Working Paper 15931 (Cambridge, Mass: National Bureau of Economic Research, April 2010); Robert J. Barro and Charles J. Redlick, *Macroeconomic Effects from Government Purchases and Taxes,* Working Paper 15369 (Cambridge, Mass.: National Bureau of Economic Research, September 2009); Andrew Mountford and Harald Uhlig, "What Are the Effects of Fiscal Policy Shocks?" *Journal of Applied Econometrics,* vol. 24, no. 6 (September/October 2009); Roberto Perotti, "In Search of the Transmission Mechanism of Fiscal Policy," *NBER Macroeconomics Annual 2007,* vol. 22, pp. 169–226; Olivier Blanchard and Roberto Perotti, "An Empirical Characterization of the Dynamic Effects of Changes in Government Spending and Taxes on Output," *Quarterly Journal of Economics,* vol. 117, no. 4 (November 2002), pp. 1329–1368; and Valerie Ramey and Matthew Shapiro, "Costly Capital Reallocation and the Effects of Government Spending," *Carnegie–Rochester Conference Series on Public Policy,* vol. 48, no. 1 (June 1998), pp. 145–194. In interpreting the results of this research, it is important to note that the definitions of "multiplier" may differ from study to study. In particular, reported multipliers are often "peak" multipliers—they represent the largest effect on output in any one quarter of a dollar change to policy that persists in a way that is consistent with historical behavior—rather than the cumulative effect of a one-time dollar's worth of policy change, as CBO defines its multipliers. Similar research investigating the economic effects of fiscal consolidations—increases in taxes or decreases in government spending—may also inform analysis of the effects of fiscal stimulus. See International Monetary Fund, *World Economic Outlook: Recovery, Risk, and Rebalancing* (Washington, D.C., October 2010), Chapter 3; and Alberto Alesina and Silvia Ardagna, "Tales of Fiscal Adjustment," *Economic Policy,* vol. 13, no. 27 (October 1998), pp. 487–545.

8. For an example of estimates of the effects of unanticipated military spending on the U.S. economy, see Valerie A. Ramey, "Identifying Government Spending Shocks: It's All in the Timing," *Quarterly Journal of Economics*, vol. 126, no. 1 (February 2011), pp. 1–50.

9. For an analysis based on specific policies that avoids this issue, see Christina D. Romer and David H. Romer, "The Macroeconomic Effects of Tax Changes: Estimates Based on a New Measure of Fiscal Shocks," *American Economic Review,* vol. 100, no. 3 (June 2010), pp. 763–801.

10. For an analysis of the economic effects of state-level variation in federal outlays for the military, see Emi Nakamura and Jón Steinsson, "Fiscal Stimulus in a Monetary Union: Evidence from U.S. Regions" (working paper, Columbia University, July 2011). That paper also contains an extensive discussion of why state-based estimates of fiscal multipliers are not very informative about the economic effects of fiscal policy at the federal level. For analyses using state-level variations in ARRA outlays, see Gabriel Chodorow-Reich and others, "Does State Fiscal Relief During Recessions Increase Employment? Evidence from the American Recovery and Reinvestment Act" (working paper, University of California, Berkeley, July 2011); Daniel J. Wilson, *Fiscal Spending Multipliers: Evidence from the 2009 American Recovery and Reinvestment Act*, Working Paper 2010-17 (San Francisco: Federal Reserve Bank of San Francisco, May 2011); Timothy Conley and Bill Dupor, "The American Recovery and Reinvestment Act: Public Sector Jobs Saved, Private Sector Jobs Forestalled" (working paper, Ohio State University, May 2011); and James Feyrer and Bruce Sacerdote, *Did the Stimulus Stimulate? Real Time Estimates of the Effects of the American Recovery and Reinvestment Act*, Working Paper 16759 (Cambridge, Mass.: National Bureau of Economic Research, February 2011). For other approaches to estimating fiscal multipliers using variations at the state and local levels, see Juan Carlos Suárez Serrato and Philippe Wingender, "Estimating Local Fiscal Multipliers" (working paper, University of California, Berkley, March 2011); and Daniel Shoag, "The Impact of Government Spending Shocks: Evidence on the Multiplier from State Pension Plan Returns" (working paper, Harvard University, 2010). For an analysis of ARRA's effect on purchases of goods and services by federal, state, and local governments, see John F. Cogan and John B. Taylor, *What the Government Purchases Multiplier Actually Multiplied in the 2009 Stimulus Package*, Working Paper 16505 (Cambridge, Mass.: National Bureau of Economic Research, October 2010).

11. For an analysis using historical data that estimates that government spending has larger effects on output during recessions, see Alan J. Auerbach and Yuriy Gorodnichenko, *Measuring the Output Responses to Fiscal Policy,* Working Paper 16311 (Cambridge, Mass.: National Bureau of Economic Research, August 2010).

Mr. KUCINICH. This CBO report is cited in the very first footnote of Chairman Issa's staff report but the staff report omits the key passage from the CBO report that undercuts the entire argument that the stimulus failed. To the contrary, the CBO report says the stimulus worked. It says this, "CBO estimates that the ARRA's policies had the following effects in the second quarter of the calendar year 2011 compared with what would have occurred otherwise." Here is what they cite.

They raised the real gross domestic product by between 0.8 percent and 2.5 percent; they lowered the unemployment rate by between 0.5 percent and 1.6 percentage point; they increased the number of people employed by between 1 million and 2.9 million; and increased the number of full-time equivalent jobs by 1.4 million to 4 million. The CBO report makes exactly the opposite point as the chairman's staff report.

The reason I brought this to the committee's attention is that there are errors in the staff report and they could cause people to be misled. I don't want to belabor the point but I think it is important that the committee is apprised of this so that in our deliberations, we can consider this additional information.

As the Chair knows, I am not someone who is a reflexive supporter of the administration. I don't think the stimulus went far enough, but it did do something and I wanted to make sure that was put in the record.

I thank the gentleman for his time.

Mr. JORDAN. I thank the ranking member.

It is the practice of this committee to swear in all witnesses, so if you will all stand and raise your right hands.

[Witnesses sworn.]

Mr. JORDAN. Let the record reflect that the witnesses answered in the affirmative.

In order to allow time for discussion, please limit your testimony to 5 minutes and your entire written testimony will be made a part of the record.

I want to introduce our panel. First, we have Professor John Taylor, the Mary and Robert Raymond professor of economics at Stanford University and the George P. Shultz senior fellow in economics at the Hoover Institution. Thank you, Mr. Taylor, for being with us again.

We have Ms. Diana Furchtgott-Roth, senior fellow at the Manhattan Institute for Policy Research. Thank you for being with us this morning.

We have Dr. Heather Boushey, a senior economist at the Center for American Progress. Thank you for joining us as well.

We also have Mr. Peter Schiff, chief executive officer of Euro Pacific Capital and Mr. Brink Lindsey, senior scholar at the Kauffman Foundation. Thank you both for being with us this morning.

We will go right down the list and start with Mr. Taylor. Each of you has 5 minutes, so fire away.

STATEMENTS OF JOHN TAYLOR, MARY AND ROBERT RAYMOND PROFESSOR OF ECONOMICS, STANFORD UNIVERSITY AND GEORGE P. SHULTZ SENIOR FELLOW, ECONOMICS, HOOVER INSTITUTION; DIANA FURCHTGOTT-ROTH, SENIOR FELLOW, MANHATTAN INSTITUTE; HEATHER BOUSHEY, SENIOR ECONOMIST, CENTER FOR AMERICAN PROGRESS; PETER SCHIFF, CEO, EURO PACIFIC CAPITAL, INC.; AND BRINK LINDSEY, SENIOR SCHOLAR, KAUFFMAN FOUNDATION

STATEMENT OF JOHN TAYLOR

Mr. TAYLOR. Thank you, Mr. Chairman and members of the committee, for holding this hearing, which is very important.

As both you and the ranking member indicated, unemployment is tragically high at this point. Also, as you both indicated, the reason for that is economic growth is so low. Businesses are not starting up enough, they are expanding enough and they are not hiring enough to reduce unemployment from these very high levels.

In my view, based on my studies and others, I think the fiscal policy response to this so far have been largely ineffective. They may have even made things worse. They have largely been in the form of temporary, targeted interventions rather than comprehensive economic strategy. Economic growth in this recovery has been 2.4 percent, almost not a recovery at all. That compares to 6.5 percent in the recovery from the last deep recession. In 1983–1984, that recovery had a growth of 6.5 percent. I have a chart in my testimony which shows the striking difference.

I do think we need a new economic policy, one that focuses on sustained higher growth. Unfortunately, the proposal the President announced last week is really more of the same as what we have had in the last few years, temporary, targeted programs and now even with permanent tax increases down the road.

It is much like the 2009 stimulus when you look at it—307 billion of the 447 billion are temporary reductions in tax payments. We did that in 2009. It didn't work. When I look at where the money went and it is very important not to just use regressions, not just to use models, but look where the money went. When I look at where the money went, it largely stayed in peoples' pockets, they didn't spend it, it didn't jump start consumption or the economy.

When we look back at previous episodes like this, these temporary interventions, you see the same thing. In 1975, President Ford signed one of these. His own council of economic advisorers said it didn't work effectively, concluding after that, "Tax reduction should be permanent rather than in the form of temporary rebates." Then it was tried in 1977, the same thing, the same assessment.

Fortunately, we had a couple of decades where we didn't do these things and economic growth was strong. In 2001, we had one, and in 2008 and 2009. The record is very clear, these do not work effectively.

$140 billion of the $477 billion is in the form of grants to State and local governments and other entities to increase spending. This also we tried in the 2009 stimulus. I looked at this in detail, looked at where the money went. It didn't work. These State and local governments largely put these funds in their coffers and you see very little impact on infrastructure. In fact, it went down.

We also have experiences in the past in 1977 and 1978. President Carter had a jobs oriented program like this, a public works program where money was sent to the States and the same thing happened. We should learn from these experiences, don't keep trying these things.

Some say it would have been worse and Mr. Kucinich referred to some of these studies. They are based on models, people simulate models, they say it will work in advance, they simulate the same models to show it worked after the fact. It is no new information. They are not looking at where the money went. I hope people recognize that.

From my point of view, more of these kinds of policies will not effectively lower unemployment. I think they are a mistake. A much better approach is to lay out a lasting, permanent economic strategy. I would build on the Budget Control Act which was signed this summer that makes some progress. It doesn't go all the way but if it brings spending down further, I would bring it to levels just of 2007 as a shared GDP. What is so hard about that? If you do that, you can do it without increasing taxes, with tax reform that is revenue neutral and allow for regulatory reform or monetary reform as well. To me, that is the best, most promising way to reduce unemployment, to get this economy going, much more effective than more temporary, targeted interventions which we have seen do not work.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Taylor follows:]

An Assessment of the President's Proposal to Stimulate the Economy and Create Jobs

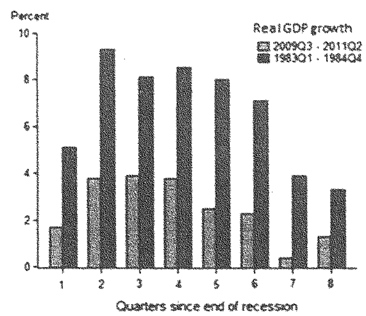
John B. Taylor*

Testimony Before the
Committee on Oversight and Government Reform
Subcommittee on Regulatory Affairs, Stimulus Oversight and Government Spending
U.S. House of Representatives

September 13, 2011

Chairman Jordon, Ranking Member Kucinich, and other members of the Committee, thank you for the opportunity to testify at this hearing on "Take Two: The President's Proposal to Stimulate the Economy and Create Jobs." After a deep recession and an anemic recovery, unemployment remains tragically high. Americans are understandably concerned about the future. They want an economic plan that works.

The main reason for the high unemployment rate is very weak economic growth. Firms are not starting up enough, or expanding enough, or hiring enough to bring the unemployment rate down. Real GDP growth has averaged only 2.4 percent per year in this recovery compared with 6.5 percent in the 1983-84 recovery from the most recent very deep U.S. recession. As a result, fewer people as a percentage of the working age population are working now than when the recovery began.



This graph tells the bleak story. The uniformly shorter bars show the quarterly growth rates of GDP during the eight quarters of this recovery in comparison with the eight quarters in 1983-84. Economic growth has not exceeded 4 percent for even one quarter in this recovery.

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* Mary and Robert Raymond Professor of Economics at Stanford University and George P. Shultz Senior Fellow in Economics at Stanford University's Hoover Institution

The fiscal policy responses to the economic growth and employment problem have not been effective thus far. The policy has consisted mainly of short-term temporary and targeted interventions, which have not had a sustainable impact on economic growth. Instead, the policies have increased the federal debt and raised uncertainty, which is an impediment to economic growth. What is needed is a more permanent and comprehensive economic strategy.

Unfortunately, the proposals made by President Obama on September 8 consist largely of the same type of temporary and targeted interventions that have been tried for the past several years. This recent experience and past experiences show that this type of fiscal policy will not increase economic growth, certainly not on a sustained basis. It will not therefore bring the unemployment rate down to pre-recession levels which should now be the goal of policy. This is not to say, of course, that all the specific proposals made by President Obama are without merit. Indeed, some of the proposed reforms of the federal unemployment insurance program to remove the disincentives that actually raise unemployment are worth considering, as are the proposals to expedite regulatory approval and other permit decisions for high priority projects.

To understand why the package will not work to raise economic growth, one needs to go beyond the President's September 8th speech and look at the overall composition of the package as described in the fact sheet provided by the White House.[1] To be sure, the full package has not yet been released, so any assessment must be preliminary. Neither the legislation needed to implement the package nor the proposed budget changes in future years, which are supposed to offset the current size of the package, have been released.

In any case the total $447 billion budgetary size of the package can be divided into (1) temporary tax cuts and one-time payments and (2) grants for the purchases of goods, including infrastructure, and services by state and local governments and government agencies.

The temporary tax cuts and payments sum to $307 billion, or about 2/3 of the total package; these include a temporary one-year reduction in payroll taxes paid by employees ($175 billion) and employers ($65 billion), as well as a temporary new jobs tax credit, one more year of expensing, and an extension of unemployment insurance benefits.

The aim of the remaining $140 billion is to increase government purchases of goods and services.[2] Because legislation has not yet been submitted, it is not clear how much of the $140 billion would be in the form of grants to state and local governments versus direct spending by the federal government, but the nature of the targeted government purchases—local public schools, state and local government workers, rehabilitation of vacant property—means that most will likely be in the form of grants to state and local governments. For example, 60 percent of the funds for school reconstruction would go to "the 100 largest high-need public school districts" with states allocating the rest to other districts.

[1] "Fact Sheet and Overview," Office of the Press Secretary, The White House, September 8, 2011

[2] A Returning Heroes Tax Credit of up to $5,600 for veterans unemployed six months or longer and a Wounded Warriors Tax Credit of up to $9,600 for veterans with service-connected disabilities unemployed six months or longer are presumably not temporary, but no estimates for these programs are included in the fact sheet.

In sum, the package is temporary and targeted, and it relies mainly on federal grants to state and local governments to increase the purchases of goods and services. In all these respects, the President's proposal of last week is quite similar to the 2009 stimulus package, the American Recovery and Reinvestment Act (ARRA). A large fraction of ARRA was in the form of temporary one-time payments to people or temporary refundable tax credits. As I testified to this Subcommittee last February, I examined where this ARRA money went in the aggregate and found that it did not boost aggregate consumption and thus job growth. People largely saved the money rather than spent it.

I found the same thing happened when one-time payments were made to people in 2001 and 2008. And, going back further, economists found roughly the same thing in the 1970s when such policies were enacted. An example is President Ford's temporary rebate of 1975, which his own Council of Economic Advisers found did not add to the recovery in any sustainable way, and thus concluded in January 1977 that "Tax reduction should be permanent rather than in the form of a temporary rebate." Yet another example is President Carter's 1977 temporary new jobs tax credit, which was later assessed as largely ineffective by economist Emil Sunley, who was at the U.S. Treasury when President Carter's program was implemented.

In marked contrast to these cases of temporary tax cuts, the permanent and comprehensive tax reductions implemented in the early 1980s were associated with the strong recovery of 1983-84 so evident in the graph above. And no such temporary interventions were enacted during the rest of the 1980s or 1990s, a time of generally good economic performance.

The other important similarity between the President's recent proposal and the 2009 stimulus relates to the aim of increasing infrastructure and other government spending. Under ARRA, the federal government borrowed money and gave it to the states in the hope that they would start new construction projects and hire people. But the data indicate that the state and local governments put most of grant money in their coffers. These governments started few construction projects that they would not have started without the stimulus. The federal government also undertook its own construction programs as part of the stimulus; but, as is apparently true of the recent proposal, they were very small in total. As with the temporary tax rebates, there is also evidence from the Carter Administration that these types of public works policies are not a sustainable way to get the economy growing. For example, economist Ned Gramlich found that the grants to the states in the Carter administration were not effective for much the same reason I give here in reference to the 2009 stimulus.

It is important to note that the recent and historical evidence that temporary and targeted fiscal interventions do not increase economic growth is nonpartisan. Ineffective temporary and targeted policies were enacted in both Republican and Democratic Administrations and Congresses. That some Republicans or some Democrats proposed or voted for such packages, as is frequently mentioned, does not of course prove that they work.

Some argue that the economy would have been even weaker without the 2009 stimulus, but the only evidence they site are simulations of models which provide no new information. The actual money flows reveal little or no effect.

Even supporters of such programs admit this problem with the President's recent proposal. For example, in assessing the proposal as laid out in the September 8 speech and the fact sheet, the consulting firm Macroeconomic Advisers reported that "the GDP and employment effects are expected to be temporary" and more specifically that "these proposals will pull forward increases in GDP and employment, not permanently raise their level."

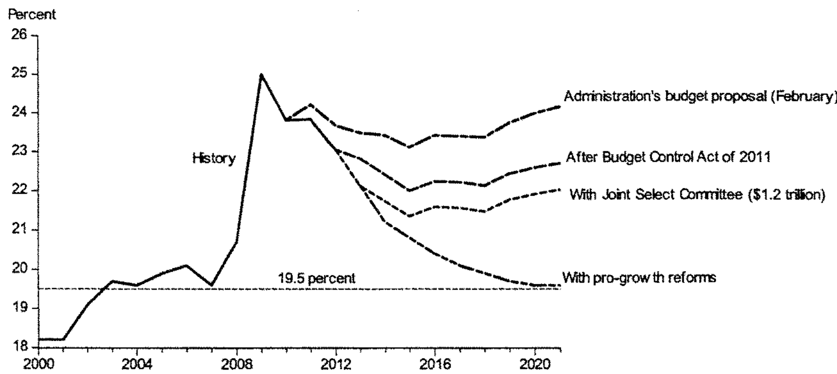
If the Administration's proposal will not work then what will?

In my estimation, the temporary and targeted fiscal policy interventions in the 2009 stimulus package and most others—cash-for-clunkers, first-time homebuyers credit, and the sharp increase in federal outlays from 19.6 percent in 2007 to 23.8 percent of GDP today—have not only been ineffective, they have lowered investment and consumption demand by increasing concerns about the federal debt, another financial crisis, threats of inflation or deflation, higher taxes, or simply more interventions. Most businesses have plenty of cash to invest and create jobs. They're sitting on it because of these concerns. Thus the impact of this policy uncertainty and unpredictability shows up as a lack of demand.

So the best thing government can do to create sustained consumption and investment demand is to move away from such temporary actions and start now on a clear comprehensive strategy going forward. Part of the strategy should be to lay out a plan to reduce the deficit and the growth of debt gradually and credibly over time, and thereby remove some of the concerns and fears, whether about another financial crisis or inflation or deflation or tax increases. Other reforms should accompany such a budget strategy, including permanent pro-growth tax reform and regulatory reform, which will help stimulate the economy in a more sustained way. This is the most promising way to get a good recovery going and reduce unemployment.

I can illustrate one such comprehensive budget strategy with the following graph, which shows federal outlays as a percent of GDP from 2000 to 2021. Federal spending has risen sharply as a percentage of GDP in recent years which suggests the feasibility of bringing it down again as a share of GDP.

The top line in the graph shows the path of outlays in the original February budget submission of the Administration, as scored by CBO. The line labeled "After the Budget Control Act of 2011" is simply the new CBO baseline estimated in August. It thus incorporates the Budget Control Act as well as other changes since the CBO scored the Administration's budget, including the 2011 Continuing Resolution. The line labeled "With Joint Select Committee" shows the additional spending reductions as a share of GDP that will occur if the Joint Select Committee reduces outlays by $1.2 trillion over 10 years, with the year-by-year distribution of outlays over those years based on CBO assumptions in "Budget and Economic Outlook: An Update," of August 2011.



Federal Outlays as a Percent of GDP

Clearly the Budget Control Act has substantially changed the budget picture since the start of this year, but there is still a long way to go.

The line in the graph labeled "With pro-growth reforms" illustrates a comprehensive budget strategy. Nothing changes relative to the Budget Control Act until 2014 when outlays as a share of GDP start moving down further until they gradually reach the 2007 percentage level which should be enough to balance the budget without tax increases, or better yet with a fully revenue-neutral pro-growth tax reform.

While the Select Joint Committee might expand its mandate to consider such reforms, the obvious differences of opinion may have to be hammered out in the 2012 election with all Americans participating. Tax reform, as well as entitlement reform, regulatory reform, monetary reform—indeed the fundamental role of government in the economy—should be part of that debate, which should have as its overall goal increasing economic growth and substantially reducing unemployment on as sustained basis.

Mr. JORDAN. Thank you.
Ms. Furchtgott-Roth.

STATEMENT OF DIANA FURCHTGOTT-ROTH

Ms. FURCHTGOTT-ROTH. Thank you very much for giving me the opportunity to testify today. I would like to submit my written testimony for the record.

I agree with everything Professor Taylor said and I don't want to repeat what he said. I would like to move on to the later parts of my testimony.

One of the thing we are doing increasingly in the United States is making it harder for employers to hire workers. We run the risk of getting back to a normal GDP growth path about 2.5 to 3 percent a year but still having employers choose to hire fewer workers than they did previously. I would like to go through a few reasons for that.

One is the new health care tax that is going to take place in 2014. Starting from 2014, employers who don't have the right kind of health insurance will have to pay $2,000 per worker per year. Employers who do have the right kind of health insurance but whose workers have low incomes and the premiums are higher than 9.5 percent of the worker's household income will have to pay $3,000 per worker per year.

This imposes a great disincentive to hiring, moving from 49 to 50 workers after the subtraction for the 30 workers that are exempt, the cost of business, $40,000 a year. You can see that many businesses are planning ahead. The administration says this tax only takes effect in 2014, so it doesn't matter but businesses do plan ahead.

The tax also affects franchises which are groups of firms. If you are running a McDonald's, for example, and it is part of a franchise of half a dozen McDonald's, then your number of workers would very well exceed 49 and you might be competing against another small independent firm with just 49 workers, you would be at a competitive disadvantage.

Interestingly enough, the tax doesn't apply to part-time workers. The incentive would be for the employers to reduce the hours of their full-time workers and hire more part-time workers. If you hire two part-time workers instead of one full-time worker, you are exempt from the tax. This isn't the kind of incentive we want to give employers.

Also, apart from health care, there are different regulations that make it increasingly difficult to hire. President Obama admitted this when he put a hold on the ozone regulation. He did that the week before last saying this is not the right time for such a regulation.

I went to the unified spring regulatory agenda at www.reginfo.gov and I counted the number of EPA regulations. There are 308 regulations in process. That means there are still 307 that are moving forward. This doesn't even count the 36 completed regulations, completed actions. These might seem small. If you are an employer, say a farmer, there is a regulation that is going to tell you how you have to feed your cattle and how you have to dispose of the manure. If you sell pesticides, there is a regulation that says what kind of pesticide labeling you have to put on this. They seem small perhaps to you and me, but to these employers, they are a big impediment for doing business. The EPA also has major regulations on utilities, boilers, farm dust, greenhouse gases.

Moving on to the Labor Department, the EPA would still allow coal production, we just wouldn't be able to use it in our power plants. We would be allowed to ship it to China, but the Labor Department has regulations on coal dust that would prevent us even from mining the coal and getting it out of the ground and shipping it to China for them to use. Again, this affects geographic areas that are already very much hurt in our recession.

The National Labor Relations Board, in its charges against Boeing for opening a second plant in South Carolina, is sending a chilling effect to any employer, especially those who want to locate in the more unionized States. Any manufacturing candidates thinking of perhaps opening a plant on the border, just across the border in Michigan or Ohio, is thinking if I open this plant, then if I want to open a second one maybe in Alabama, I won't be allowed to do that so maybe I should open the first one further south.

General Electric moved its GE headquarters to China. They didn't get any problem from the NLRB. The message goes, if you offshore your work, you are fine. If you open a second plant here in the United States, we are going to cause problems.

Finally, in the last 9 seconds, I would like to mention that we need to do more in terms of importing entrepreneurs. Senators Kerry and Lugar have proposed a bill that would allow more visas for employers abroad who want to create jobs here, entrepreneurs. If they create jobs, after 5 years we give them a green card. This is the kind of costless reform we need to be considering.

Thank you so much for allowing me to testify.

[The prepared statement of Ms. Furchtgott-Roth follows:]

Take Two: The President's Proposal to Stimulate the Economy and Create Jobs

Diana Furchtgott-Roth
Senior Fellow, Manhattan Institute

Mr. Chairman, members of the Committee, I am honored to be invited to testify before you today on the subject of President Obama's newest proposals to create jobs. I am a senior fellow at the Manhattan Institute. From 2003 until April 2005 I was chief economist at the U.S. Department of Labor. From 2001 until 2002 I served at the Council of Economic Advisers as chief of staff. I have also been a senior fellow at the Hudson Institute and a resident fellow at the American Enterprise Institute. I have served as Deputy Executive Secretary of the Domestic Policy Council under President George H.W. Bush and as an economist on the staff of President Reagan's Council of Economic Advisers.

On September 12 President Obama sent his American Jobs Act to Congress. He called on Congress to pass a bill with additional spending of $447 billion, with an extension of payroll tax cuts and unemployment benefits, more infrastructure spending, and additional aid for state and local governments.

Temporary tax reductions have limited effect in stimulating investment and economic growth. Since consumers and businesses know that the tax cuts are temporary, they do not make permanent changes in their behavior. This finding won Professor Milton Friedman the Nobel Prize in economics. In order to inspire confidence and change behavior, tax cuts have to be permanent.

Similar solutions to unemployment were tried in 2009, as part of the $825 billion "stimulus." The "stimulus" failed to spur GDP growth significantly and create jobs, despite record low interest rates and monetary stimulus from the Federal Reserve. If an $825 billion stimulus—plus cash for clunkers, auto bailouts, and mortgage forgiveness programs—resulted in an annualized GDP growth rate of only one percent two years after the end of the recovery, and succeeded only in raising the January 2009 unemployment rate of 7.6 percent, why would a package that is half the size reduce an unemployment rate that is now 9.1 percent?

In January 2009, the long term unemployed, those out of work for 27 weeks or more, were 22 percent of the total unemployed. Now they represent 43 percent of the unemployed. In January 2009, 69 percent of the population was employed. Now, the percentage is 58 percent, the lowest level since 1983. Back in January 2009 the African American teen unemployment rate was 36 percent. Now, it's 46 percent. It is much harder to get these individuals back in the labor force.

Those who believe that the 2009 stimulus simply was not enough—and, for the record, I am not among them—should admit that if $1 trillion did not work in 2009, then $447 billion is unlikely to solve an even larger problem in 2011.

"Shovel-ready" infrastructure projects that weren't, grants to the poor and the unemployed, funds for unionized public sector workers...we saw this in 2009.

Stanford economics professor Michael Boskin calculates that each job created or saved by the stimulus cost $280,000—five times as much as median wage.

Since the stimulus passed, wrote Professor Boskin in *The Wall Street Journal* on September 8, America has seen the first downgrade of American sovereign debt in history, the highest level of Federal spending since World War II, the lowest percent of Americans employed since 1983, and the highest level of long-term unemployment since the 1930s.

What is needed is a different approach—lower taxes, less regulation, and cuts in entitlement programs in the decades ahead by reforming Social Security, Medicare, and other transfer programs.

Former Massachusetts Governor Mitt Romney has published a detailed economic plan that would cut the corporate tax rate, encourage domestic energy production, devolve federal government training programs and funding to states, and cut non-security discretionary spending by 5 percent.

Tougher regulations lead employers to locate elsewhere. Friendlier regulations draw them back home.

Mr. Obama acknowledged this when, on January 18, 2011, he issued Executive Order 13563, entitled Improving Regulation and Regulatory Review.

Each agency is supposed to make a plan to "periodically review its existing significant regulations to determine whether any such regulations should be modified, streamlined, expanded, or repealed so as to make the agency's regulatory program more effective or less burdensome in achieving the regulatory objectives."

The most effective part of Mr. Obama's job creation plan likely came last week, when he instructed the Environmental Protection Agency to refrain from adopting stricter standards on ozone.

The new rule would have tightened the requirements for ozone allowed in the air from the current standard of 84 parts per billion to 60 to 70 parts per billion.

The 60 parts per billion standard would have put 85 percent of American counties with ozone monitors out of attainment. Counties would have to pursue compliance by restricting industrial activity, such as manufacturing and energy production and infrastructure construction, potentially costing $20 billion to $90 billion a year, according to EPA.

Mr. Obama's action amounted to an admission that imposing new, more costly regulatory requirements on business may conflict with hiring additional workers, most Americans' primary policy goal.

Many regulations are unneeded. Our air and water are getting cleaner as new equipment replaces old. And regulations make America a less attractive place for companies to locate and create jobs.

Furthermore, the links between improved air quality and health are unclear. At the same time as air quality has been improving, the incidence of asthma, a disease commonly associated with polluted air, has been increasing. Between 1980 and 2001, as measured air quality was improving, the prevalence of asthma tripled, according to the Centers for Disease Control.

While Mr. Obama knows that burdensome regulations crimp job creation, his agencies continue to interfere with private sector job creation.

EPA

EPA leads the agencies in regulations, with 308 rules pending on its docket. They are published in the EPA section of the government's regulatory agenda, at www.reginfo.gov.

The list includes rules in all stages of development, such as "Prerule," "Proposed Rule," "Final rule," and "Long Term Action." Not counted in the rules under development are an additional three dozen listed as "Completed Action."

House Majority Leader Eric Cantor included seven proposed EPA regulations in his list of 10 job-killing regulations last month. One of them was the ozone regulation. Others had to do with utilities, boilers, cement, coal ash, farm dust, and greenhouse gases.

For example, EPA's new boiler rules would make electricity generation far more complicated and expensive even as Mr. Obama wants to put more electric cars on the road. Power plants and boilers would be required to limit their emissions of "heavy metals," including mercury, arsenic, chromium, and nickel, and of acid gases, such as hydrogen chloride and hydrogen fluoride.

These rules, like others, require "maximum achievable control technology," meaning that plants have to use the most stringent methods available to remove heavy metals from the air, regardless of costs and benefits. Removing such particulates from the air that we breathe seems desirable, but the regulation does not take adequate account of cost.

But why stop at one regulation or seven? Why not put a hold on more regulations? They create a climate of uncertainty, damaging economic growth and employment, and inhibiting employers and investors.

It is clear that major rules such as clean-air transport, utilities, and boilers reduce hiring. It's not so obvious that, in addition, hundreds of obscure rules also affect employment.

Take Rule 2070-AJ74, Revision to Compliance Date for Pesticide Container/Containment Rule, put out by EPA's Office of Chemical Safety and Pollution Prevention, which extends the date for updating pesticide container labels.

The rule came about, as the EPA states, because "while there has been significant progress in the number of pesticide labels that have been updated with the container management statements required by the container-containment regulations, EPA has recently become aware that there are still a substantial number of products whose labels must be submitted to EPA, reviewed and approved by EPA, and reviewed and approved by the States."

That means that there are manufacturers whose labels haven't been processed by EPA or the states. A regulatory bottleneck. Somewhere, a producer may be thinking that he won't be able to sell his pesticides because a government agency hasn't approved a label he submitted. He has to work out how to change the label so it passes inspection. Some producers will choose others lines of business.

Or, consider Rule 2040-AF20, Revised Regulations for Concentrated Animal Feeding Operations (CAFOs) in the Chesapeake Bay Watershed, issued by EPA's Office of Water. This rule is not classified as major, and the legal authority is "not yet determined." Its priority is listed as "substantive, nonsignificant," even though these terms seem to contradict each other.

Still, it's going to make life harder for farmers, because it will potentially tell them how they should feed their cattle. It will expand federal jurisdiction over the feeding of cattle and disposal of cattle manure, both in the Chesapeake Bay area and nationally.

This means that EPA will tell farmers throughout the United States what they should be feeding their cattle and what to do with cattle droppings. Not only do farmers have to cope with the July drought and the August flooding, but also what EPA tells them to do with food and manure.

NLRB

Then, take the National Labor Relations Board. The acting general counsel of the NLRB, Lafe Solomon, wants to stop the Boeing Company, which has a backlog of over 800 Dreamliner aircraft on order, from using its new aircraft manufacturing plant in South Carolina to build Dreamliners.

Mr. Solomon has charged that Boeing's decision to build a new plant at North Charleston, South Carolina, to expand production of its Dreamliner 787, was made in retaliation for strikes at its Everett, Washington plant in 2005 and 2008, even though Boeing has added workers in Washington State since the strikes.

Mr. Solomon's charge was brought in response to a complaint from the International Association of Machinists and Aerospace Workers, which represents Boeing employees in Washington State.

The NLRB's action is sending a job-chilling signal to foreign and domestic companies which might want to locate plants in America. If Boeing had built its new plant in China, the NLRB would lack any authority over it.

In addition, as if employers weren't burdened with enough paperwork, the Board will now require employers to put up 11" by 17" posters informing workers of their right to unionize. Whether the Board has the authority in law to require employers to put up posters is in dispute. Sooner or later, this issue may be tested in the courts.

Requiring posters won't benefit the 14 million unemployed Americans, but it is yet another message to employers that the administration regards them with hostility and suspicion. Other countries do not require these posters and welcome American businesses to hire their workers.

In a lack of symmetry, the Board does not require employers to inform their workers that they have a right to ask for a decertification vote to kick out a union. Nor that workers have a right to a refund of the portion of their dues used for political contributions.

The posters don't convey what workers may lose from unionizing, such as the ability to earn individual merit raises. They don't point out that collective bargaining can result in lower pay and job loss for some workers.

The required poster size, 11 X 17 inches, is larger than is required for notices for minimum wage, employee polygraph protection, family medical leave, equal employment opportunity and other employee rights guaranteed by Congress.

If 20 percent or more employees are most comfortable speaking a language other than English, an additional poster in translation must go up. That's two posters.

If the employer fails to display the poster, the Board can declare the employer guilty of an "unfair labor practice." There's no fine, but unfair labor practices can be held against an employer in the case of a dispute with the union or a drive to organize a workplace with no union relationship.

The requirement applies to all private workplaces, no matter how few employees. However, retailers with less than $500,000 in gross sales are exempt, as are nonretail businesses with less than $50,000 in out of state sales or purchases.

It is unclear that the National Labor Relations Board has the authority to require employers to display what one must regard as a union-organizing poster.

According to John Raudabaugh, a Board member from 1990 to 1993 and now an attorney with Nixon Peabody, the Board lacks authority to require the poster under the 1935 National Labor Relations Act.

Mr. Raudabaugh explained that "every federal statute in the field of labor and employment law, such as the Fair Labor Standards Act, the Railway Labor Act, and the Equal Employment Opportunity Act, specifically mentions the right of the relevant agency to issue posting of notices to employees. The National Labor Relations Act is silent on the notice to post."

The Board lists ten other laws that require posting and concluded in its December 2010 Notice of Proposed Rulemaking that "The NLRA is almost unique among major Federal labor laws in not including an express statutory provision requiring employers routinely to post notices at their workplaces informing employees of their statutory rights." This, curiously, seems to be an admission by the Board that it lacks statutory authority.

The Railway Labor Act was amended in 1934, one year before NLRA passed, and included specific mention of a notice to employees. One must conclude that if Congress had wanted non-railroad employers to post notices, it would have specified this in the 1935 Act.

Labor Department

Space does not permit detailed discussion of all the rules the Labor Department wishes to impose on employers.

Consider the proposed Labor Department rule from the Office of Federal Contract Compliance Programs entitled "Affirmative Action and Nondiscrimination Obligations of Contractors and Subcontractors Regarding Protected Veterans." It takes up 67 single-spaced pages in the Federal Register. The comment period closed on July 11, and the Department is reviewing comments in order to publish a final rule notice by December.

About 26 million workers are employed by federal contractors, according to the Labor Department's Web site, almost one-fifth of the economy's 139 million employed workers. The more time and money an employer must devote to regulatory compliance, the less likely the employer is to hire new hands. Like it or not, that's a fact of life.

The new rule would require procedures for federal contractors and subcontractors that would be time-consuming and costly.

- Contractors would have to list job openings for veterans with an "appropriate employment service delivery system." This means that the Office of Federal Contract Compliance has to approve of the employment agencies where job vacancies are posted.

- Contractors would have to maintain annual records of referrals of all job candidates, referrals of veterans, and the ratio of veteran referrals to all referrals. This would be substantial paperwork burden. If employers did not get enough veteran referrals, they could get dropped as federal contractors.

- Employers would have to print notices of employee rights and contractor obligations in Braille and large print for workers who are visually impaired. If they are visually impaired, additional accommodations would have to be made.

- Contractors' affirmative action programs for veterans would have to be reviewed and updated annually, as well as mental and physical requirements for job descriptions.

- Contractors would have to engage in outreach and recruitment efforts in order to make sure that veterans hear about the openings and apply.

- Employers would have to conduct mandatory all-employee and management meetings to discuss their affirmative action policies and make sure everyone understands them. Currently, such notices must be posted on employee bulletin boards in full view, often in cafeterias or outside human resources offices.

Laws requiring affirmative action for veterans have been in place since 1974. The Labor Department writes that "the proposed regulations would strengthen these affirmative action provisions, detailing specific actions a contractor must take to satisfy its obligations."

Do veterans need yet more regulation meant to discourage discrimination against them in hiring? Is such discrimination common? The August unemployment rate for veterans, at 7.7 percent, is lower than the overall unemployment rate of 9.1 percent, as calculated by the Labor Department.

Even the American Legion, a congressionally-chartered organization to help veterans, thought some requirements too burdensome. In published comments, the Legion wrote, "The American Legion believes that [job listing regulations] could place an undue burden on contractors, including many veteran-owned small businesses and service-disabled-veteran-owned small businesses. Rather than placing such an undue burden on these contractors - the government should make it as easy as possible for companies to post their job listings with any employment service."

Some businesses, especially small ones, simply cannot survive with these rules. Those that can survive will have higher costs and be less inclined to hire employees. The ironic result: in the name of helping veterans, the Labor Department's policies will mean fewer jobs for everyone, including veterans.

Then, consider the Labor Department's rules regarding coal. EPA regulations describe above would discourage coal from being burned in power plants, but it can be mined and exported. Coal exports are significant, 76 million tons in 2010, 23 percent higher than in 2009.

Proposed Labor Department regulations, if made final, would discourage coal from being produced at all. Over 30 new regulations for coal are on the Labor Department's regulatory agenda.

These regulations discourage coal production, causing unemployment of miners and others in mining communities. Moreover, by making the use of coal more expensive, the government discourages energy-intensive industries, such as manufacturing, from locating in the United States, in effect, encouraging them to flee abroad.

Another proposed Labor Department regulation is affirmative action for women on construction sites. Discrimination is already illegal in the construction industry. In practice, this rule would require construction companies to employ less-qualified women.

With the construction industry still sick from the recession, and women's unemployment rates in August almost a full percentage point lower than men's (8 percent for women, compared with 8.9 percent for men), this is not the time to force construction companies to employ women.

Importing Entrepreneurs

My testimony has focused on costless ways to increase employment. It would not be complete without a discussion of how additional immigration could spur job creation.

The Ewing Marion Kauffman Foundation in Kansas City has published extensive studies on importing job creators from abroad to create start-ups and hire workers, and attract tourists to give more business to our stores, beaches, restaurants, and wilderness areas.

Start-ups lead to innovation, which leads to economic growth. Think Facebook, with its friends and captivation of an entire generation. Or think of Apple, a start-up just a generation ago. In the second quarter of 2011, all 9.3 million iPads produced were sold. People are buying them for personal use, companies are buying them for employees. And this is in an economy with a 1.9 percent growth rate and 9 percent plus unemployment.

If we had another two dozen new Apples or Facebooks every year making similarly attractive products, our economic growth and our employment would really take off. That's because data show that new companies, those in their first few years of existence, hire a lot of workers on net. That means some companies start and fail, but others make up for it, and more.

Many people don't understand how immigrants could solve our jobs problem. "Why give out more visas when we have a high unemployment rate?" is a typical question.

But Kauffman data show that immigrants found new companies in America at greater rates than do native-born Americans. So if we allowed more immigrants to enter, and gave green cards to those who created jobs, employment would rise.

Consider Sergei Brin's Google, Andrew Grove's Intel; Jerry Yang's Yahoo; Pierre Omidyar's eBay; and Elon Musk's PayPal, Tesla Motors, and SpaceX, to name but a few. Past founders include Alexander Graham Bell, Levi Strauss, Adolph Coors, and Henry Heinz.

Once companies are around five years old, they appear to reach a hiring equilibrium. They keep the workers they have already hired, but on average their employee expansion rate slows down and they generate no new jobs. So the best way to expand employment in an economy is to figure out how to get more new, innovative firms.

A bill sponsored by Massachusetts Democrat John Kerry and Indiana Republican Richard Lugar would set up a new class of visa called the EB-6, aimed especially at entrepreneurs.

Those who could bring in capital from abroad, or who have already generated U.S. sales, would be eligible for the visa. If they hired a certain number of non-family members, the EB-6 would transition into a green card, and they could stay forever and become citizens.

The Kerry-Lugar bill proposes about 5,000 EB-6 visas a year. The Kauffman Foundation suggests making the number unlimited, to allow as many founders as possible to have the opportunity to come to America to start companies. Those immigrants who did not hire workers would not receive green cards and would have to return to their countries.

In essence, the Kauffman plan would allow America to take a number of potential entrepreneurs on a provisionary basis, and keep the successful ones.

This visa would be especially attractive to some of the million immigrants in America who now have temporary H1-B visas, work permits obtained by employers that require workers eventually to return to their home countries. If H1-B visa holders could start companies and hire other workers, they could convert the H1-B visa to the EB-6, and then progress to the green card.

Once an H1-B visa holder was converted into an EB-6, one market for the new entrepreneur would be his former firm. Rather than selling his services to an employer, he would sell his firm's services to his former employer-and to other employers also.

Another group that could benefit from EB-6 visas would be the 60,000 foreign students who graduate with American degrees in the technical fields of science, technology, engineering, and math.

The possibility of such visas would encourage more foreign students to come here to study. Now, many do not come, because they believe that they will just have to return home when their studies are completed. Instead, they study in Canada, Britain, and Australia.

Similarly, the United States could be giving out more tourist visas, and promoting our country as the global vacation spot.

Walk into a hotel in Zurich, Switzerland, and you can find a brochure in Mandarin Chinese promoting the surrounding area. Walk into the Willard Hotel in Washington D.C. and you see nothing in Mandarin, and little in any other languages. It's no wonder that Chinese tourists go to Switzerland or Singapore.

Instead, our embassies and consulates around the globe seek to discourage visitors. They interrogate them as to their intentions and make sure they don't want to stay here. Plus, they charge substantial sums for a visa application, in the range of $200 to $300. If the visa application is rejected, the embassy keeps the fee.

Disincentive Effects of Employer Health Care Tax

One major disincentive to hiring is the $2,000 per worker tax in the Patient Protection and Affordable Care Act of 2010. The Act will raise the cost of employment when fully implemented in 2014. Companies with 50 or more workers will be required to offer a generous health insurance package, with no lifetime caps and no copayments for routine visits, or pay an annual tax of $2,000 for each full-time worker.

This tax raises significantly the cost of employing full-time workers, especially low-skill workers, because the tax is a higher proportion of their compensation than for high-skill workers, and employers cannot take the tax out of employee compensation packages.

Employers are not blind. They see these taxes coming, and they are adjusting their workforce accordingly. In my opinion, this is one reason that employment growth has been slower than usual during this economic "recovery."

Suppose that a firm with 49 employees does not provide health benefits. Hiring one more worker will trigger a tax of $2,000 per worker multiplied by the entire workforce, after subtracting the statutory exemption for the first 30 workers. In this case the tax would be $40,000, or $2,000 times 20 (50 minus 30). Indeed, a firm in this situation might have a strong incentive not to hire a 50th worker, or to pay him off the books, thereby violating the law.

In addition, if an employer offers insurance, but an employee qualifies for subsidies under the new health care exchanges because the insurance premium exceeds 9.5 percent of his income, his employer is taxed $3,000 per worker. This combination of taxes gives businesses a powerful incentive to downsize, replace full-time employees with part-timers, and contract out work to other firms or individuals. For example, a restaurant might outsource some of its food preparation versus paying employees to make it on-site.

The franchise industry will be particularly hard-hit because the new law will make it harder for small businesses with 50 or more employees to compete with those with fewer than 50 employees.

Franchisors and franchisees, who often own groups of small businesses, such as stores, restaurants, hotels, and service businesses, will be at a comparative disadvantage relative to other businesses with fewer locations and fewer employees. This will occur when a franchisor or franchisee employs 50 or more persons at several locations and finds itself competing against independent establishments with fewer than 50.

An estimated 828,000 franchise establishments in the U.S. accounted for more than $468 billion of GDP and more than 9 million jobs, based on PricewaterhouseCoopers' report of 2007 Census data. When factoring the indirect effects, these franchise businesses accounted for more than $1.2 trillion of GDP - or nearly 10 percent of total non-farm GDP. Of franchise businesses, an estimated 77 percent were franchisee-owned and 23 percent were franchisor-owned.

When the employer mandates are phased in 2014, many businesses will be motivated to reduce the number of locations and move workers from full-time to part-time status. This will reduce employment still further and curtail the country's economic growth.

Industries that have traditionally offered the greatest opportunities to entry-level workers -- leisure and hospitality, restaurants -- will be particularly hard-hit by the new law. Many of these employers do not now offer health insurance to all of their employees, and employ large percentages of entry-level workers, whose cost of hiring will increase significantly.

Such small businesses have offered an entry point to low-skill workers, who have some of the highest unemployment rates in America. Adults without high school diplomas face an unemployment rate of 14.3 percent, more than three times as high as rates for college graduates, and well above the national average of 9.1 percent. The unemployment rate for teens, another low-skill group, is 25 percent. These workers will be particularly hard-hit with the new penalties on small businesses, particularly franchise businesses.

Businesses with fewer than 50 employees will be the big winners. If they do not hire too many workers - another government-induced disincentive for hiring in this weak labor market - and stay within the 49-person limit, these firms will not have to provide health insurance and will have a cost advantage over the others. Such businesses will be able to compete advantageously against businesses with multiple locations and 50 or more employees.

When government requires firms to offer benefits, employers will generally prefer to hire part-time workers, who will not be subject to the tax. Even though the Act counts part-time workers by aggregating their hours to determine the size of a firm, part-time workers are not subject to the $2,000 tax. Hence, there will be fewer opportunities open for full-time work. Many workers who prefer to work full-time will have an even harder time finding jobs.

In August 8.8 million people were working part-time because they could not find full-time jobs. The new health care law would exacerbate this problem.

In addition to hiring more part-time workers, firms will have an added incentive to become more automated, or machinery-intensive—and employ fewer workers. Fast food restaurants could ship in more precooked food and reheat it, rather than cook it on the premises. Something analogous is already gaining momentum in industries such as DVD rental, where manual labor at retail outlets is being replaced by customer-activated DVD checkout. Supermarkets, drugstores and large-chain hardware stores also are introducing do-it-yourself customer checkout.

Some employers will be allowed to keep existing plans, a term known as "grandfathering." However, restrictions on "grandfathering" could force up to 80 percent of small businesses to drop their current health insurance plans within three years and either replace them with more expensive new plans or go without insurance altogether and pay the tax, according to estimates from the Departments of the Treasury, Labor, and Health and Human Services.

Conclusion

America is facing an economic crisis on a scale that our government at times seems incapable of grasping. Our mounting debts are not the result one mistake made at one time, but a series of mistakes made repeatedly over decades. We need to take a different tack, one that will encourage hiring, rather than encouraging firms to go offshore.

With zero net job gains in August, a persistently high unemployment rate, and a low rate of GDP growth, the economy could likely create more jobs through costless regulatory reform than through additional spending. I have given just a few examples. But there are many more, including the whole apparatus of financial regulations set up by the Sarbanes-Oxley and the Dodd-Frank laws; the moratorium on deepwater drilling in the Gulf of Mexico; and our high corporate tax rates.

Thank you for giving me the opportunity to testify today. I would be glad to answer any questions you might have.

Mr. JORDAN. Thank you.
Dr. Boushey.

STATEMENT OF HEATHER BOUSHEY

Dr. BOUSHEY. Thank you, Chairman Jordan and Ranking Member Kucinich, for inviting me to testify today.

My name is Heather Boushey and I am senior economist at the Center for American Progress, Action Fund.

The American Jobs Act includes proposals that will create jobs by investing in infrastructure, putting teachers back in schools, targeting tax cuts toward small businesses and helping the unemployed. Independent economic forecasters say the plan will boost growth and employment. I provide details on this in my written testimony.

Presidents and Congresses of all political stripes, including the Bush administration, have embraced short term, temporary fiscal expansion to create jobs in times of labor market weakness. An empirically grounded body of literature documents the effectiveness of fiscal expansion and again, I document that in my testimony.

Denying that there was any impact of fiscal expansion in recent years is an ideological, not empirically based stance. The American Jobs Act builds on what we know we works to get people back to work—investments in infrastructure, both human and physical capital, will put people to work now and yield lasting benefits for the economy.

These investments should raise U.S. economic output by about $220 billion above what it would otherwise be. It will prevent up to 280,000 teacher layoffs and keep police officers and firefighters on the job. It will modernize and upgrade our school infrastructure, community colleges and invest immediately in highway, highway safety, transit, passenger rail and aviation.

This is much needed spending. The accumulated backlog of deferred maintenance and repair in schools is at least $270 billion. The American Society of Civil Engineers estimates that we need to spend at least $2.2 trillion over the next 5 years just to repair our crumbling infrastructure.

Increased investments in infrastructure have saved or created 1.1 million jobs in the construction industry and 400,000 jobs in manufacturing through this spring. Almost all of these jobs were in the private sector. Upgrading roads, bridges and other basic infrastructure not only creates jobs but lowers the cost of doing business and paves the way for businesses, small, medium and large, to be more competitive. They put people to work earning good, middle class incomes which expands the consumer base for businesses.

The American Jobs Act also cuts payroll taxes and provides a tax holiday on new hires, but focuses these tax cuts on small businesses. In 2010, 50 House Republicans co-sponsored similar legislation. Tax cuts are an effective way to boost the economy when demand is low although the multipliers are smaller than for other expenditures such as unemployment benefits and infrastructure investments.

The American Jobs Act will help the long term unemployed. Unemployment benefits kept an average of 1.6 million American workers in jobs every quarter during the recession. During the past

40 years, Congress has not once allowed benefits for the long term unemployed to expire when the unemployment rate was above 7.2 percent and as already noted, that is 1.9 points lower than it is today.

The American Jobs Act will also provide every worker with a payroll tax cut. The typical household earning less than $50,000 will receive about $1,500. This is paid for by limiting itemized deductions and certain exemptions for high income families, taxing investment fund managers' income as ordinary income, eliminating certain oil and gas industry tax breaks and changing the corporate depreciation rules. This is a good set of pay-fors.

The economy does not have a supply side problem. Since December 2008, the non-financial corporate sector has seen profits rise by over 100 percent. They are holding almost $1.9 trillion in cash, the highest level since the fourth quarter of 1959. Recent regulatory changes are also not the reason for today's high unemployment. Let's go back to basics. As the Financial Crisis Inquiry Commission found, it was a lack of regulation that was a key factor in creating today's economic crisis and putting 14 million people out of work.

The problem is demand. The collapse of the housing bubble drained trillions from our economy, followed by a financial crisis which has left 14 million people unemployed, meaning that households quite simply have less to spend. There is less money flowing through our economy.

As Bill Gross, founder and Chief Investment Officer of the world's largest bond fund, PIMCO, said recently, "We need to create a demand for labor. The private sector is not going to do it." The question before this committee is, how will bringing down government spending increase growth when already interest rates are at record lows and we have trillions that have been taken out of the economy because of the collapse of the housing bubble. Quite simply, it won't.

The National Federal of independent businesses, which represents small business owners, reported in August, as it has each month since mid-2009, that it is weak sales that is the problem. There are clear steps we can take to create jobs and the American Jobs Act is a real step forward.

Thank you for your time.

[The prepared statement of Dr. Boushey follows:]

Center for American Progress Action Fund

Testimony before
the U.S. House of Representatives Committee on Oversight and Government Reform,
Sub-Committee on Regulatory Affairs, Stimulus Oversight and Government Spending
on "Take Two: The President's Proposal to Stimulate the Economy and Create Jobs"

Heather Boushey,
Senior Economist, Center for American Progress Action Fund
September 13, 2011

Thank you Chairman Jordan and Ranking Member Kucinich for inviting me to testify today. My name is Heather Boushey and I'm Senior Economist at the Center for American Progress Action Fund.

The American Jobs Act will create jobs, which is exactly what America needs Congress to prioritize. The American Jobs Act includes a number of key proposals that have recently had bi-partisan support, including infrastructure investments, putting teachers back in schools, tax cuts targeted for small businesses, and help for the unemployed.

Presidents and congresses of all political stripes—including the Bush administration—have embraced short-term, temporary fiscal expansion to create jobs in times of labor market weakness.[1] Each time, they worked as intended. We know this from an empirically-grounded body of literature documenting the effectiveness fiscal expansion and the importance of economic multipliers in creating jobs above and beyond those directly created by one firm or one government project.[2] And this isn't just the experience of the United States. Economies around the world reflecting a wide range of economic ideologies understand the importance of government action in the face of economic crises.

Independent economic forecasters are already weighing in and they agree that the plan will boost growth and employment:

- Mark Zandi, Chief Economist at Moody's Analytics, estimates that the plan will add 2.0 percentage points to U.S. economic growth next year, add 1.9 million jobs, and cut the unemployment rate by a percentage point.[3]

- Macroadvisors, a prominent financial planning firm, says the plans will boost the level of U.S. gross domestic product by 1.3 percent in 2012 and 0.2 percent in 2013 and will create 1.3 million jobs in 2012 and 0.8 million in 2013, relative to baseline.[4]

- Goldman Sachs economists estimate that it will bring a 1.5 percent increase in U.S. gross domestic product in 2012.[5]

The plan will address the fundamental issues facing the U.S. economy. The lingering consequences of the Great Recession—the housing crisis, the jobs crisis, the fear among businesses to invest their earnings despite record profits—continue to push against faster economic growth and job creation.

In short, the economy continues to suffer from a lack of demand. Monetary authorities have already pushed interest rates down to zero and fiscal policy is a critical policy tool for fighting unemployment, as Federal Reserve Chairman Ben Bernanke said in Jackson Hole in August, "Although the issue of fiscal sustainability must urgently be addressed, fiscal policymakers should not, as a consequence, disregard the fragility of the current economic recovery."[6]

The American Jobs Act builds on what we know works to get people back to work. The weight of the empirical evidence is that the steps taken in early 2009 were a down-payment on the recovery. They brought the economy back from the precipice and created millions of private-sector jobs. Private employers have added jobs for 18 straight months, for a total of 2.4 million jobs since the economy bottomed out in February 2010 and including over 300,000 jobs in manufacturing since its low point in December 2009.[7] There is much more to be done, however, as this isn't enough jobs given the depth of the Great Recession.

Denying that there was any impact of fiscal expansion is an ideological stance, not one grounded in empirical analysis. Not that long ago, there was bipartisan agreement that recessions called for increased spending. In January 2008, Congress passed the Economic Stimulus Act, which injected over $150 billion dollars into the economy, with the support of 165 Republicans. President Bush signed it.[8] In the spring of 2008, Congress extended benefits for the long-term unemployed, with the support of 182 Republicans. President Bush signed it into law.[9] These policy actions had their intended effect by temporarily boosting spending. But, the collapse of the housing bubble led to a contraction that has been deeper and darker than any in recent memory and employment declines mounted after the financial crisis of 2008 spilled over into the broader economy.

By taking decisive action to address the hemorrhaging of jobs and the fall in economic activity, Congress and the administration actually reduced the deficit, relative to where it would be today had no such action been taken. At the most basic level, government spending reduced unemployment and thus increased tax revenues. The current projected budget deficit for fiscal year 2011 stands at $1.3 trillion.[10] Had Congress done nothing to stop the hemorrhaging of jobs, economists estimate that the deficit would have ballooned to more than twice as large as it actually did, hitting $2.6 trillion in fiscal year 2011.[11]

The American Jobs Act is a measured approach that will boost job creation.

The American Jobs Act includes a number of key proposals that have recently had bi-partisan support. It invests in infrastructure and schools, targets aid towards small businesses, helps the long-term unemployed, and provides every working American with a payroll tax cut.

The American Jobs Act builds on what we know works to get people back to work in an economy like what we have now. The role of government in our economy is not, of course, limited to times of economic distress. Government investments in basic science brought us the Internet, the microwave oven, and satellite communications, and have led the fight against cancer. Government investment in new, innovative businesses has helped many companies grow into household names. The Small Business Investment Company Program, financed by the federal Small Business Administration, helped Nike Inc., Apple Inc., and FedEx Corp. grow into the global business powerhouses they are today.[12]

Government spending is also an important part of the economy. Millions of people work for the government and millions more are employed in government-funded work and all those dollars flowing into the economy create even more jobs. For example, the Federal Highway Administration periodically estimates the impact of highway spending on direct employment, defined as jobs created by the firms working on a given project; on supporting jobs, including those in firms supplying materials and equipment for projects; and on indirect employment generated when those in the first two groups make consumer purchases with their paychecks. In 2007, $1 billion in federal highway expenditures supported about 30,000 jobs—10,300 in construction, 4,675 in supporting industries, and 15,094 in induced employment.[13]

Today, though, is a special time when it comes to the role of government. Unless Congress acts, the private sector will continue to generate insufficient demand. Because customers have less money to spend due to the collapse of the housing bubble and the ensuing high unemployment, businesses have little incentive to hire and invest. The federal government can help with this. It can take measures to create private-sector jobs by moving up investments that the public needs anyway—investments in roads and bridges, investment in changes that the country needs to make, such as the movement to a more energy efficient cleaner economy, investments in education and research and development. We know this most recently from fighting the Great Recession.

Investments in infrastructure—both human and physical capital—will put people to work now and yield lasting benefits for the economy, increasing growth in the long run. These are the kinds of investments that historically have had bi-partisan support as they boost productivity for all American businesses, while creating jobs. As AFL-CIO President Richard Trumka and U.S. Chamber of Commerce President Thomas Donohue stated: "With the U.S. Chamber of Commerce and the AFL-CIO standing together to support job creation, we hope that Democrats and Republicans in Congress will also join together to build America's infrastructure."[14]

The American Jobs Act will invest $140 billion in infrastructure. Based on economist Mark Zandi's most recent estimates, this should raise U.S. economic output by $220 billion.[15]

Key investments include:

Investing in our human capital. The American Jobs Act includes $35 billion to prevent up to 280,000 teacher layoffs and keep police officers and firefighters on the job. Because of ongoing budget shortfalls, local governments have been hemorrhaging employees—including nearly 300,000 teachers since April 2009, the most recent peak.[16] These lay-offs not only add to the unemployment queue, but will reduce future American competitiveness.

We know that this will be effective. As a result of the State Fiscal Stabilization Fund and other steps taken in 2009, the Department of Education reports that more than 400,000 teachers got to keep their jobs.[17] Direct aid to states, much of which benefited America's schools, to a large extent, created jobs in the private sector. Every increase of $100,000 in state aid increased employment by 3.8 jobs for a year, of which 3.2 jobs were outside the government, health, and education sectors.[18]

Investing in our nation's physical capital. The American Jobs Act includes $25 billion to modernize and upgrade our school infrastructure and an additional $5 billion to modernize community colleges. We know that there is great need for this kind of investment. The accumulated backlog of deferred maintenance and repair amounts to at least $270 billion.[19]

The American Jobs Act also includes $50 billion in immediate investments for highway, highway safety, transit, passenger rail, and aviation activities. Here, too, we know there is great need: The American Society of Civil Engineers estimates that we need to spend at least $2.2 trillion over the next five years just to repair our crumbling infrastructure.[20] This doesn't even include things like high-speed rail, mass transit, and renewable energy investments we need to free ourselves from foreign oil and climate change. Of the $50 billion, $27 billion will make our nation's highway systems more efficient and safer for passenger and commercial transportation, $9 billion of investments will repair our nation's transit systems, $2 billion in funding will improve intercity passenger rail service, $2 billion will improve safety, add capacity, and modernize airport infrastructure across the country.

We know that investments in infrastructure will create jobs in the private sector:

- Increased investments in infrastructure saved or created 1.1 million jobs in construction industry and 400,000 jobs in manufacturing by March 2011 and ***almost all of these jobs were in the private sector.***[21]

- By the end of 2010, $93 billion in investments to the green economy had created or saved nearly 1 million American jobs.[22] These 997,000 jobs include both the "green jobs" created directly by investment in specific industries and indirectly by their suppliers, as well as the additional jobs created when workers spend their incomes back into the economy.

- In fiscal year 2010, the U.S. Department of Agriculture's Rural Development Fund allocated more than $21.2 billion to seven USDA programs that invest in rural infrastructure, businesses, and homes. These programs upgraded public utilities and community facilities provided broadband connections to businesses and homes, invested in rural businesses, and helped rural families purchase homes. In addition to improving quality of life, these investments resulted in over 300,000 jobs for rural residents.[23]

The reason for this success is simple: Upgrading roads, bridges, and other basic infrastructure not only creates jobs but also paves the way for businesses small, medium, and large to benefit. Infrastructure investments lower the cost of doing business, making U.S. companies more competitive. And they put people to work earning good, middle-class incomes, which expands the consumer base for businesses.

The American Jobs Act lays the foundation for future infrastructure investments as well, by creating a National Infrastructure Bank (NIB), based on work by Senators Kerry and Hutchison Senators Rockefeller and Lautenberg, and Rep. Rosa DeLauro. The NIB will be a government-owned entity that will operate independently and be bi-partisan, with no more than four of its seven member board from the same political party.[24] Eligible projects would include transportation infrastructure, water infrastructure, and energy infrastructure. Loans issued by NIB would use approximately the same interest rate as similar-length United States Treasury securities and could be extended up to 35 years, giving the NIB the ability to be a "patient" partner side-by-side with state, local, and private co-investors. The NIB would finance no more than 50 percent of the total costs of any project.

This idea has bi-partisan support. As Senator Hutchinson said of the NIB, "This common-sense proposal will help close America's widening infrastructure funding gap, create millions of American jobs in the next decade, and make the United States more competitive in the 21st century."[25]

The collapse of the housing bubble has devastated communities across the country as they are left with vacant properties, which further pull down asset values. Project Rebuild will invest $15 billion in proven strategies that leverage private capital and expertise to rehabilitate hundreds of thousands of properties in communities across the country, through rebuilding and repurposing distressed real estate, support for-profit development when consistent with project aims and subject to strict oversight, scale successful land bank models, and establish property maintenance programs to create jobs and mitigate "visible scars" left by vacant/abandoned properties.

The American Jobs Act builds on the success of bi-partisan tax cuts and focuses specifically on small businesses. It will cut in half firms' payroll taxes on the first $5 million in payroll and will provide a complete payroll tax holiday for employers who create new jobs or increase wages, capped at applying to $50 million in new wages. Every firm will benefit, but small firms will see a larger boost. It will also extend the 100 percent business expensing through 2012 ($5 billion), helps small businesses and entrepreneurs access capital, and streamlines regulations that small businesses have to abide by.

Tax cuts are an effective way to boost the economy when demand is low, although the multipliers are smaller than for other expenditures, such as unemployment benefits and infrastructure investments.[26] Based on recent experience, $50 billion in tax expenditures will generate $52.5 billion in additional economic activity and the $5 billion to extend 100 percent expensing will generate $1.45 billion.[27]

A business payroll tax cut has broad, bi-partisan appeal and economists agree it will create jobs:

- The National Federation of Independent Business has said that a payroll tax holiday for small businesses "would … [help] struggling businesses reduce costs… Eliminating the payroll tax can reduce unemployment and keep people working during a period of slowed economic growth. "[28]

- Senator Orrin Hatch, the top Republican on the Senate Finance Committee, said he would "probably be for" an employer-side payroll tax cut.[29]

- In 2010, fifty House Republicans – including Michelle Bachmann and Select Committee on Deficit Reduction member Jeb Hensarling – co-sponsored legislation (The Economic Freedom Act of 2010) to halve employer- and employee-side payroll tax rates, and expand allowances for business expensing, along the lines of the President's plan.[30]

The complete tax credit for new hires also has broad appeal. Moody's Chief Economist Mark Zandi, for example, said last year: "At the top of the list is a temporary tax break for firms that in-crease their payrolls. Businesses may expand payrolls by giving their existing employees more hours, raising wages, and/or hiring more workers."[31]

The 100 percent expensing is an idea is popular with business groups. The National Federation of Independent Business called expensing a "big victory" for small business: "Bottom line – just about every small business can write-off the full amount of investments they want to make in 2010 and 2011."[32]

The American Jobs Act extends unemployment insurance to the long-term unemployed and implements reforms to help the unemployed find jobs. The key element is to extend the benefits to the long-term unemployed that will expire in December 2010, but there is also a list of new efforts specifically targeted at helping the long-term unemployed find work.

Unemployment benefits stabilize the economy by increasing the demand for goods and services, which at this point in the economic recovery continues to be crucial to saving and creating jobs and boosting earnings. They also help workers and their families by putting money in their pockets while they search for a new job. Unemployment benefits kept 3.3 million people out of poverty in 2009, and they enable those out of work to keep putting food on the table and pay their bills.[33]

Money targeted toward the long-term unemployed helps not only those individual families hardest hit by the Great Recession but also kept dollars flowing into their local communities and helps unemployed workers access health care, undoubtedly mitigating the well-documented negative health effects of unemployment. In a report for the Department of Labor, Wayne Vroman, an economist at the Urban Institute, estimated that unemployment benefits have kept an average of 1.6 million American workers in jobs every quarter during the recession.[34]

For the past half century, Congress has always extended unemployment benefits to the long-term unemployed when unemployment was high and doing so in this recession should be no different. Both Republican and Democratic Congresses have provided emergency unemployment benefits and extending unemployment benefits has not historically been a partisan issue. During the past 40 years, Congress has not once allowed unemployment benefits for the long-term unemployed to expire when the unemployment rate was above 7.2 percent—1.9 points lower than it is today.

The American Jobs Act also provides more assistance to the long-term unemployed. All new claimants for long-term unemployment benefits will receive robust reemployment services and eligibility assessments and it will become unlawful to refuse to hire applicants solely because they are unemployed or to include in a job posting a provision that unemployed persons will not be considered.

The American Jobs Act also implements a series of reforms aimed specifically at helping out-of-work workers in today's high-unemployment economy:

- Reduce lay-offs by implementing Sen. Jack Reed and Representative Rosa DeLauro's plan for work sharing that lets workers receive pro-rated unemployment benefits as compensation for a reduction in hours at businesses that would otherwise lay workers off. These programs already currently operate in over 20 states and have been shown to be effective in other countries. Recent research by the International Monetary Fund points to the importance of the massive expansions to Germany's short-term work program called "*Kurzarbeit*," which led to hours reductions but not unemployment. While the country's economic output fell more during the Great Recession than it did in the United States (through the winter 2010), the German unemployment rate actually decreased, and is now only 6.1 percent, a third lower than that of the United States.[35]

- Compensate older workers who take a new job for lower pay rather than claiming unemployment benefits. Older workers are not only less likely to find work after job displacement, but if they find a job, they are more likely to earn much less than before. In January 2010, among workers aged 55 to 64 who were displaced between 2007 and 2009, nearly two-thirds of women (62.8 percent) and men (62.3 percent) were not working at all. By contrast, among workers aged 35 to 44, half of men (50.3 percent) and nearly 6 in 10 women (57 percent) were working.[36] Most of the full-time workers who were displaced who find re-employment earn less than they had before they were displaced. Among older workers, about half are making at least 20 percent less than before being displaced from their job.[37]

- Encourage displaced worker to become entrepreneurs by removing barriers that discourage participation in existing programs and enable states to connect entrepreneurs with mentoring and access to capital through Small Business Administration and other public and private resources.

- Provide states with support for summer job programs for low-income youth in 2012 and year-round employment for economically disadvantaged young adults.

The American Jobs Act targets specific demographic groups who are too-often left behind. It will to enhance employment and job training opportunities that will benefit minorities, women, and socially and economically disadvantaged individuals in transportation related activities, including construction, contract administration, inspection, and security.

This is an imperative. In August, the Department of Labor released data that show that African Americans have an unemployment rate of 16.7 percent, more than double that of whites, whose unemployment rate was 8.0 percent. Hispanic unemployment was 11.3 percent. Workers without a high school diploma have an unemployment rate of 14.3 percent, more than three times as high as among those with a college degree, who have an unemployment rate of 4.3 percent. Women who maintain families have an unemployment rate of 11.9 percent.

Returning veterans are having a hard time finding work and the American Jobs Act focuses on their specific needs. The Returning Heroes Tax Credit will provide up to $5,600 for long-term unemployed veterans, a Wounded Warriors Tax Credit of up to $9,600 that will increase the existing tax credit for firms that hire long-term unemployed veterans with service-connected disabilities, and a Department of Defense-led task force and enhanced job search services through the Department of Labor will help Veterans get private-sector jobs.

The American Jobs Act will provide every American with a payroll tax cut. The American Jobs Act expands the tax cut enacted in December 2010 by cutting employees' payroll taxes in half for 2012. This extension will provide a payroll tax cut worth $175 billion to American workers in 2012 and will result in a tax cut of about $1,500 for the typical household earning $50,000. Based on recent experience, this tax cut will generate $222.3 billion in additional economic activity.[38]

Tax cuts are an important policy for boosting incomes. Independent forecasters have estimated that a failure to extend the payroll tax cut next year would reduce growth next year by one-half to two-thirds of a percentage point.[39] The Congressional Budget Office wrote last year that a payroll tax cut for employees has a larger immediate impact on job creation than most other tax cuts it evaluated, including across-the-board income tax cuts.

Last year, 139 House Democrats and 138 House Republicans voted together to reduce employee payroll taxes, as well as 43 Democratic Senators, and 37 Republican Senators. The leadership of both parties—Speaker Boehner, Minority Leader Pelosi, Majority Leader Reid, and Minority Leader McConnell—supported the December tax deal.

To ensure that the American Jobs Act is fully paid for, the President will release a detailed plan and call on the Joint Committee to come up with additional deficit reduction necessary to pay for the Act and still meet its deficit target.

The American Jobs Act is targeted at the most important problems facing the U.S. economy

The American Jobs Act will work because we have the evidence that shows that these policies have worked in the past. We know that the problem right now continues to be a lack of demand and that expansionary fiscal policy is the right step.

Over the past few months, there has been a growing chorus of broad, widespread agreement among independent economic forecasters, as well as economists from across the political spectrum, that the action is needed now to address the shortfall in aggregate demand not cuts in public spending. A few examples are:

- Bill Gross, founder and co-chief investment officer of the investment management firm Pimco, the world's largest bond fund, and a prominent Republican, says we need "to create a demand for labor. The private sector is not going to do it." Even if the government must do it directly, "Putting a shovel in the hands of somebody can be productive."[40]

- JPMorgan Chase & Co.'s economists said, "the US and Europe are dangerously close to recession. … the most critical period for the US economy will likely be 4Q11, when we may see some fallout from the heightened volatility of risk markets, and 1Q12, when we get an automatic tightening fiscal policy if, as our US team currently assumes, this year's fiscal stimulus measures will expire."[41]

- Martin Feldstein, Professor of Economics at Harvard University and former Chairman of the Council of Economic Advisers under President Ronald Reagan, said in July: "The high unemployment reflects the lack of demand rather than any fundamental problems with the US labour market."[42]

The massive economic hole left by collapse of the housing bubble and the ensuing financial crisis and high unemployment continue to limit consumption and investment. This means that firms have too-little economic incentive to invest and hire more workers. The collapse of the housing bubble destroyed trillions of assets for U.S. families. The ensuing financial crisis virtually stopped the flow of credit and led to sharp lay-offs and record-high job losses in late 2008 and early 2009. Households continue to cope with high unemployment, fewer hours of work, and lower incomes, while most businesses still face fewer customers than before the crisis. In dollar terms, after rising to a high of 8.1 percent in mid-2009, as of the second quarter of 2011, the shortfall in aggregate demand amounts to almost 7 percent of U.S. gross domestic product.

Corporations have begun to make money but are stockpiling their cash, rather than investing. From December 2008 to August 2011, profits in the nonfinancial corporate sector rose in inflation-adjusted terms by 101.8 percent after taxes.[43] The nonfarm nonfinancial business sector is holding almost $1.9 trillion in cash, the highest level since the fourth quarter of 1959.[44] With companies sitting on large amounts of cash—the share of financial assets that is cash is higher than at any time since 1984—firms already have the funds to invest.[45] And, firms who need to borrow face historically low interest rates.

Even though corporate America is flush with cash, investment is at the lowest level in more than four decades. So far in this business cycle, from December 2007 to present, business investment has averaged 10.2 percent of GDP, and equaled less than 10 percent of GDP in the second quarter of 2011, the lowest average in over four decades.[46] This low level of investment is not because of the cost or availability of capital, which continues to be at lows not seen since the 1960s.[47] What activity firms are engaging is not targeted towards job creation: The Federal Reserve's survey of senior loan officers shows that while banks are lending for mergers and acquisitions, which often lead to job losses, they are not lending for investment in plants and equipment that will create jobs and expanding economic opportunities.[48]

Employers say they are not hiring because they do not see enough customers coming through their doors. The National Federation of Independent Businesses, an organization representing small business owners, reported in August, as it has each month since mid-2009, that "weak sales" are small business owners' biggest problem. In June, they concluded:

> "It is simple: when sales pick up, owners will have a reason to hire more workers to take care of customers, to produce more output and will have a reason to invest in new equipment and expansion. The proximate cause of the collapse of spending in 2008 was reduced consumer spending."[49]

As Jeffery Braverman, owner of Nutsonline, an e-commerce company in Cranford, N.J. that sells nuts and dried fruit put it, "Business demand is what drives hiring."[50]

The supply-side mantra of tax cuts for the wealthy is not a job creation strategy for current economic conditions, especially given past policy decisions. It's important to remember that we have been living in a Bush-tax-cut economy since 2001. That brought us an anemic economic recovery from the 2001 recession. Investment growth, employment growth, and overall economic output all were slower than any other economic recovery in the post-World War II era. The result: For the first time in over a half century, middle-class families saw their incomes fall during an economic expansion, from 2000 to 2007, in inflation-adjusted terms, even as the economy overall grew.[51]

What's more, in the interest of encouraging firms to invest and create jobs, we have kept tax levels below the Bush levels for the entire Great Recession, and have already extended these tax cuts for another two years beginning in 2011. The problem we face is not that the wealthy are not rich enough. The problem is that the policies of the 2000s left us with a hollowed out middle class that should be the engine of economic growth.

Recent regulatory changes are not the reason for today's high unemployment. First, let's remember how we got here: Beginning in the 1980s, financial players had been given wider latitude to make investment choices, regardless of the potential risk, and that, according to the Financial Crisis Inquiry Commission, was a key factor in creating today's economic crisis.[52] When the housing bubble burst, it became abundantly clear that exotic financial products and a lack of attention to the downside risk meant that our nation's largest financial actors were in trouble and credit seized up. Regulators had a job to do, but they failed to protect the U.S. economy from a financial crisis, a crisis that has left 14 million out of work and sharply pulled down family incomes.

Regulations create a level playing field for businesses and prevent economically costly damage to consumers and public health. When you go to a gas station a gallon is a gallon, the aspirin you buy at the pharmacy is really aspirin, and the ground beef is actually beef. The courts enforce contracts, and markets are regulated so investors can invest with some confidence that the information they receive is honest.

Congress has a key role to play in getting America back to work

Recent weak economic data should be a wake-up call to responsible Members of Congress that cutting deficits right now is a job-killing strategy. There are clear steps that policymakers could take to boost employment and the American Jobs Act is an important step forward. It includes key elements of a job-creating the policy agenda: infrastructure investments, reducing lay-offs by keeping workers in their jobs in key sectors such as like education, and ensuring that benefits are available to the unemployed while they search for jobs search.

Let's put aside the misguided focus on short-term deficits and the manufactured crises of this spring and summer, in particular, holding the economy hostage over the debt-ceiling. The United States should not try to imitate the kinds of austerity policies being pursued in Europe, but rather focus on boosting employment.

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Mr. JORDAN. Thank you.
Mr. Schiff.

STATEMENT OF PETER SCHIFF

Mr. SCHIFF. Thank you. My name is Peter Schiff. I guess you can say I am in the economic and financial gloom and doom business. Thanks to this body, President Obama, and the Federal Reserve, business is booming.

I would rather profit from America's success rather than her failure, which is the reason I am here today. We have some serious structural problems underlying the U.S. economy and we cannot solve them until we understand them.

As a Nation, we have borrowed and spent our way into a gigantic ditch. We are not going to get out of the ditch by digging it deeper. We have to reverse the mistakes of the past, not repeat them. Government stimulus will never grow this economy. It will never create jobs. It is the equivalent of trying to put out a fire by pouring gasoline on it.

We have to understand that the housing bubble, the financial crisis of 2008, two events I predicted and warned about, were the consequences of government stimulus. We stimulated our way into this problem, we are not going to stimulate our way out. In fact, the stimulus is actually a sedative. The stimulus is preventing the free market from unraveling the problems that years of bad monetary and fiscal policy have created. We don't need more spending, we need the opposite of spending. We need under consumption. What the economy lacks is savings, investment, production.

If we try to preserve the jobs of the bubble economy with more reckless money printing, borrowing and government spending, all we are going to succeed in doing is preventing the restructuring we need and preventing more productive jobs from ever coming into existence.

I want to talk specifically about jobs. I am an employer. I employ about 150 people. I would probably employ 1,000 more if it weren't for government regulations that have inhibited my ability to hire and grow my business and have forced me to move portions of my business overseas in order to escape the regulatory burden here.

The question is, why do I hire people, where are these jobs coming from? Jobs in a free market come from two things. They come from profits or the profit motive and they come from capital. You need both to create jobs. In a free market, there are going to be jobs and if there aren't enough jobs, Congress has to ask what are we doing to inhibit this process. How are we preventing jobs that would normally be here from coming into existence?

In order for me to hire somebody, I have to be able to make a profit. That means the person I hire has to deliver to me more value than the cost of employing them. The cost of employing them is not just the wages I pay them, but all the mandatory benefits, the taxes and more importantly, the legal liability that I incur when I hire somebody.

In fact, one of the riskiest things you can do in America is to hire somebody. Because of that reason, because of all the liability from government, from lawsuits, that you have put on employers, most small businesses' main concern is how not to hire people. How can

I grow my business and hire as few people as possible, that is not something that happens in the market. That is something that happens as a consequence of government.

The other thing you need to create jobs in addition to profit is capital. People work for me because I have capital. I have tools that my employees lack. They come to work, I give them an office, I give them secretarial support, I give them computers, I give them leads, I give them brand. I give them all sorts of things, but where does capital come from? It comes from savings, from under consumption. Either I have to save it myself or I have to borrow it from somebody else.

There is no money to borrow because it is all going to government or something that government guarantees like education or home mortgages. There is no credit available for small businesses. It is actually a paradox but what we need is higher interest rates. Higher interest rates encourage savings. These low interest rates are of no benefit to typical businesses.

Yes, it benefits government. Government can borrow all this money from the bond market. Some of the major corporations have access to cheap money. Wall Street can gamble with it, but small businesses can't sell bonds. They need to borrow money and there is no savings available. There is nothing there, so businesses can't get capital and there is no incentive to hire because the costs are too high.

You are looking at somebody who was actually fined—I am happy to talk from my experience—$15,000 by security regulators because I hired too many people. Because I hired too many people, I incurred over $500,000 in legal bills defending myself because I hired too many people.

Because I hired too many people, I have been in a hiring freeze ordered by regulators for 3 years. They will not let me hire people, they will not let me open new offices, despite the fact that I was dying to do it. I had plenty of demand, my business was growing, unfortunately, thanks to what you guys were doing, but regulators prohibited me from doing this.

There are all sorts of ways that rules and regulations have inhibited my business. In fact, it is now so expensive, I started my securities firm in 1996, there is no way I could have started that firm today. I have an entire compliance department and it costs me millions of dollars a year just to stay in business just to comply with rules and regulations that are not doing anything to protect my customers.

[The prepared statement of Mr. Schiff follows:]

How the Government Can Create Jobs

Testimony by Peter D. Schiff

Offer to the House Sub-Committee on Government Reform and Stimulus Oversight

September 13, 2011

Mr. Chairman, Mr. Ranking member, and all distinguished members of this panel. Thank you for inviting me here today to offer my opinions as to how the government can help the American economy to recover from the worst crisis in living memory.

Despite the understandable human tendency to help others, government spending cannot be a net creator of jobs. Indeed many efforts currently under consideration by the Administration and Congress will actively destroy jobs. These initiatives must stop. While it is easy to see how a deficit-financed government program can lead to the creation of a specific job, it is much harder to see how other jobs are destroyed by the diversion of capital and resources. It is also difficult to see how the bigger budget deficits sap the economy of vitality, destroying jobs in the process.

In a free market jobs are created by profit seeking businesses with access to capital. Unfortunately Government taxes and regulation diminishes profits, and deficit spending and artificially low interest rates inhibit capital formation. As a result unemployment remains high, and will likely continue to rise until policies are reversed.

It is my belief that a dollar of deficit spending does more damage to job creation than a dollar of taxes. That is because taxes (particularly those targeting the middle or lower income groups) have their greatest impact on spending, while deficits more directly impact savings and investment. Contrary to the beliefs held by many professional economists spending does not make an economy grow. Savings and investment are far more determinative. Any program that diverts capital into consumption and away from savings and investment will diminish future economic growth and job creation.

Creating jobs is easy for government, but all jobs are not equal. Paying people to dig ditches and fill them up does society no good. On balance these "jobs" diminish the economy by wasting scarce land, labor and capital. We do not want jobs for the sake of work, but for the goods and services they produce. As it has a printing press, the government could mandate employment for all, as did the Soviet Union. But if these jobs are not productive, and government jobs rarely are, society is no better for it.

This is also true of the much vaunted "infrastructure spending." Any funds directed toward infrastructure deprive the economy of resources that might otherwise have funded projects that the market determines have greater economic value. Infrastructure can improve an economy in the log-run, but only if the investments succeeds in raising productivity more than the cost of the project itself. In the interim, infrastructure costs are burdens that an economy must bear, not a means in themselves.

Unfortunately our economy is so weak and indebted that we simply cannot currently afford many of these projects. The labor and other resources that would be diverted to finance them are badly needed elsewhere.

Although it was labeled and hyped as a "jobs plan," the new $447 billion initiative announced last night by President Obama is merely another government stimulus program in disguise. Like all previous stimuli that have been injected into the economy over the past three years, this round of borrowing and spending will act as an economic sedative rather than a stimulant. I am convinced that a year from now there will be even more unemployed Americans than there are today, likely resulting in additional deficit financed stimulus that will again make the situation worse.

The President asserted that the spending in the plan will be "paid for" and will not add to the deficit. Conveniently, he offered no details about how this will be achieved. Most likely he will make non-binding suggestions that future congresses "pay" for this spending by cutting budgets five to ten years in the future. In the meantime money to fund the stimulus has to come from someplace. Either the government will borrow it legitimately from private sources, or the Federal Reserve will print. Either way, the adverse consequences will damage economic growth and job creation, and lower the living standards of Americas.

There can be no doubt that some jobs will in fact be created by this plan. However, it is much more difficult to identify the jobs that it destroys or prevents from coming into existence. Here's a case in point: the $4000 tax credit for hiring new workers who have been unemployed for six months or more. The subsidy may make little difference in effecting the high end of the job market, but it really could make an impact on minimum wage jobs where rather than expanding employment it will merely increase turnover.

Since an employer need only hire a worker for 6 months to get the credit, for a full time employee, the credit effectively reduces the $7.25 minimum wage (from the employer's perspective) to only $3.40 per hour for a six-month hire. While minimum wage jobs would certainly offer no enticement to those collecting unemployment benefits, the lower effective rate may create some opportunities for teenagers and some low skilled individuals whose unemployment benefits have expired. However, most of these jobs will end after six months so employers can replace those workers with others to get an additional tax credit.

Of course the numbers get even more compelling for employers to provide returning veterans with temporary minimum wage jobs, as the higher $5,600 tax credit effectively reduces the minimum wage to only $1.87 per hour. If an employer hires a "wounded warrior", the tax credit is $9,600 that effectively reduces the six-month minimum wage by $9.23 to negative $1.98 per hour. This will encourage employers to hire a "wounded warrior" even if there is nothing for the employee to do. Such an incentive may encourage such individuals to acquire multiple no-show jobs form numerous employers. As absurd as this sounds, history has shown that when government created incentives, the public will twist themselves into pretzels to qualify for the benefit.

The plan creates incentives for employers to replace current minimum wage workers with new workers just to get the tax credit. Low skill workers are the easiest to replace as training costs are minimal. The laid off workers can collect unemployment for six months and then be hired back in a manner that allows the employer to claim the credit. The only problem is that the former worker may prefer collecting extended unemployment benefits to working for the minimum wage!

The $4,000 credit for hiring the unemployed as well as the explicit penalties for discriminating against the long-term unemployed will result in a situation where employers will be far more likely to interview and hire applicants who have been unemployed for just under six months. Under the law, employers would be wise to refuse to interview anyone who has been unemployed for more than six months, as any subsequent decision not to hire could be met with a lawsuit. However, to get the tax credit they would be incentivized to interview applicants who have been unemployed for just under six months. If they are never hired there can be no risk of a lawsuit, but if they are hired, the start date can be planned to qualify for the credit.

The result will simply create classes of winners (those unemployed for four or five months) and losers (the newly unemployed and the long term unemployed). Ironically, the law banning discrimination against long-term unemployed will make it much harder for such individuals to find jobs.

At present, I am beginning to feel that over regulation of business and employment, and an overly complex and punitive tax code is currently a bigger impediment to job growth than is our horrific fiscal and monetary policies. As a business owner I know that reckless government policy can cause no end of unintended consequences.

As I see it, here are the biggest obstacles preventing job growth:

1. **Monetary policy**

Interest rates are much too low. Cheap money produced both the stock market and real estate bubbles, and is currently facilitating a bubble in government debt. When this bubble bursts the repercussions will dwarf the shock produced by the financial crisis of 2008. Interest rates must be raised to bring on a badly needed restructuring of our economy. No doubt an environment of higher rates will cause short-term pain. But we need to move from a "borrow and spend" economy to a "save and produce" economy. This cannot be done with ultra-low interest rates. In the short-term GNP will need to contract. There will be a pickup in transitory unemployment. Real estate and stock prices will fall. Many banks will fail. There will be more foreclosures. Government spending will have to be slashed. Entitlements will have to be cut. Many voters will be angry. But such an environment will lay the foundation upon which a real recovery can be built.

The government must allow our bubble economy to fully deflate. Asset prices, wages, and spending must fall, interest rates, production, and savings must rise. Resources, including labor, must be reallocated away from certain sectors, such as government, services, finance, health care, and educations, and be allowed to into manufacturing, mining, oil and gas, agriculture, and other goods producing fields. We will never borrow and spend our way out of a crisis caused by too much borrowing and spending. The only way out is to reverse course.

2. **Fiscal policy**

To create conditions that foster growth, the government should balance the budget with major cuts in government spending, severely reform and simplify the tax code. It would be preferable if all corporate and personal taxes could be replaces by a national sales tax. Our current tax system discourages the activities that we need most: hard work, production, savings, investment, and risk taking. Instead it incentivizes consumption and debt. We should tax people when they spend their wealth, not when they create it. High marginal income tax rates inflict major damage to job creation, as the tax is generally paid out of money that otherwise would have been used to finance capital investment and job creation.

3. **Regulation**

Regulations have substantially increased the costs and risks associated with job creation. Employers are subjected to all sorts of onerous regulations, taxes, and legal liability. The act of becoming an employer should be made as easy as possible. Instead we have made it more difficult. In fact, among small business owners, limiting the number of employees is generally a goal. This is not a consequence of the market, but of a rational desire on the part of business owners to limit their cost and legal liabilities. They would prefer to hire workers, but these added burdens make it preferable to seek out alternatives.

In my own business, securities regulations have prohibited me from hiring brokers for more than three years. I was even fined fifteen thousand dollar expressly for hiring too many brokers in 2008. In the process I incurred more than $500,000 in legal bills to mitigate a more severe regulatory outcome as a result of hiring too many workers. I have also been prohibited from opening up additional offices. I had a major expansion plan that would have resulted in my creating hundreds of additional jobs. Regulations have forced me to put those jobs on hold.

In addition, the added cost of security regulations have forced me to create an offshore brokerage firm to handle foreign accounts that are now too expensive to handle from the United States. Revenue and jobs that would have been created in the U.S. are now being created abroad instead. In addition, I am moving several asset management jobs from Newport Beach, California to Singapore.

As Congress turns up the heat, more of my capital will continue to be diverted to my foreign companies, creating jobs and tax revenues abroad rather than in the United States.

To encourage real and lasting job growth the best thing the government can do is to make it as easy as possible for business to hire and employ people. This means cutting down on workplace regulations. It also means eliminating the punitive aspects of employment law that cause employers to think twice about hiring. To be blunt, the easier employees are to fire, the higher the likelihood they will be hired. Some steps Congress could take now include:

a. **Abolish the Federal Minimum Wage** – Minimum wages have never raised the wages of anyone and simply draw an arbitrary line that separates the employable from the unemployable. Just like prices, wages are determined by supply and demand. The demand for workers is a function of how much productivity a worker can produce. Setting the wage at $7.25 simply means that only those workers who can produce goods and services that create more than $7.25 (plus all additional payroll associated costs) per hour are eligible for jobs. Those who can't, become permanently unemployable. The artificial limits encourage employers to look to minimize hires and to automate wherever possible.

   By putting many low skill workers (such as teenagers) below the line, the minimum wage prevents crucial on the job training, which could provide workers with the experience and skills needed to earn higher wages.

b. **Repeal all Federal Workplace Anti-discrimination Laws** - One of the reasons unemployment is so high among minorities is that business owners (particularly small business) are wary of legal liability associated with various categories of protected minorities. The fear of litigation, and the costly judgments that can ensue, are real. Given that it is nearly impossible for an employer to control all the aspects of the workplace environment, litigation risk is a tangible consideration. Given all the legal avenues afforded by legislation, minority employees are much more likely to sue employers. To avoid this, some employers simply look to avoid this outcome by sticking with less risky employee categories. It is not racism that causes this discrimination, but a rational desire to mitigate liability. The reality is that a true free market would punish employers that discriminate based on race or other criteria irrelevant to job performance. That is because businesses that hire based strictly on merit would have a competitive advantage. Anti-discrimination laws titled the advantage to those who discriminate.

c. **Repeal all Laws Mandating Employment Terms such as work place conditions, over-time, benefits, leave, medical benefits, etc.** – Employment is a voluntary relationship between two parties. The more room the parties have to negotiate and agree on their own terms, the more likely a job will be created. Rules imposed from the top create inefficiencies that limit employment opportunities. Employee benefits are a cost of employment, and high value employees have all the bargaining power they need to extract benefits from employers. They are free to search for the best benefits they can get just as they search for the best wages.

Companies that do not offer benefits will lose employees to companies that do. Just as employees are free to leave companies at will, so too should employers be free to terminate an employee without fear of costly repercussions. Individuals should not gain rights because they are employees, and individuals should not lose rights because they become employers.

d. **Abolish Extended Unemployment Benefits** – In addition to being a source of emergency funds, unemployment benefits over time become more of a disincentive to employment than anything else (although the disincentive diminishes with the worker's skill level -- i.e. high wage workers are unlikely to forego a high wage job opportunity to preserve unemployment benefits). For marginally skilled workers unemployment insurance is a major factor in determining if a job should be taken or not.

Even if unemployment pays a significant fraction of the wage a worker would get with a full time job, the money may be enough to convince the worker to stay home. After all, there are costs associated with having a job. Not only does a worker pay payroll and income taxes on any wages he earns, the loss of unemployment benefits itself acts as a tax. Plus workers must pay for such job related expenses as transportation, clothing, restaurant meals, dry cleaning and childcare, and they must forgo other work that they could do in their free time (providing care for loved ones, home improvement, etc.).

Understandably, most people also find leisure time preferable to work. As a result, any job that does not offer a major monetary advantage to unemployment benefits will likely be turned down. This entrenches unemployment insurance recipients into a class of permanently unemployed workers.

It is no accident that employment increases immediately after unemployment insurance expires for many categories of workers. In fact, many individual will seek to max out their benefits, and remain unemployed until those benefits expire. If they work at all, it will be for cash under-the-table, so as not to leave any money on the table.

Mr. JORDAN. Thank you, Mr. Schiff. We appreciate that.
Mr. Lindsey.

STATEMENT OF BRINK LINDSEY

Mr. LINDSEY. Mr. Chairman, members of the subcommittee, thank you very much for the opportunity to appear at today's hearing.

Everyone knows that the current employment situation is dire. What is less well known is the roots of our present jobs crisis go deeper than the great recession that began in 2008. The share of adult Americans who are employed peaked at an all time high of 64.4 percent back in 2000, 11 years ago, and never recovered since.

In 2007, before the financial crisis of 2008 and the ensuing recession, the employment to population ratio had fallen down to 63 percent. It now stands at 58 percent, the lowest level since 1983.

For public policy to be effective in dealing with this grim situation, it needs to be based on a clear understanding of where jobs come from. On that question, research from the Kauffman Foundation, my employer, leaves no doubt new firms are the main engine of job creation in this country. Specifically, from 1977 to 2005, there were only 7 years in which existing firms created more jobs than they destroyed. The bottom line is simple, without startups, there would be no net job creation in the United States.

Additional Kauffman Foundation research reveals that the engine of new jobs began sputtering before the great recession. Census data show that the number of new employer businesses created annually began falling in 2006, dropping 27 percent by 2009. Meanwhile, the average number of employees for new firms has been trending gradually downward since 1998 and the pace of job growth at new firms during the first 5 years has been slowing since 1994.

The timing of deteriorating employment situations suggests the problem is structural, not merely cyclical. Structural problems call for structural solutions, not temporary stimulus but permanent policy changes.

Specifically, the ultimate answer to restoring prosperity and vigorous job growth lies in policy reforms that create a favorable environment for the creation and growth of new businesses. Barriers to entrepreneurship need to be identified and systematically dismantled. This conclusion is further supported by my own research into the growth challenges confronting not only the United States but all advanced countries operating at the technological frontier.

My findings regarding what I call frontier economics can be summarized as follows, the available sources of growth and the policy requirements of growth change over time with a country's advancing economic development. What may work at one stage of development won't work in another. In particular, as countries get richer, they become ever more heavily dependent on homegrown innovation as opposed to merely expanding existing opportunities or borrowing good ideas from abroad in order to keep the growth machine humming.

Since new firms play a vital role in the innovation process, that means that removing barriers to entrepreneurship becomes increasingly important to maintaining economic dynamism and prosperity. In an effort to identify the kinds of policy reforms needed to reduce structural barriers to entrepreneurship and job creation, the Kauffman Foundation unveiled in July of this year a series of legislative proposals that we call the Startup Act of 2011.

Let me review the major elements of this plan: an entrepreneur visa along the lines of the revised Lugar Startup Visa Act; green cards for foreign students that receive so-called STEM degrees, degrees in science, technology, engineering and mathematics; exemption from capital gains taxation for investments in startups held for at least 5 years; 100 percent exclusion from corporate income tax for qualified small businesses on their first year of taxable profit; followed by a 50 percent exclusion over the next 2 years; allowing shareholders of companies with market valuations under $1 billion to opt out of Sarbanes-Oxley requirements since those requirements are supposed to protect shareholders, then we think shareholders should be able to have a say as to whether they want that protection or not; higher fees for better, faster service at the Patent and Trademark Office to clear the backlog at the PTO, I believe that provision is included in the patent reform legislation now nearing completion; mandate that all Federal research grants to universities be conditioned on universities affording their faculty members the ability to choose their own licensing agents rather than having to rely as they do at present on their own university's technology licensing office; institute a requirement that all major regulatory rules sunset automatically after 10 years; subject all proposed and existing major regulatory rules to uniform cost benefit analysis; and institute monitoring of the business climate in States and localities along the lines of what the World Bank's doing business report does for different countries.

The proposals contained in the Startup Act can represent a kind of greatest hits collection from a far broader set of promising reform ideas. Some of these other ideas can be found in a book published this year by the Kauffman Foundation entitled, "Rules for Growth." A great deal of additional work will need to be done beyond these proposals, but in the current crisis, first steps are urgently needed. We believe the proposals put forward in this Startup Act would make excellent first steps toward restoring job creation and prosperity.

Thank you.

[The prepared statement of Mr. Lindsey follows:]

Testimony of Brink Lindsey
Senior Scholar in Research and Policy,
Ewing Marion Kauffman Foundation
Before the
Subcommittee on Regulatory Affairs,
Stimulus Oversight, and Government Spending,
House Committee on Oversight and Government Reform
On "Job Creation: Unleashing Entrepreneurship"
September 13, 2011

Chairman Jones, Ranking Member Kucinich, and distinguished members of the Subcommittee, my name is Brink Lindsey and I am a senior scholar in research and policy at the Ewing Marion Kauffman Foundation. I thank you for the invitation to appear at today's hearing and share some perspectives on the crucial challenge of reviving job creation and restoring dynamism and prosperity to the U.S. economy.

With the unemployment rate stuck above 9 percent and long-term unemployment at unprecedented levels, nobody needs to be told that the current employment situation in this country is dire. What is less well understood, though, is that the roots of our present jobs crisis go deeper than the Great Recession that began in 2008. The share of adult Americans who are employed peaked at 64.4 percent back in 2000 – 11 years ago – and has never recovered since. In 2007, before the financial crisis of 2008 and the ensuing recession, the employment-population ratio had fallen to 63 percent. It now stands at 58.2 percent, the lowest level since 1983.

For public policy to be effective in responding to this grim situation, it needs to be based on a clear understanding of where jobs come from. And on that question, research from the Kauffman Foundation leaves no doubt: new firms are the main engine of job creation in this country. Specifically, from 1977 to 2005, there were only seven years in which existing firms created more jobs than they destroyed. The bottom line is simple: without startups, there would be no net job creation in the United States.[1]

Additional Kauffman Foundation research reveals that this engine of new jobs began sputtering before the Great Recession. Census data show that the number of new employer businesses created annually began falling after 2006, dropping 27 percent by 2009. Meanwhile, the average number of employees per new firm has been trending gradually downward since 1998. And the pace of job growth at new firms during their first five years has been slowing since 1994.[2]

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[1] See Tim Kane, "The Importance of Startups in Job Creation and Job Destruction," Kauffman Foundation Research Series: Firm Formation and Economic Growth, July 2010, http://www.kauffman.org/uploadedFiles/firm_formation_importance_of_startups.pdf.

[2] E.J. Reedy and Robert E. Litan, "Starting Smaller; Staying Smaller: America's Slow Leak in Job Creation," Kauffman Foundation Research Series: Firm Formation and Economic Growth, July 2011, http://www.kauffman.org/uploadedFiles/job_leaks_starting_smaller_study.pdf.

The timing of the deteriorating employment picture suggests that the problem is structural, not merely cyclical. And structural problems call for structural solutions. Specifically, the ultimate answer to restoring prosperity and vigorous job growth lies in policy reforms that create a more favorable environment for the creation and growth of new businesses. Barriers to entrepreneurship need to be identified and systematically dismantled.

This conclusion is further supported by my own research into the growth challenges confronting not only the United States but all advanced economies operating at the technological frontier. My findings can be summarized as follows: the available sources of growth, and the policy requirements of growth, change over time with a country's advancing economic development. In particular, as countries get richer they become ever more heavily dependent on home-grown innovation – as opposed to simply expanding existing activities or borrowing good ideas from abroad – to keep the growth machine humming. And since new firms play an absolutely vital role in the innovation process, that means that removing barriers to entrepreneurship becomes increasingly important to maintaining economic dynamism and prosperity.[3]

In an effort to identify the kinds of policy reforms needed to reduce structural barriers to entrepreneurship and job creation, the Kauffman Foundation unveiled in July of this year a series of legislative proposals called the Startup Act of 2011.[4] Let me review now the major elements of this plan:

Welcoming job creators to the United States. First, we propose an entrepreneur visa along the lines of the revised Kerry-Lugar Startup Visa Act. Initially, entrants would be screened for a temporary visa based on either the outside capital they had attracted or revenues from U.S. sales they already had recorded. Permanent work visas (green cards) would be granted once these entrepreneurs had hired a minimum number of U.S. workers. Although the Kerry-Lugar bill imposes a limit on the number of visas granted, we believe a strong case can be made for a visa without any caps. A second, mutually reinforcing idea would grant green cards to foreign students when they receive their so-called STEM degrees – degrees in science, technology, engineering, and mathematics – from U.S. universities. Admittedly, most STEM graduates who are given visas will compete with U.S. workers for jobs. In the long run, however, given the greater propensity of immigrants to found businesses, it is likely many of the STEM graduates permitted entry now eventually will go on to form scale businesses that hire American workers.

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[3] Brink Lindsey, "Frontier Economics: Why Entrepreneurial Capitalism Is Needed Now More Than Ever," Kauffman Foundation Research Series on Dynamics of Economic Growth," April 2011, http://www.kauffman.org/uploadedFiles/frontier_economics_4_06.pdf.

[4] Kauffman Foundation, "The Startup Act: A proposal for new legislation aimed at jump-starting the U.S. economy through successful startups," http://www.kauffman.org/uploadedFiles/startup_act.pdf.

<u>Facilitating early stage financing for new firms</u>. The first proposal here is for a capital gains tax exemption for long-held investments in startups. The Small Business Jobs Act of 2010 currently provides such an exemption for investments in "qualified small businesses" (those with less than a $50 million valuation at the time of investment) held for at least five years. The exemption is currently due to expire at the beginning of 2012, but the National Advisory Council on Innovation and Entrepreneurship (NACIE), created by the Department of Commerce, has recommended a permanent exemption for these critical initial investments in startups. It is appropriate for this idea to be included in any comprehensive startup legislation. NACIE also has suggested a 100 percent exclusion on corporate taxable income earned by qualified small businesses (again, using the same test as for the proposed capital tax exemption) on the first year of taxable profit, followed by a 50 percent exclusion in the subsequent two years. We believe additional incentives along these lines are worthy of support.

<u>Facilitating access to public capital markets</u>. The provisions of the Sarbanes-Oxley Act, especially the verification of internal controls embodied in Section 404 of the act, impose a disproportionate burden on new, small companies and thus act as a barrier to going public. In 2010, Congress implicitly recognized this problem when granting a permanent exemption from the Section 404 audit requirements for public companies with market capitalizations of less than $75 million. Any comprehensive startup legislation should go further, for a very simple reason: The best judges of whether the benefits of the SOX requirements outweigh their costs are the shareholders of the companies for whose benefit the law was enacted in the first place. Accordingly, rather than simply raising the market cap threshold for exempting smaller public companies from SOX's requirements, the most logical SOX reform is to allow shareholders of public companies with market valuations below $1 billion to opt in to at least Section 404 compliance, if not to all of the SOX requirements. Companies whose shareholders do not elect to comply with SOX should have special designations in their exchange listings to denote this fact so that all shareholders, current and potential, are put on notice.

<u>Accelerating the formation and commercialization of new ideas</u>. At this writing, Congress is nearing final passage of patent reform legislation with various provisions whose likely impacts on innovation and startups are not clear. We believe that at least one provision of the legislation – namely, higher fees for faster or better service – is very likely to be positive in its effects. To obtain patent protection for new ideas, inventors first must receive a patent from the U.S. Patent and Trademark Office (USPTO). In recent years, however, USPTO examiners have been unable to keep up with the pace of new applications, to the point where there is now a backlog of over 700,000 patent applications at the office. There is an old saying that "justice delayed is justice denied," and the same certainly applies to a patent regime that is too slow to process incoming patents.

More than thirty years ago, Congress enacted the Bayh-Dole Act, granting recipients of federal research monies intellectual property rights in innovations discovered with the use of those funds. Since Bayh-Dole was enacted, faculty members typically have been required under their university contracts to use the university's own technology licensing office (TLO) as the exclusive agent for licensing the rights to faculty-developed innovations either to the inventors themselves or third parties. In effect, university TLOs have become monopoly licensing agents and gatekeepers, preventing innovative faculty from using their own attorneys or other third parties, or even other university TLOs, to license and commercialize their innovations. The federal government can and should remedy this odd situation. One simple way to do so is to mandate that all federal research grants to universities be conditioned on universities' affording their faculty members the ability to choose their own licensing agents. A university's own TLO could compete in this new environment or, at minimum, provide informational services and mentoring to university faculty members. Licensing freedom for faculty inventors and true competition in innovation licensing would speed up the commercialization of faculty innovations, benefiting the innovators, their universities, and our society.

Removing regulatory barriers to entrepreneurship. Because of their size, small and new businesses bear an especially heavy burden when complying with the multitude of local, state, and federal rules that govern business behavior. To help alleviate this burden, the Startup Act contains two proposals for systemic reform of the federal regulatory process. The first is a simple requirement that all major rules (those with estimated costs of at least $100 million) sunset automatically after ten years. Rules then would be allowed to lapse unless and until re-proposed and implemented (under new standards outlined next). This would regularly cleanse the books of inefficient and costly rules and, thus, barriers to business formation and growth for all businesses, including startups. The second proposal is for all major rules to be subject to a uniform regulatory review process. Under this screening procedure, no major rules would be implemented or maintained (after a sunset review) unless agencies can determine that the rules' benefits outweigh their costs. Furthermore, the form of these rules should be such that the option chosen is the most cost-effective of the alternatives available.

In addition, the Startup Act offers a new mechanism for monitoring and thereby potentially curbing regulatory abuses and excessive costs at the state and local level. Although the federal government should not step on the toes of local and state governments, it can facilitate healthy competition among these jurisdictions for favorable startup environments. Just as the World Bank has assessed the favorability of the legal environment toward business in different countries through its annual *Doing Business* reports, there should be some recognized entity that does the same (with a special emphasis on policies and practices affecting the formation and growth of new businesses) for each of the fifty states and all cities above a certain size. The *Doing Business* rankings have proven to be an important spur to regulatory reform around the world. A similar *Doing Business* project for jurisdictions inside the United States could have the same result. Both the government and private sector have roles in this effort. Because the underlying data are likely to be costly and difficult to gather, it could be useful and important to charge and fund one government agency with collecting the raw data that could be made available to the public, which would permit either non-profit or for profit rating systems to develop.

The proposals contained in the Startup Act represent a kind of "greatest hits" collection picked from a far broader set of promising reform ideas. Some of these other ideas can be found in a book published this year by the Kauffman Foundation entitled *Rules for Growth: Promoting Innovation and Growth through Legal Reform.* That book was the product of an ongoing Kauffman Foundation initiative – the Project on Law, Innovation, and Growth – that we hope will make further major contributions to our understanding of how to improve our legal and regulatory system to make it more conducive to entrepreneurial dynamism.

Much work remains to be done, but in the current crisis first steps are urgently needed. We believe the proposals put forward in the Startup Act would make excellent first steps toward reviving job creation and prosperity.

Thank you.

Mr. JORDAN. Thank you, Mr. Lindsey.

Mr. Schiff, your testimony actually reminded me of a comment a friend of mine made to me several years ago, 5 or 6 years ago, actually, him and his brother. The older one said to me, Jim, I love being in business, I hate being an employer. I hate being an employer because of all the stuff you make us do, and he pointed right at me, talking about government.

It is not that Mike doesn't like people or want to hire them, it is just he said exactly, may be not as eloquently as you put it, but exactly what you said—all the regulatory things that government makes him do is what makes it so tough for people to hire.

I think Dr. Boushey talked about $1.9 trillion that companies are sitting on and they are sitting on this I believe as sure as I am sitting here for exactly the reason that Ms. Furchtgott-Roth talked about, they are looking at what is coming. There is no definitive answer on health care and we are not going to get one maybe 14 months, maybe the next election. There is no definitive answer on what is ultimately going to happen, so they know they have to hold some money for that.

I would make this case, and this is what I want you to comment on, this idea that the spending, the deficits we are running, piling up the debt we are piling up, the job creators out there deep down understand they are probably going to have to pay for that too. At some point, that has to be paid off. I would argue that may be more than anything is the biggest uncertainty they face. I think there is a huge link between the spending and the failure to create jobs.

Talking about the spending and then also the regulatory issue. Senator Johnson has a bill which simply says no more, no more new regulation, stop the damage where it is. I want your thoughts on that, plus this link between the spending and job creation. We will start with Professor Taylor and go done the line.

Mr. TAYLOR. I think a moratorium on new regulation would help a lot, absolutely. You heard the testimony here that confirms that and I have seen it myself. Firms are sitting on a huge amount of cash. Not all of them have it but a large number do, so that would remove a lot of uncertainty.

The second part of your question, I do think the debt and the uncertainty about how it is resolved creates uncertainty. Will there be a tax increase? Will there be inflation? Will there be deflation? There is just a huge amount of uncertainty. By outlining a coherent strategy to deal with that debt that is credible would be the best stimulus I can think of.

Mr. JORDAN. The one word I have heard more than anything else over the last 3 years relative to our economic situation and the lack of growth is uncertainty. I fail to be convinced how so-called temporary fixes alleviates the underlying uncertainty.

Mr. TAYLOR. I think it makes it worse. Even the people who use these models to say it is going to boost the economy, always emphasize it is short term. It is not a fixing growth. Even if it works, as some of them say—which I don't believe it will—they predict a few months from now, we will be back in the same dismal place. That is what the models are saying.

Mr. JORDAN. Thank you.

Ms. FURCHTGOTT-ROTH. Yes, I think a moratorium on new regulations would be very helpful also, a hold on all existing regulations that are right now going through the Notice of Proposed Rule and Comment. I would add to include those.

I would add to the uncertainty, not just over the debt, but also over taxes. You recall that in December, we went through a whole discussion, debate as to what to do with taxes. Finally, they were kept at the current level for the next 2 years. In every speech, President Obama says he wants to raise them. He just proposed raising them yesterday in the bill he sent to Congress.

Even though Congress said taxes were going to remain the same, no, the President is sending a completely different message.

Mr. JORDAN. Nine months later, we are changing already. There is a proposal to change that.

Ms. FURCHTGOTT-ROTH. Yes, that is right. In every speech he has, he says millionaires and billionaires should pay more by which he means people earning over $200,000 a year in his specific proposals.

Mr. JORDAN. Thank you.

Dr. Boushey.

Dr. BOUSHEY. I want to make three quick points. First, on the issue of regulations, I think we need to be very careful that we are very specific about what we are talking about. In today's New York Times, for example, there was an article about whether or not the FDA would regulate new forms of e coli in our hamburgers. That creates a level playing field so every producer knows it, everyone else needs to make sure they are not allowing hazardous foods, that is an important regulation and certainly it costs businesses money, but that is important for consumer health. I don't know when I see that hamburger what is in inside of it. That is critical, so there is sort of blanket regulatory stuff and we need to dig down deep into that.

Second, we had an over 8 percent drop in GDP because of the crisis. That is a massive hole to fill. I concur with my colleagues over here that it may have been that the housing bubble had an elevated level of demand flowing through the economy because of the housing bubble but that doesn't change the fact that when you pull it out of the economy you have a gapping hole and that has left 14 million people out of work.

It is that hole that government spending, is the only entity, right now can fill unless we are going to dramatically increase our experts.

Very quickly, my third point around this uncertainty question. Certainly there is always uncertainty in an economy, but I think we should have been asking ourselves in the early 2000's how we were going to pay for the massive tax cuts that we did when we were also having to unfunded wars. I didn't hear as much discussion around that then but those are the kinds of questions we should have been asking and a part of why we are here today.

Mr. JORDAN. Mr. Schiff.

Mr. SCHIFF. First of all, demand doesn't come from government spending; inflation comes from government spending. Demand comes from supply. You can't consume something that isn't produced. We have to make things first.

As far as regulations are concerned, certainly we need to stop piling new regulations on top of the existing regulations. More importantly, we have to start repealing a lot of the rules and regulations that are already in place. There are millions of Americans unemployed. How do we increase the demand for labor. It is simple. You bring down the cost of labor. Regulations substantially increase the cost of employing people and as a result, fewer people are employed.

There are simple things you can do from getting rid of the minimum wage law, which you can do this afternoon, which would create millions of jobs and more importantly, help people get trained for much higher paying jobs in the future. Right now, they are never going to get jobs.

The regulations that increase labor costs and that subject employers to all sorts of lawsuits if they don't create jobs in precisely the manner that some bureaucrat thinks they should be created you have to level the playing field between employers and employees. You can't lose your rights because you hire somebody. You can't give workers some kind of special privilege and then call it worker's rights. Workers don't have special rights because they get a job. Everybody has individual rights and you shouldn't lose them because you hire somebody.

Mr. JORDAN. Mr. Lindsey, can you be brief because we want to get to Mr. Cummings.

Mr. LINDSEY. I sympathize with the idea of a regulatory moratorium, but I would point out that too is another temporary fix. That moratorium won't last forever, nor should it. What we need is a permanent change in the regulatory process. A couple of the proposals in our Startup Act go to that.

First is cost benefit analysis instituted uniformly for all major new rules and second, even more importantly, 10 year sunset provisions for all major regulatory rules so they have to be reapproved and not just go on forever.

Mr. JORDAN. Now I want to go to the ranking member of the full committee, the gentleman from Maryland, Mr. Cummings. You may have some extra time. I apologize.

Mr. CUMMINGS. Thank you very much.

In a day and age when China is spending 9 percent of their GDP on infrastructure, we are spending less than half of a percent. In Maryland in my district in the State of Maryland, about every half a hour a pothole is opening up. In other words, the pipes burst. We have bridges in disrepair. President Obama is about to go to Ohio and talk about 95 bridges that are in disrepair.

At some point, there is no one in this room who, if you had a house, you would repair it and maintain it because if you don't maintain it, it will fall apart from the inside. It seems to me that the portion of the American Jobs Act that addresses infrastructure is so very, very, very important.

It makes no sense if you are riding down a road, like the bridge in Minnesota, on your way home from work, kids in the backseat in one of the greatest countries in the world and the damn bridge collapses. At some point, we need to say, wait a minute, let us get this right. China is about to build 100 airports and we are spending less than half a percent on our infrastructure, something is wrong.

The thing that gets me is we seem to go to the ring around the roses thing. Folks say don't tax the rich in a recession but still the very people who have worked for this committee will probably end up taking a 10 percent pay cut. They say, what about them in a recession, what about the secretary who is only making $50,000 who wrote some of the thing we are asking this morning. What about her and her two kids?

Then we say, uncertainty. That is the thing we just went through creating some of the greatest uncertainty that could exist. We saw that. People look at us like we were fools and they were totally disgusted. They said, they can't even get it together to pay the debts we have already made, not the debts that are coming but the debts we have already made. We saw what Standard and Poor's did.

The other thing I guess concerns me is when we talk about regulations, it is interesting we act like President Obama's administration was the only administration that created regulations. He has only been in office 2½ years. Most of these regulations were created over the years, so now we say, let us take away the regulations.

Let me tell you what worries me. I used to be an employer of a small law firm. One of the things that worries me is that we give the tax cuts to business who are not hiring; we look out for the banks who are not lending; if we cut out the regulations making it possible for business to make even more money—and by the way, there is no guarantee when you get rid of the regulations that it is going to lead to them hiring more people, even if they are saving money because the issue still becomes uncertainty, so we go to ring around the roses.

At some point, we have to say wait a minute, let us get off this merry go round and begin to create jobs for people. When they look at this, when they hear this, the people in my district, I can hear them now. If they are watching, when I get home tonight, they will say, Cummings, they don't get it. They don't get that I was not able to pay for my kids' tennis shoes when they got ready to go to junior high school. They don't get that I am losing my house.

In some way, we have to figure out how do we come together to begin to address these issues. I just think there are solutions but when people say, government doesn't need to play much of a role—government does have a role. Private business has a role. All of us know that 70 percent of GDP is dependent on consumer confidence.

I keep hearing about regulations. I have said in this committee—and you have probably heard me say it, Mr. Schiff, and thank you for coming back to us again—that when I was in high school, I used to work at Bethlehem Steel. When I would go to Bethlehem Steel during the summer to work, when you came out if you blew your nose in a half hour of being on the premises, black stuff came out in your mucous.

I think we need to be careful with regulations and we need to keep in mind why we have regulations. They are to protect the health, welfare and safety of Americans, of our children. I don't want my child to have to go to Bethlehem Steel—if it was still in existence—and when he blew his nose, stuff comes out like what happened to me 40 years ago. I don't want that. We are better than that.

I just think there is some kind of way that government does have a role. I think repairing our infrastructure is extremely important. I think that will spur on folks working. I see it in the neighborhoods. You can say what you want about the stimulus bill, but I can bring in a room full of people who will tell you if it were not for the stimulus bill, they would not have had jobs. I know that it has an effect. I think any stimulus type of action needs to be carefully planned and I think it needs to be very targeted, but it has a role.

Then business needs to do something for us, the businesses that have benefited tremendously from Americans when the times were good, may be they need to say, it is time for us to start doing some things too and staying here in this country and making it in America, as Steny Hoyer says.

Dr. Boushey, would you comment on what I just said? I only have 20 some seconds.

Dr. BOUSHEY. You made some very eloquent points. One thing about infrastructure that we fail to talk about is how much it benefits small, medium and large businesses in America. You talked about the importance for jobs and infrastructure investments and keeping up with China.

I think about the small business owner across the street from me who runs a restaurant and over the past few years, the water main has broken three times, so each time his business closes and he talks about how hard it is. Now because of recovery dollars, they are out there repairing those pipes, giving us new pipes. They are a hundred years old here in the District of Columbia. That is fantastic. That is exactly what we need to be doing so he can be competitive and so America can compete in the 21st Century economy. I think it is exactly what we need to be thinking about.

Mr. CUMMINGS. Thank you, Mr. Chairman.

Mr. JORDAN. Before going to the ranking member, I have one question that I think Mr. Cummings raised.

Professor, did S&P downgrade the bond rating of the United States of America, in your judgment, because we had a vigorous debate in Congress about what should happen relative to the debt ceiling or did they down grade us because the deal that was put together didn't address the gravity of the problem?

Mr. TAYLOR. They mentioned the ongoing accumulation of debt they saw coming down the road and that had not been changed enough by the budget deal. People think they commented on the way the budget was put together. I think it represents an accomplishment, that something was done. Something actually was done compared to the first budget that the President submitted in February of this year, there is a substantial change in direction from that deal. So I think there is some positive there, but I think S&P was looking at the fact they wanted more.

Mr. JORDAN. Ms. Furchtgott-Roth, if you could briefly comment. Was it the vigorous debate that caused the downgrade or was it the deal put together and the lack of real spending reductions and savings?

Ms. FURCHTGOTT-ROTH. Before the downgrade, they said they wanted to see $4 trillion in debt reduction over the next 10 years. That was under discussion at some part of the process but then it fell by the wayside. If they had had the $4 trillion in debt reduction, then my impression is they would not have done the downgrade.

I agree that infrastructure spending is very important. It does not mean that is necessarily a role for the government. In Europe, there are many examples of roads and bridges being leased to the private sector over a period of years and they do the repairs themselves.

Mr. JORDAN. Dr. Boushey, real quickly, which is it, vigorous debate or the deal itself?

Dr. BOUSHEY. I think it was both but I also want to note these are the folks who weren't able to call the housing bubble and did not sufficiently downgrade many of the firms that led to the financial crisis.

Mr. JORDAN. Nevertheless, it is the first time in 70 years the U.S. bond rating was downgraded.

Dr. BOUSHEY. It certainly was, but other people say similar things.

Mr. JORDAN. You say it is both. Which one had more weight on their decision?

Dr. BOUSHEY. In their view, in their statements, it was what Diana Furchtgott-Roth said, about them wanting a bigger deal.

Mr. JORDAN. Think about what the deal was, a $14 trillion debt; we raise it $2.4 trillion; we got $21 billion in savings the first year. I always tell folks you have to put it in family terms. A kid gets a credit card, runs the bill up to $14,000 and says that is not enough. Goes to the bank, the bank says, we will give you $2,400 more but you have to promise us over the course of the next year, in your budget, that you plan on spending, you will spend $21 less than you planned on spending. That was the deal.

I would argue Standard & Poor's downgraded us because the lack of the deal, the agreement addressing how serious this situation is. To insinuate that it was because Congress had a vigorous debate, I thought that was what we were supposed to do in Congress.

Dr. BOUSHEY. Congress is certainly supposed to have a vigorous debate. Part of the puzzle though was this Congress refused to put raising taxes, especially on the wealthy, as a part of that package. That would have been an important way to get to the goal that S&P wanted.

Mr. JORDAN. And an important way to tax the people who create jobs too.

Dr. BOUSHEY. And that caused the crisis.

Mr. JORDAN. The good doctor from Tennessee next and then the ranking member.

Mr. SCHIFF. It was definitely the deal, not the discussion. With due respect, I did call the financial bubble and I criticized S&P and Moody's and Fitch at the time for putting AAA ratings on bonds I knew were going to go to zero. In my opinion, S&P didn't downgrade the United States far enough. That is the problem.

I would love to address some of Mr. Cummings' points.

Mr. JORDAN. Make it quick because I want to get to the ranking member.

Mr. SCHIFF. He made so many points, but you are right about one thing. The bad regulation didn't start under Obama. We have a lot of regulations that need to be undone. It is not just the intent. I don't argue that in some cases the intent of the regulation is good; the problem is the consequences are the exact opposite of the intent.

Infrastructure spending doesn't stimulate the economy; it drains the economy of resources. Infrastructure only helps in the long run when you finish the project if it raises the productivity of the Nation. In the meantime, we are too broke. China can put in these airports because they are rich. We are broke.

Before we can afford to improve the infrastructure, we need to have more serious restructuring of our economy. We have to start making stuff. We need more factories before we can start figuring out how to make our roads prettier.

Mr. JORDAN. Mr. Lindsey, real quick, was it the debate or the deal?

Mr. LINDSEY. I can't speak for S&P, I don't work there and wasn't privy to all their deliberations.

From my own perspective, the combination of an utterly unsustainable fiscal situation and a political process that does not look it is terribly serious about coming to grips with it, merited an alarm bell.

Mr. CUMMINGS. Fifteen seconds.

Mr. JORDAN. Fifteen seconds for the ranking member.

Mr. CUMMINGS. Let me just say this. I have read this fifty million times. Their concern was that there were Members of Congress that were going around talking about not raising the debt ceiling. That was one of their major concerns and saying, we don't have to do that.

Mr. SCHIFF. That is what you should have done. If you didn't raise the debt ceiling, then we could have cut spending. You said we were paying our bills. We don't pay our bills by going deeper into debt. That is avoiding paying our bills and guaranteeing eventual default.

Mr. JORDAN. The gentleman from Tennessee is recognized.

Dr. DESJARLAIS. Thank you, Mr. Chairman.

I was one of those guys going around saying we shouldn't raise the debt ceiling without significant cuts. We saw what happened because we didn't get significant cuts. I am all in favor of rebuilding our infrastructure and making our bridges safe. We had a bridge in Minnesota that collapsed years ago and that has become the poster child for our failing infrastructure. We have millions of bridges that work just fine.

The point is what I don't get is how we are going to pay for this. We continue to borrow and spend money. We have a Stimulus II coming up that we need to talk about here a bit to see if it is feasible and how it is going to be paid for, but I do agree with Mr. Cummings that it doesn't really matter where these regulations came from, the fact is there are two darned many.

In the American Jobs Tour and my stops across Tennessee, the number one complaint and impediment to job growth, according to the 30-plus industries I visited, is we need to get government out of the way. We are simply not doing that with this. We are looking at 219 new regulations by this President costing over $38 billion and this new proposed plan is going to show an increase of 10,000 new regulators a year. Certainly that doesn't seem to be solving the problems they were set out to do.

As far as paying for this, Dr. Boushey said that it is time to increase taxes on the rich or we going to back into this spread the wealth mentality to get ourselves out of the problem. How exactly do you think that is going to solve the problem and as far as the taxes on the rich and removal of the deduction in the charitable contribution area, can you comment on that and how you think that is going to solve the problem?

Dr. BOUSHEY. As many of us have discussed today, we clearly have a long term deficit problem, we have a gap, we have a challenge there. One of the things we have seen over the past few decades is America has become a fairly low tax country. One of the things we have done is extended these tax cuts on the wealthiest.

Dr. DESJARLAIS. Let me interrupt. Do we tax too little or do we spend too much as a government? Look at our deficit.

Dr. BOUSHEY. Exactly. Relative to other countries, we are a relative low tax country and we are not a relative high spender.

Dr. DESJARLAIS. Are we a high spending country or not?

Dr. BOUSHEY. No, not relative to our GDP and relative to other countries.

Dr. DESJARLAIS. How did we get in this mess?

Dr. BOUSHEY. I would be more than happy after this to send you a series of charts that document this.

Dr. DESJARLAIS. Do you think closing the loophole on charitable contributions is going to hurt charities?

Dr. BOUSHEY. That is only for wealthy families and I think over the long run, no.

Dr. DESJARLAIS. Wealthy families over what amount, $250,000?

Dr. BOUSHEY. Two hundred fifty thousand dollars.

Dr. DESJARLAIS. That is a wealthy family. Who do you think gives the most to charities?

Dr. BOUSHEY. It is a wealthy family and those are families in the very top of the U.S. income distribution. Those are families that have benefited from economic growth over the past few decades while other families have not, so they have benefited more from the 2000's, more during the 1980's, more during the 1990's than middle class and lower income families, so asking them to pay their fair share does seem like an appropriate place. If we are all focused on closing that deficit, it has to come from somewhere. It can't come from families that have not seen income gains.

Dr. DESJARLAIS. Mr. Schiff, do you have a comment on that?

Mr. SCHIFF. As Dr. Boushey, what percentage of my income do you think the government should take? What would be fair?

Dr. BOUSHEY. I am not going to give you a number here.

Mr. SCHIFF. Just guess. What do you think would be fair? You say I am not paying enough taxes, how high should my taxes be. What percentage of my income should be taken away from me by the government?

Dr. BOUSHEY. We have a progressive income tax structure.

Mr. SCHIFF. What do you think—half, 60 percent, 70 percent?

Dr. DESJARLAIS. Taxing the rich is a great idea until the rich run out of money.

Mr. Chairman, let us shift gears for a second because this is going to go on forever.

Ms. Boushey, do you feel that government jobs create revenue? I think you said the Stimulus I, the majority of jobs created were private sector jobs. Do public jobs create revenue or do they just cost the taxpayers money?

Dr. BOUSHEY. Recovery dollars that go into communities to say build a bridge, you hire engineers typically in the private sector, some in the public, some in the private; you hire contractors; you hire people that do concrete. You hire a lot of folks in the private sector and then that has spillover effects, so if you hire that person who has the concrete, they have more money and spend it in their communities. That is how those private sector jobs are created, both directly and indirectly.

Dr. DESJARLAIS. Mr. Schiff, do you feel that is a good return on your investment, to spend those tax dollars that way? What is your chance of making a profit?

Mr. SCHIFF. First, I want to point out that 99 percent of my income is taxed at the marginal rate, so the marginal rate is my rate. If the Federal Government is taking 35 percent of my income, and another 3 percent for Medicare, that is 38 percent and the State of Connecticut almost 7 percent, over 45 percent of my income is in tax before I pay any property taxes, sales tax or anything else.

If you raise my taxes much more, that is it. I am done. I am already moving businesses to Singapore, moving businesses to the Caribbean to try to go to lower tax jurisdictions. We are not a low tax country. We are a high tax country and we are a much higher tax country than we used to be in the past by far.

Dr. DESJARLAIS. I am out of time but I am going to close with the fact that we continue to spend money at an unprecedented rate. As Mr. Cummings said, I think people were very shocked at the debt ceiling debate. My stance, and at least what I gathered from the people from Tennessee, is they are shocked that we once again increase our debt ceiling by $2.4 trillion and weighed it over cuts over 10 years that they don't have any faith is going to happen. I would say the shock and outrage with what happened up here was more the fact that we allowed this to happen, that we once again spent our children and grandchildren's money.

I yield back.

Mr. JORDAN. Thank you.

The gentleman from Pennsylvania, Mr. Kelly.

Mr. KELLY. Thank you, Mr. Chairman.

Professor Taylor, you are obviously a student of history and I do believe you don't study history, you don't repeat it. Let me read a quote: "We have tried spending money. We are spending more than we have ever spent before and it does not work and I have just one interest. Now, if I am wrong, somebody else can have my job. I want to see this country prosper, I want to see people get a job, I want to see people get enough to eat. We have never made good on our promises and I say, after 8 years of this administration, we have just as much unemployment as when we started and an enormous debt to boot." That is Henry Morgenthau who was the Secretary of Treasury under Franklin D. Roosevelt.

We haven't had 8 years of this administration, but as the chairman spoke, and being a small businessman myself, we keep talking about the uncertainty is what is keeping people on the sideline. I would say it is just the opposite. It is the certainty that under this administration's policies, we have no way in heck to dig ourselves out of this debt.

I am a firm believer that you have to kill more than you eat, or you can't stay. I am trying to understand how in the world with these policies that we are enacting, with no remedial only punitive actions against people and small business people, how in the world are we encouraging these people to hire people. Mr. Schiff, I feel your pain.

We talk about China and what China is doing. China is not borrowing 42 cents on every dollar it spends. It is not as clear and transparent a society as we would like it to be. All these things are important, all these things are fun to talk about but the reality of this is the trajectory we are on right now is totally unsustainable. Standard & Poor's was not wrong.

If you want to see what is wrong, go back to Fannie Mae and Freddie Mac, when you tell banks you have to lend money to people who no way in heck can pay it back, but you have to do it anyway.

When I bought my first house, the first question I was asked by the lender was how much money do you have to put down. I said, $10,000 and I was told, you can buy a $30,000 house. Flip it to now, how much do you have to put down? Nothing. Then buy anything you want, we will underwrite it.

Doctor, we talked about stimulus in the past under President Bush. I had friends that just couldn't wait to get that check from President Bush. In your opinion, what do people do with this money they get back? Do they put it back into the economy? What do they do with it?

Mr. TAYLOR. They largely saved it, they largely kept it in their pockets. We have seen this time and time again. That is why it is so frustrating to hear this proposal. We tried this in 1975 under President Ford. Soon after it was done, his own Council of Economic Advisors looked at it and said it didn't work. Don't do this again.

President Carter in 1977, the same thing and after that was done, his economic advisors said it didn't work. Then fortunately we had a couple of decades where we didn't do these things. In 2001, we had one. I looked at that myself. It didn't work. Now 2009 is gigantic and we are proposing it again. Why don't we learn that these temporary interventions don't work and I think they are counter productive for many of the reasons you are saying.

Mr. KELLY. I agree. Mr. Schiff, I have also tried to borrow money and I will tell you right now, the problem with lenders is they are scared to death because there is legislation passed with no rules. Banks, and I am talking about the smaller banks, and I have come to believe that if you are too big to fail, you are also too small to survive, when collateral used to be what we worked on but there is uncertainty as to what your collateral is going to be worth, when covenants change quarterly, it is very difficult to run a business.

I think when you don't have policies that transcend the next administration but don't go to 5 and 10 year plans, when you see a shift because of an election, that doesn't add any certainty to the way the economy is going to be stabilized. I have to borrow a lot of money for my business to work, but when you can't borrow it, when the regulations become too overburdening, it makes it difficult for lenders to give it to you, it is bothersome to me.

It is very important that people understand. This isn't easy, what we are doing. It is very difficult and government has it harder for us.

Mr. SCHIFF. It takes two to tango. You can only borrow if somebody is saving. There has to be a lender on the other side of that transaction. There has to be something in it for the lender. You have to have higher interest rates. The problem is the banks are just getting money from the Federal Reserve and buying treasuries with it. That is not going to grow the economy, that is going to grow the government but meanwhile, these monetary policies are stifling the savings that we need to grow the economy.

Mr. Cummings pointed out when people get a stimulus job, he can see those jobs. Yes, you can always see the jobs government creates. We don't see the jobs they destroy to create those jobs. All the government can do is rearrange the resources. It doesn't create any wealth. The problem is the jobs or the wealth that gets destroyed is more productive than whatever the government replaces it with. On balance, the country is poorer as a result of that.

The fact that we send out a stimulus check is not going to stimulate the economy. If an American buys some more products that were made in China, how does that help our economy. It runs up the trade deficit and now we have to go deeper into debt to spend that stimulus check. All of that is counter productive.

We are going to continue to repeat those mistakes, to keep throwing gasoline on this fire until we incinerate the entire country.

Mr. KELLY. Thank you.

I yield back, Mr. Chairman.

Mr. JORDAN. Thank you, Mr. Kelly.

Now I yield to the gentlelady from New York, Ms. Buerkle.

Ms. BUERKLE. Thank you, Mr. Chairman. Thank you all for being here today.

Many of us came to Congress early this year to really address the unemployment issues in our Nation and to get this economy back on track. The biggest reason for doing that was what we had seen 2 years prior in this administration, this government overreach, this Keynesian economics where we think we can spend money to create jobs doesn't work.

I have spent the last several months in my district talking to the businesses because those small businesses are what make upstate New York tick. Upstate New York has taken such a hit. You mentioned manufacturing jobs. We used to have Carrier, we used to have Crucible Steel, we had General Electric back then. We have lost those manufacturing jobs. We have lost those industries.

I go around and talk to all these small businesses and without exception, what I hear from them is get the government out of our way. We comply with these regulations, we spend the money to comply and before we know it, the regulations have changed. They continue to change the rules which is what Mr. Kelly mentioned. They continue to create an environment of uncertainty.

I guess the question for all of us, because we all want to address this issue, is what are we going to do about this. How are we going to get the government out of the way. My own personal belief is if they would just rewind and get rid of these regulations, just get out the way and just be silent, I think we would all be better off.

I would like to hear from you, and I will start with Professor Taylor, what is your vision. I can't agree with much, although I haven't seen the specifics of this bill, I just know that the last stimulus of close to $1 trillion failed. I have listened and talked to my city and county governments and so many of them used that money to plug holes in their budgets. That wasn't want that money was supposed to be used for. It was not used at all, I don't think for what it should have been used for. We have proven that doesn't work. What would work in your estimation?

Mr. TAYLOR. The new proposal is much the same, so I don't see how that could work based on what I have looked at myself which corresponds to your observations. What would work is a comprehensive, economic strategy to offset what has recently been done. We raised the government spending as the shared GDP from 19.6 percent in 2007 to 23.8 percent now. We are making a small bit of headway on that but it needs to come back to 2000 levels as a share of GDP. Then we wouldn't have to have a tax increase that everybody is worried about, we could have some revenue neutral tax reform which would boost the economy and then we could proceed with the regulatory issues and I think some of the monetary issues that are also a drag on the economy.

It is really a comprehensive strategy. I think it could build on the Budget Control Act which obviously didn't go all the way or not far enough even. You have a nucleus to work on and I think it is quite doable. Why can't the Federal Government spend as a share of GDP what it did in the year 2007? That is all we need to do in order to avoid tax increases, to have a good tax reform and stimulate the economy.

Ms. BUERKLE. I do want to comment and I had this thought as Dr. Boushey was speaking. This is really what concerns me with these tax increases. Many of my small businesses have said my margin is about 2 percent. By the time my taxes go up, I go over the edge. That is my biggest concern and $200,000–$250,000, those are the small business owners who file Subchapter S. It has nothing to do with families who are wealthy. These are a lot of small businesses who look good on paper but their net income is not anywhere near $200,000.

My concern is what you said about these people who have profited, now we need to go back and tax them and increase their taxes. Since when does the United States of America punish success. That is the fundamental. We reward hard work. Our system is one that if you take risks and work hard, you succeed and you should be able to succeed without being penalized. That is my concern with this message about we are going to raise taxes on these people who have done so well. They didn't steal that money, they worked hard for that money. I think it is very important that this class warfare thing really concerns me, if you could comment on that.

Dr. BOUSHEY. Yes. I want to make three quick points because I know we don't have much time.

First, I was happy to see that the President's plan, when it does its payroll taxes, targets them at small businesses. That is an incredibly important thing.

Second, on the tax revenue raisers, those are cutting loopholes, many of whom are focused on families but I want to make one note about the small business owners. This is net income, net of expenses. When you say $250,000, that is over what someone is making net of their expenses. These are folks doing really well and for the most part, many of those S Corps are going to be very much at the high end, sort of your lawyer firms, things like this. These are people who could afford it.

The last thing is one of the key pieces of the President's proposal for the pay for is to tax hedge fund managers at the same rate that me and most Americans who work for a living are taxed. Right now they are taxed much less than we are and that is the biggest chunk of change in terms of these increases in taxes. That was the specific piece I think we should be focusing on.

Ms. BUERKLE. Thank you. I yield back, Mr. Chairman.

Mr. JORDAN. Dr. Boushey, if these tax loopholes were so bad, so terrible, so needed, why didn't the previous Congress just 10 months ago take care of them then? You could go back a little over a year ago, there was even a super majority in the Senate. If they were so bad, so needed, why didn't they take care of them then?

Dr. BOUSHEY. That is an excellent question and I think one that Congress itself should think about. I can't speak for what this Congress does and doesn't do.

Mr. JORDAN. Were you talking to them? Were you telling them to do it back then?

Dr. BOUSHEY. Certainly and many of the things on the table are things we were talking about.

Mr. JORDAN. You couldn't get it done with the super majority in the Senate?

Dr. BOUSHEY. I don't work for Congress, sir. Certainly this taxing of hedge fund managers is something people have talked about for quite some time, that they should be taxed at the same rate as everyone else who works for a living, not at a much, much lower rate.

Mr. JORDAN. I am going to pick up where Ms. Buerkle left off. One of the thing we thought this debt ceiling debate made sense was a proposal we put forward we thought was starting to break through with the American. We called it cut, cap and balance, cut spending in a bigger way the first year, not just $21 billion, over $110–$111 billion, cap it as a percentage of our economy, Professor Taylor, to get it back in line where it has historically been around the 20 percent range of GDP, and then build toward a balanced budget amendment. We thought that made sense. We were willing to raise the debt ceiling if we put that kind of plan in place because we thought that wasn't some deal, that was actually a solution.

We also understand the importance for growth. I would argue we need something like cut, cap, balance and grow. Tell me what the tax reform part of a growth component would look like. I want to start with Ms. Furchtgott-Roth first.

In the town halls I had in August, one of the things that came through loud and clear is Americans inherently want fairness in the tax system. I think two things bug Americans, and appropriately so. They want fairness in the true sense of the word, not fairness the way the left defines it as tax people who make money, tax them more, but fairness in the true sense of the word.

They don't like the idea that 46 percent of Americans don't pay income taxes. We understand they are paying payroll taxes if they are working. They don't like that fact and Americans don't like the fact that GE doesn't pay taxes the second quarter. They think that is ridiculous as well. They want some fairness component, a simplified component to the tax package, but tell me what you think that looks like, the tax reform in a growth concept that we need.

Ms. FURCHTGOTT-ROTH. What we need to do is get rid of the loopholes and lower the rates, similar to what we did in 1986 and there was many years as you will recall of growth and employment growth after that. That makes the tax system more fair, makes it simpler and it is a win-win situation. I would suggest a revenue neutral manner of getting rid of the loopholes and lowering the rate so we would end up with the same amount of revenue as we did before. Then with a more efficient economy, you would be pulling in more amounts of tax revenue.

Mr. JORDAN. Would you advocate a flat tax, lower the rates, keep multiple brackets or move to fewer brackets? What would you advocate on the income side?

Ms. FURCHTGOTT-ROTH. My ideal would be a flat tax and may be two other brackets.

Mr. JORDAN. You would be for lowering the corporate rate?

Ms. FURCHTGOTT-ROTH. I would also be for lowering the corporate rate in a revenue neutral manner as before taking away the loopholes.

Mr. JORDAN. What about repatriation, bringing back dollars?

Ms. FURCHTGOTT-ROTH. I would be very much in favor of repatriation. There are trillions of dollars abroad.

Mr. JORDAN. Professor Taylor, would you agree that kind of approach is what is needed for growth?

Mr. TAYLOR. Absolutely. Tax reform, which is revenue neutral, should be the goal and that will increase economic growth because those lower marginal tax rates are lower and creates more incentive. You generate the same amount of revenue. Also, that would generate more revenue because we'd have more growth.

Revenue neutral tax reform, and we have gotten away from that. People are now talking about tax reform to mean we can now tax more, so we can spend more. That is not tax reform as I have come to know the term over the years.

Mr. JORDAN. Mr. Lindsey and Mr. Schiff.

Mr. SCHIFF. Ideally, you would abolish corporate tax completely. Corporations don't pay the taxes, their shareholders pay the taxes. Tax them at the shareholder level. The employees pay the taxes when they get paid, but ideally, we would have no income tax, we would have no payroll tax. If the Federal Government needs revenue, let it raise it through a national sales tax. It would be much more conducive to tax people when they spend their wealth, not when they accumulate it.

Mr. JORDAN. I agree with all that.

Mr. SCHIFF. The argument is always if we only tax spending, the rich don't spend all their money. Precisely, the money they don't spend is what grows the economy. That is what produces jobs. If they are not spending the money, it is benefiting everybody but the rich. The rich enjoy their wealth when they spend, so that is a much better time to tax it.

As far as your budget plan, I think Congress is much under estimating how much time we have to deal with this crisis. I think there is a sovereign debt crisis and a currency crisis coming to this country soon, may be even before the next election. That will be far more catastrophic to our economy than what happened in 2008.

Mr. JORDAN. Well said. The window of time to fix this is closing very rapidly and it under scores how serious it is.

Mr. Lindsey and then I will move on to my Ranking Member.

Mr. LINDSEY. I generally agree with what has been said here on the tax reform side. I am in favor of a tax system that is as neutral as possible, the economic activity rather than trying to maneuver people like rats in a maze to do whatever the flavor of the month is.

As far as a corporate income tax, in a perfect world it wouldn't exist because we have a double taxation. Generally, we should be shifting the tax system away from taxing good things like work and savings and should be shifting it to focus on consumption.

Mr. JORDAN. The gentleman from Maryland.

Mr. CUMMINGS. Dr. Boushey, I think you mentioned earlier that the percentage of GDP with regard to taxes is lower now than it has been in a good while, is that right?

Dr. BOUSHEY. Yes. Right now we have had tax cuts because of the Recovery Act, yes, but it is also lower than most other OECD countries and other economically developed countries, the share of GDP.

Mr. CUMMINGS. To make sure I understand this, of GDP, we are paying less taxes, percentage of GDP, than we have in a long time, in history or what?

Dr. BOUSHEY. In quite a while. I don't have the exact number at the top of my tongue but I am happy to get that to you. I can't remember exactly what the year is.

Mr. CUMMINGS. But it is low?

Dr. BOUSHEY. Yes.

Mr. CUMMINGS. Of course we have had two wars, we had the prescription drug program and they weren't paid for and at the same time, we were reducing taxes, is that right?

Dr. BOUSHEY. We reduced taxes sharply in early 2000 and did not reduce our expenditures commensurate with the lower taxes and it did not lead to the kind of rebound in economic growth that would make those taxes "pay for themselves."

If I could make one more point on that, in fact, after those tax cuts, you saw the economic recovery of the 2000's was the weakest in the post World War II era in terms of growth and investment, employment gains and was the only economic recovery since the end of World War II where families ended the recovery in 2007 with less income on average, the median family, than they had in the year 2000.

Mr. CUMMINGS. Most top economists are saying that the President's American Jobs Act will boost the economy and create jobs. Mark Zandi, chief economist for Moody's, is forecasting a 1.9 million job boost and a 2 percent lift for GDP if the President's package is passed as proposed.

Allen Sinai, chief economist of Decision Economics, states, "Payroll tax cuts are very powerful. They provide a boost to direct income and in turn, spending, which is important to growth."

This 2 percent tax cut, Mr. Schiff, you are in agreement with that? You are in disagreement with that?

Mr. SCHIFF. I think the deficits that will be created to finance that tax cut will do more damage to undermine this economy and destroy jobs than any benefit we will get from the extra income being spent.

Mr. CUMMINGS. When the President says that basically borrowing the words of my Republican friends that we should not be increasing taxes during a recession, but when it comes to these taxes, do you agree with that, first of all? In other words, when it came to the millionaires and billionaires, my Republican friends were singing from the same hymn book, they were singing loud and clear, in a recession, you do not raise taxes. The President said the other night, we want to make sure these folks continue to get this extra $1,500 or whatever it is, in their paychecks.

Mr. SCHIFF. The problem is the damage the government does to the economy is not limited to taxation. It is spending. It is what the government is spending that is damaging the economy. If we run deficits instead of taxes, we actually do more damage. Deficit spending is more detrimental to the economy than taxation. What we need to do is dramatically reduce government spending. That is the only stimulus that will work.

Mr. CUMMINGS. I think we need to do both. I don't think there is any Member of Congress that does not believe that we need to do both. Dr. Boushey, what is your opinion on that?

Dr. BOUSHEY. It is hard to understand how government spending.

Mr. CUMMINGS. I am sorry, Dr. Boushey. I like to give people their titles like President Obama.

Dr. BOUSHEY. Thank you, Congressman Cummings.

It is hard to image that right now when interest rates are at historic lows, when people still want to buy U.S. treasuries, when we have this massive unmet need in terms of both infrastructure but all of the massive layoffs that have happened in education around America because of the State and local budget crunches, that using government dollars right now, it is hard to understand how that is not easy for us to do because we can afford it and that doesn't help our economy.

Having children in school rooms in places across the country with 40 children is not good for America's future, it is not good for America's work force. We can do something to fix that. We can borrow at historic low rates and pay it back as the economy gets back on track.

I would like to take issue with one thing Mr. Schiff said earlier which is that America can't afford it. America remains one of the richest countries on the planet. To say that we cannot afford to make these investments right now when our economy needs it most and get 14 million people back to work is quite frankly absurd. We can afford it. It is how we are using our resources.

Mr. SCHIFF. We can't afford it and the problem is interest rates are low now, they are not going to stay low. We have a $15 trillion national debt financed with treasury bills. It is the same mistake people made who were taking out subprime mortgages. What is going to happen rates are at 5 or 10 percent, what is going to happen when interest on the national debt consumes 100 percent of Federal tax receipts? That can happen in just a few years.

Interest rates got to 20 percent in 1980. What happens if they go there again?

Mr. CUMMINGS. Madam Chair, I see my time is up, but I just want 15 seconds to say this. One of the things we have to do is invest in people. If you have kids, one of the greatest threats to our national security is our failure to properly educate every single one of our children. That is the greatest threat. If we have to spend now to educate our children so they can take over this world, innovate, create jobs and do the right thing, fine.

At the rate we are going, if we are not careful, we will implode from the inside because we are not doing all the things we need to do now.

Mr. SCHIFF. The problem is we are spending and not educating. We don't need more spending on education. We are spending too much and the kids are not getting educated. We need more on the job training. Unfortunately, we have too many kids going to college on government grants that has bid the price into the stratosphere and we have all these kids graduating with huge mortgages and no houses and no marketable skills.

Mr. CUMMINGS. I am saddened by those comments.

Mr. SCHIFF. I am saddened by what those programs have done to our young people.

Ms. BUERKLE [presiding]. Thank you, Mr. Cummings.

I yield to the gentleman from Pennsylvania, Mr. Kelly.

Mr. KELLY. Thank you, Madam Chair.

Mr. Schiff, because I believe you are on to something, for those that did not experience this, I remember very vividly because I paid 1 percent over prime for my floor plan costs, so in the early 1980's when prime was around 21 percent, which people say is not possible, it is, and in the artificially low rates that we are working with today, any type of an idea or scenario of what could happen when these rates that are being artificially low at least until the election there is going to be a low prime rate, but when it rises to what it should be, market value, the effect it is going to have on businesses?

Mr. SCHIFF. The problem, the artificially low interest rates right now are one of the main problems that the economy has. I think we are pursuing those rates to prop up insolvent banks, to necessitate the government bubble, the borrowing from the Federal Government. When interest rates ultimately rise, the banks you guys bailed out, they are all going to fail again because they are insolvent. They are only kept afloat by the cheap money from the Fed. Their portfolios are loaded with low yielding, long term mortgages and government bonds and when interest rates go up, the value of those assets will collapse.

They have to go up because eventually the dollar will sink so much, prices will rise so much, nobody will lend us money. The dollar won't be the reserve currency. Right now it is kind of benefiting from the fact that there are problems in other parts of the world but look at the price of gold. It is at $1,900 a ounce for a reason. It is going up because of all the inflation that we are creating now and all the inflation we are going to have to create in order to keep interest rates at these low levels.

The only way to solve our problems is to let interest rates go up and they are going to go way up. Then what are we going to do? If we keep inflating this bubble, if we let the national debt get to $20 trillion and then rates go to 10 or 20 percent, what people are saying now is exactly what they said during the real estate bubble. People used to tell me, Peter, you are crazy, real estate prices will never fall. Now we know what happened. People are now saying the same thing with interest rates. We don't have to worry because interest rates will never rise, they will stay low forever. They won't.

Mr. KELLY. You are right. The only thing we know for sure is they are not going to rise before the next election.

Mr. SCHIFF. We don't know that for sure. They are going to try everything they can to prevent.

Mr. KELLY. The other thing that is going to happen is if we print money that isn't backed by anything, our lenders are going to say at some point, you are paying me back with money that isn't worth what I lent you.

Mr. SCHIFF. We are destroying the value of our money and that is why prices are rising. Oil prices aren't going up. In fact, Ron Paul pointed out in his last debate, you can buy a gallon of gasoline for a dime as long as you have a dime that was minted before 1965. It is because our money is being debased by the Federal Reserve. That is what is happening. Prices aren't going anywhere. The value of our money is declining and it is going to lose a lot more value in a very short period of time if we continue these policies.

Mr. KELLY. Under the President's new plan, there is a $4,000 incentive for hiring people who have been unemployed for long periods of time. For somebody like yourself who is an employer and somebody like myself who is an employer, who interviews people, are we picking winners and losers as to who it we are going to hire?

Mr. SCHIFF. Absolutely. In fact, this is another example of things that are going to backfire. The government is proposing a plan to make it illegal for employers to discriminate against people who have been unemployed for more than 6 months. The effect is going to be that nobody is going to interview anybody who has been unemployed for more than 6 months because they don't want to risk a lawsuit.

If somebody was going to hire somebody anyway, they will try to interview people who have been unemployed for about 5 months, so they can start them at the 6-months so they can get the tax credit but it is simply going to shift jobs away from people who are newly unemployed or long term unemployed to people who have been unemployed for a specific period of time.

I think the most it is going to do is influence minimum wage. I said earlier that we should abolish the minimum wage. That $4,000 tax credit temporarily substantially reduces the minimum wage for a 6-month period of time. I think on the margin, you will create some minimum wage type jobs on a temporary basis but it is not going to be any kind of great stimulus. As I said, the deficits we will generate to finance the tax cuts will destroy more jobs than those tax cuts create.

Mr. KELLY. I would agree with you on a lot of these things. It is totally bizarre to me that the people we expect to do the most lifting are the people that we put the most burden on and continue to overburden them with regulations that really don't, in the long run cost benefit analysis, doesn't play out.

I am not saying they weren't good intentions to start with but when you look at what has happened and it makes it so difficult on those people who are absolutely being depended upon to lift that load, it is bizarre to me that anybody could look at this logically and think this is a plan that makes sense when in the history of the world, we don't have any data that would suggest that is possible.

Thanks so much for being here. I yield back.

Ms. BUERKLE. Thank you, Mr. Kelly.

I now recognize Mr. Kucinich.

Mr. KUCINICH. Thank you very much.

Mr. Schiff, you made a very strong case about cutting government spending. Does that include the Pentagon and ending the wars in Iraq and Afghanistan?

Mr. SCHIFF. Absolutely, it includes that.

Mr. KUCINICH. Ms. Furchtgott-Roth, in your written testimony to this committee, you make an assertion that I wanted to review. You stated, "The Acting General Counsel of the NLRB wants to stop the Boeing Co., which has a backlog of over 800 Dreamliner aircraft on order from using its new aircraft manufacturing plant in South Carolina to build Dreamliners." That is on page 5 of your testimony?

Ms. FURCHTGOTT-ROTH. Yes.

Mr. KUCINICH. Are you aware that the NLRB has not sought, as a remedy, that Boeing can't produce its products in South Carolina? The acting general counsel's complaint against Boeing says that as long as Boeing's decisions are not made for illegal motives, it can have its work done in South Carolina. I want to quote from the NLRB complaint. "Other than as set forth in paragraph 13(a) above, the relief requested by the Acting General Counsel does not seek to prohibit Respondent," talking about Boeing, "from making non-discriminatory decisions with respect to where work will be performed, including non-discriminatory decisions with respect to work at its North Charleston, South Carolina facility."

Madam, are you aware that the case brought by the NLRB's acting general counsel against Boeing is about work that was illegally taken away to retaliate against workers for engaging in acts that are protected under Federal law? The remedy is that the work that was transferred must be performed in Washington, not that Boeing cannot produce planes in South Carolina or any other State. Are you aware of that?

Ms. FURCHTGOTT-ROTH. Boeing did not close its plant in Washington State, it did not lay off any workers in Washington State; it just needs an additional plant.

Mr. KUCINICH. You made a claim that want to see how you back it up. You said that the NLRB wants to stop the Boeing Co. from using its new aircraft manufacturing plant in South Carolina.

Ms. FURCHTGOTT-ROTH. To build Dreamliners.

Mr. KUCINICH. To build Dreamliners. Where is the proof of that? Do you have any proof of that at all? I take that as your answer. I think when you come to this committee and start making claims, you had better back them up.

I want to move on in the 2-minutes I have left.

Ms. FURCHTGOTT-ROTH. I spoke to the general counsel of Boeing, Mr. Kilberg, and this is the information I got from him. If that is incorrect, I would be glad to send a correction.

Mr. KUCINICH. You had better check with him. He didn't prepare you well.

I want to go on now. In the past, there was bipartisan support for increased government spending during economic turndowns. In January 2008, Congress passed an Economic Stimulus Act which injected over $150 billion into the economy. There were 165 Republicans who supported it and President Bush signed it. In the spring of 2008, Congress extended benefits for long term unemployed with the support of 182 Republicans and President Bush signed it.

There is widespread agreement among economists that economic growth and job creation during this economic downturn will only occur with fiscal stimulus from the government. That is not just my view; it is the view of Joseph Stiglitz who is a professor of economics at Columbia, a Nobel Prize winner in economics, former chairman of the Council of Economic Advisors under President Clinton, and former chief economist for the World Bank. It is also the view of Bruce Bartlett, a conservative economist who held senior policy roles in the Reagan and George H.W. Bush administrations and also argues that the Federal Government could increase aggregate spending by directly employing workers or funding public works projects.

Mr. Taylor, in your written testimony, which I was pleased to be here for, you seemed to dismiss this perspective. Do you agree with Bruce Bartlett and Joseph Stiglitz about the positive role that government spending can bring to stimulate the economy?

Mr. TAYLOR. Based on my empirical work of what actually happened, when you look at the data, no, I don't agree. Mr. Cummings mentioned Zandi. These people have these models which they simulate; it is their models of the economy and they simulate them and the models say, this is going to work. Then they do it after the case, they simulate the same model and say it did work.

What I have tried to do, and others have tried to do, is look at the money, look at where it went and when we do that, we don't see these impacts. You might look at a particular project may be in my State of California and there is a sign next to it that says, ARRA, most likely that was going to be done anyway and they used different financing for it. That is what we found.

With respect to the idea that most top economists think these things work, I disagree. Gary Becker, also a Nobel Prize winner, wrote a column recently disagreeing with this and Edward Prescott. So the notion that most economists think these things work, Milton Friedman, won a Nobel Prize; Franco Modigliani won a Nobel Prize to show these kind of short run things don't work.

Mr. KUCINICH. I appreciate your answer and my time has expired, Professor, but what I would like to do with unanimous consent is to place in the record this summary of economists who support the American Jobs Act who talk about the value of government spending.

Ms. BUERKLE. Without objection.

[The information referred to follows:]

Mainstream Economists Who Believe Stimulus Spending Creates Jobs

Mark Zandi, chief economist for Moody's Analytics, forecasts a 1.9 million job boost and a 2% lift for GDP if the American Jobs Act is passed as proposed. Zandi also stated that while pushing more money into the economy is the key, passing the jobs package could also provide a much needed boost of confidence at a time when the economy teeters on the edge of a new recession due to so much uncertainty.[1]

Joseph Stiglitz, professor of economics at Columbia University, Nobel Prize winner in economics, former chairman of the Council of Economic Advisors under President Clinton, and former chief economist for the World Bank: "The only thing that can be done [to help the economy in the near term] is fiscal stimulus, spending more money."[2]

Bruce Bartlett, held senior policy roles in the Reagan and George H.W. Bush administrations and is an architect of Reaganomics: "The only policy that will really help is an increase in aggregate demand ... spending by households, businesses and governments" and "[t]he federal government could increase aggregate spending by directly employing workers or undertaking public works projects."[3]

Robert Reich, Berkeley professor who was labor secretary in the Clinton Administration: "The only way out of the vicious economic cycle [jobs crisis] is for government to adopt an expansionary fiscal policy — spending more in the short term in order to make up for the shortfall in consumer demand. This would create jobs, which will put money in peoples' pockets, which they'd then spend, thereby persuading employers to do more hiring. The consequential job growth will also help reduce the long-term ratio of debt to GDP. It's a win-win."[4]

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[1] *Jobs Plan May Create 1 Million Jobs—Economists*, CNN Money (Sept. 9, 2011) (online at money.cnn.com/2011/09/09/news/economy/obama_jobs_plan_impact/index.htm?iid=HP_Highlight).

[2] Americablog, Interview with Joseph Stiglitz (Aug. 31, 2011) (online at www.americablog.com/2011/08/stiglitz-only-thing-that-can-be-done-to.html)

[3] *It's the Aggregate Demand, Stupid,* The New York Times (Aug. 16, 2011) (online at economix.blogs.nytimes.com/tag/bruce-bartlett/).

[4] *Vicious Cycles: Why Washington is About to Make the Jobs Crisis Worse*, RobertReich.org (July 25, 2011) (online at robertreich.org/post/8042268683).

Peter Diamond, an MIT economist and Nobel Prize winner in Economics, praised Obama's plan for recognizing the real role for increased job training in terms of getting people—especially those who have been unemployed for more than six months—back to work.[5]

Russell Price, senior economist for Ameriprise Financial Services: "This additional spending capacity in the hands of consumers should continue to foster improvements in aggregate domestics demand. And ultimately, it is demand and demand alone that will lead to more business hiring."[6] Price estimates that an additional 750,000 to 1 million jobs will be added solely through the increased payroll tax holiday for workers, and another 100,000 to 200,000 jobs will be generated through the new break on payroll taxes for employers. In addition, Price believes that the President's Jobs Plan could boost the gross domestic product by 1.5%.[7]

Joel Prakken, chairman of Macroeconomic Advisors, "[g]iven the elevated risk of recession the U.S. faces today, additional near-term stimulus reduces that risk ... Given the deleterious effects of long-term unemployment on an individual's skills and long-term employment prospects, speeding a return to employment is both individually and socially beneficial."[8] Macroeconomic Advisors, a St. Louis research firm, estimates the package would grow payrolls by 1.3 million jobs by the end of 2012 and another 800,000 by the end of 2013, if the package is passed as proposed. The firm predicts a 1.3% rise in GDP.[9]

Keith Hembre, chief economist for Nuveen Asset Management, believes the package could lift GDP by 1.5 percentage points and add 1 million jobs.[10]

Cecilia Rouse, economics professor at Princeton and former member of President Obama's Council of Economic Advisers, said the president is proposing a "sensible" package of strategies while the private sector continues to struggle. Rouse said she was "particularly pleased" to see an extension in unemployment insurance for an additional year. They are a critical form of assistance for so many families as well as one of the

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[5] *Obama Jobs Plan: Economists Give Good Reviews But Say More Needed on Mortgage Debt*, The Washington Post with Bloomberg Business (Sept. 9, 2011).

[6] *Jobs Plan May Create 1 Million Jobs—Economists*, CNN Money (Sept. 9, 2011) (online at money.cnn.com/2011/09/09/news/economy/obama_jobs_plan_impact/index.htm?iid=HP_Highlight).

[7] *Id.*

[8] *Id.*

[9] *Id.*

[10] *Id.*

fastest and most effective ways of helping to increase economic activity during a downturn."[11]

Nariman Beharavesh, chief economist at IHS Global Insight, a top economics forecasting firm, says that "the single-biggest risk facing both the United States and Europe is a policy mistake that would take away stimulus that is helping to hold up growth."[12]

Paul Krugman, Nobel Prize winning economist and New York Times columnist: "[T]he new Obama jobs plan …is significantly bolder and better than I expected. It's not nearly as bold as the plan I'd want in an ideal world. But if it actually became law, it would probably make a significant dent in unemployment."[13] According to Krugman, "the past year has actually been a pretty good test of the theory that slashing government spending actually creates jobs. The deficit obsession has blocked a much-needed second round of federal stimulus, and with stimulus spending, such as it was, fading out, we're experiencing de facto fiscal austerity. State and local governments, in particular, faced with the loss of federal aid, have been sharply cutting many programs and have been laying off a lot of workers, mostly schoolteachers."[14]

Heidi Shierholz, labor economist with the Economic Policy Institute: "President Obama's jobs plan, if implemented, would boost employment by around 4.3 million jobs (yes, 1.6 million of those jobs would come from continuing temporary policies that are already in place and supporting the economy today, but the new initiatives alone would generate 2.6 million jobs). ... This plan is a vital step in the direction of providing a solution that matches the scale of the ongoing crisis."[15]

Gavan Nolan, director of credit research for Markit, a London-based financial information services firm: "Some of the [president's] measures — if they are implemented — should have a material impact on unemployment."[16]

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[11] *Obama's Job Proposals Supported by Economists*, NewsMania (Sept. 9, 2011)

[12] Center for American Progress, *Job Creation Requires Spending: Economists Across the Political Spectrum Get It* (Sept. 7, 2011) (online at www.americanprogress.org/issues/2011/09/job_creation_spending.html).

[13] *Economists Weigh Effectiveness of Obama Job Plan*, WGBH (Sept. 9, 2011) (online at www.wgbh.org/News/Articles/2011/9/9/Economists_Weigh_Effectiveness_Of_Obama_Job_Plan.cfm).

[14] Center for American Progress, *Job Creation Requires Spending: Economists Across the Political Spectrum Get It* (Sept. 7, 2011).

[15] *Id.*

[16] *Id.*

Richard Dekaser, economist with the Parthenon Group: "The biggest part of the package, both in terms of dollars and impact, are the changes to Social Security payroll taxes. This year, individuals have been enjoying a cut on their Social Security payments, and this proposal extends that into 2012. Now it's actually giving employers a greater incentive to hire workers, and that's where I think the real hook is in terms of jobs."[17]

Jan Hatzius, chief U.S. economist at Goldman Sachs, reports that reductions in government spending in the first quarter of 2011 have produced the "largest negative impact of government spending on real GDP growth since the mid-1980s."[18]

Bill Gross, founder and co-chief investment officer of PIMCO, the world's largest bond fund, and a prominent Republican, believes we need "to create a demand for labor. The private sector is not going to do it." Gross believes spending is necessary even if government has to hire directly. "Putting a shovel in the hands of somebody can be productive."[19]

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[17] NPR, Interview with Richard Dekaser (Sept. 9, 2011).

[18] Center for American Progress, *Job Creation Requires Spending: Economists Across the Political Spectrum Get It* (Sept. 7, 2011).

[19] *Id.*

Mr. KUCINICH. Thank you very much.

Ms. BUERKLE. Thank you, Mr. Kucinich.

I want to pick up where Mr. Kucinich left off and that is with regards to these economic theories and what works and what doesn't work. Professor Taylor, if you want to finish up and then just move down the panel, there seems to be disagreement and I would like to hear your perspectives on what works and what doesn't work.

Mr. TAYLOR. We could learn from history about what works. For example, in the recovery from the last deep recession we had in the years 1983–1984, we had economic growth that averaged 6.5 percent. We didn't have one of these short term stimulus things at that point. We had a permanent tax reform, a permanent reduction in tax rates. There is no comparison. Unemployment came down rapidly, job growth grew unlike what is happening now. You can go back to other periods, the 1970's, and more recently and see the same thing.

To me, when people study these carefully, they come to the conclusion that the shorter term, temporary, and I would add targeted to that, policies don't work. What works are these more permanent, more lasting policies. That is what we need so much if we are going to get the unemployment rate down.

The unemployment rate is high because economic growth is low and even the forecasters who say this is going to work, predict economic growth will come back down again after a short term boost. I don't even see the boost but even if you get a boost, it doesn't deal with the problem. We need to get unemployment down to where it was before the recession, not just to have a spurt of growth and then we are back into the same situation.

Ms. BUERKLE. I see we have been joined by our chairman, so I will yield my time to the chairman of Oversight and Government Reform, Mr. Issa.

Mr. ISSA. I appreciate it, Madam Chair. I was watching this in the back between other meetings and wanted to come out and show the special interest that I have in the subject, so no questions, but please continue.

Ms. BUERKLE. Thank you very much.

Ms. Furchtgott-Roth, I think we are up to you.

Ms. FURCHTGOTT-ROTH. Just to build on what Professor Taylor was saying, with which I agree, there is the famous joke, what do you believe, me or your own eyes. We had an unemployment rate of 7.3 percent in January 2009; it is 9.1 percent. At that time, about 22 percent in January 2009 of the unemployed were long term unemployed, 6 months or more. Now it is 45 percent. The teen unemployment rate has gone up; the African-American unemployment rate has gone up. We can see that this isn't working. We do need to take a different tact.

I would say fundamental tax reform offers the best chance of immediate economic growth, together with reform of regulation. I have written about regulations that were passed during Republican administrations and how those should be revoked also. One that I have written about is the incandescent light bulb ban which was part of the Energy Security Act of 2007 and GE closed its last light bulb incandescent light bulb plant in West Virginia. We need to take a thorough look at these kinds of regulations.

It is already law that we should do a cost benefit analysis of regulations. It is not done. In other words, these agencies are breaking the law by not performing the cost benefit analysis. One small example, in the Labor Department regulation that required contractors to give affirmative action for veterans, this is going through the process right now, the cost of taking 1 day of all workers' time to inform them of the new regulation was not listed as a cost by OMB, so they bias the cost and make the calculation look better.

You all should make sure these agencies not only do the cost benefit analysis which they are already required to do by law, but that cost such as taking every worker in the plant and not letting them work for 1 day is included also.

Ms. BUERKLE. Thank you very much.

Dr. Boushey.

Dr. BOUSHEY. You asked what works and I want to make a few quick points. First of all, we all know that this recession has been deeper and more protracted. It followed a financial crisis. There is work by Carmen Reinhart and Rogoff that shows these kinds of recessions tend to be different.

The recession of the early 1980's that Professor Taylor referred to was very different from this one. It was caused when the monetary authorities started to raise interest rates because of inflation. That is how we got to this double digit and then in order to get down, in order to spur growth, monetary authorities had a huge bit of wiggle room to lower the interest rate which spurred growth and at that time, you could have a housing led recovery, which you typically had in recessions in the United States.

You lower interest rates, people buy houses, they invest in that kind of investment. You can't do that now because of the collapse of the housing bubble. This recession is very, very different in terms of the recovery and what we need to do.

Second, there is a lot of good research that shows the impact of stimulus. I have cited a lot of it in my testimony. I am going to direct you to one piece of research by David Johnson, Jonathan Parker and Nicholas Souleles that looks that income tax refunds of 2001 and finds that two-thirds of those dollars were spent within the first two quarters. Money was spent.

There is a lot of research that shows how multipliers work and how fiscal expenditures in this kind of recession. This was very different from the early 1980's, and I think we need to be very cognizant of that.

Finally, I have one comment on Ms. Furchtgott-Roth's point about cost benefit analysis. We should also make sure we include the full cost of implementation such as when you have disasters or calamities, the catastrophic costs like the financial crisis, when you are thinking about regulation.

Thank you.

Ms. BUERKLE. Thank you.

Professor Taylor, I don't know if you would like a minute or less than a minute for rebuttal?

Mr. TAYLOR. Sure. No recovery is the same as others and no recession is the same as others, but 1983–1984 had a very rapid recovery and also had drags on it. Housing was not the drag but net exports because the dollar got so high at that point where it dragged about 2 percent per year negative. Right now housing is not going anywhere but it is not taking away from growth. Every recovery has its problems.

What is unique about this one is its broad base. Investment is down, consumption is down, firms are not hiring. It is across the board and that is why I think if you look and try to understand what is going on, you come to these questions about the policy, the uncertainty that it has caused, the worries about higher taxes, the worry about inflation and that is why I think the remedy has to be to fix that, not to try the things that we know didn't work from the past.

I can't emphasize enough that just because you can cite something a Republican voted for in the past doesn't mean it worked. President Ford was a Republican. He had a temporary stimulus program that he voted for and within a year of that, his own Council of Economic Advisors concluded that it didn't work very well and recommended it not ever be done again. Again, President Carter, a Democrat, of course, the same thing, his advisors said, it didn't work. We learned that lesson for a couple of decades.

Now we are back to the failed policies of the past. I think it would be a terrible mistake to do it yet again and that is my concern here.

Ms. BUERKLE. Thank you, Professor Taylor.

Mr. Schiff.

Mr. SCHIFF. Unfortunately Mr. Kucinich left but he made the point that prior stimuluses had enjoyed bipartisan support. They didn't enjoy my support. I opposed them at the time. All of the efforts by government in the past to artificially stimulate the economy have failed. They have worsened the problem.

The recession is actually part of the cure. The recession needs to be allowed to run its course. The reason we are never going to have a real recovery is because the government won't let us have a real recession. We have serious economic imbalances that I mentioned. We have an economy that is based on spending borrowed money. That can't be. Economies have to be based on savings, investing and production. We are trying to run an economy upside down. In order to maintain it, we have to keep interest rates at zero, we have to run these huge imbalances, we have to import all these goods that we don't produce, we have to borrow from the rest of the world. We have to allow the restructuring to take place.

Until we allow that to happen, we are not going to create jobs, we are not going to have any real economic growth. We can't just keep repeating the mistakes. I know, and this is a political body, it is very difficult for politicians to level with the American public about how severe these problems are and how they are the consequence of years and years of mistakes made by Congress and by the Federal Reserve.

There is a free market cure. It will work if the government gets out of the way and lets it happen. It is going to be painful. Just like anyone who has a drug habit, they check into rehab, they will come out better, but it is not going to work if every time they feel the withdrawal symptoms, they take another shot of heroin because that is what these stimuluses are, a shot of monetary, fiscal heroin and it is not going to work and only means that the eventual withdrawal is that much more painful because we have that much more drugs in the system that have to come out.

Ms. BUERKLE. Thank you very much.

Mr. Lindsey.

Mr. LINDSEY. I share Professor Taylor's skepticism of counter cyclical fiscal policy. There are plausible theoretical reasons why it could work but the empirical track record just isn't very good, here or in other countries. The proper role of government is to create stable conditions that are favorable for economic dynamism and economic growth.

Since our focus here is on jobs, we need to keep in mind that the job market in this country has been slack for a decade, that the track record of new business formation and unemployment and new business has been off trend in recent years well before the recession, so we should be looking at structural issues, not just as temporary cyclical fixes.

Ms. BUERKLE. Thank you.

I noticed in your testimony you did refer to structural changes versus cyclical changes. Do you think the administration's new jobs plan includes any of those changes?

Mr. LINDSEY. It is overwhelmingly focused on temporary counter cyclical measures.

Ms. BUERKLE. Thank you.

Mr. Chairman.

Mr. ISSA. I too am sorry that Mr. Kucinich left. One of the flaws we have in our system is we manage to serve on multiple committees and have multiple obligations.

Mr. Lindsey, I want to follow up first with you and perhaps others on the panel. This morning I spoke with the Northern Virginia Tech Council, all CEOs, all involved directly or indirectly in high tech growth in northern Virginia, a great success story to say the least.

The dialog, which included repatriation of funds and so on, quickly went into if I gave you the money, where would you invest it. It did seem like the message I was getting this morning was we wouldn't invest it. Basically, we don't have the kind of stability that causes us to want to make the investment.

What is it that we should be looking at from this side of the dais where we have been talking to American job creators through americanjobcreators.com. We have been hearing from people what the impediments are to job creation and we want to deal with those. Those are a given.

What else could we do so that if $1 trillion to $2 trillion came back in, it would be invested in America and then I have a side bar question which is, aren't we focusing on the wrong thing when we focus on jobs? Shouldn't we be focusing on efficiencies that make American jobs competitive in the world, which was the other subject this morning. Would you comment on that?

Mr. LINDSEY. Ultimately, we don't spend money in order to create jobs for ourselves. We work so that we can have money to spend. The purpose, ultimately, of economic activity is consumption but clearly, our economy is under performing in job creation and making use of valuable human resources. Again, this is the Kauffman Foundation mantra, but if you are serious and interested in job creation, you must look at who creates jobs. The soul source of net job creation, the overwhelming source of net job creation in this country is new businesses, businesses under 5 years old, specifically startups.

What you need to do is look at the kinds of policies that make it easier for them to get started, easier for them to attract capital, easier for them to keep their cost of business down by freeing them from excessively costly regulations, and so forth. In my written testimony, I have a laundry list of pro-entrepreneur policy proposals that Congress could consider and put into law that would help push us in the direction of a permanent, not a temporary fix, but a permanently more favorable business environment.

Mr. ISSA. Ms. Roth, I know you were earlier asked a bit about NLRB's activities related to Boeing and so on. Boeing is our largest exporter, period. If Boeing can produce more aircraft with less labor, should they be able to do that or should we consider that retaliation if they find ways to use less labor and thus need less union workers in Everett, Washington? Doesn't the logic of only adding 2,000 jobs in Everett being a retaliation because they could have added 3,000, isn't the logical next step for NLRB and for the Federal Government to say, we want you to add 4,000 jobs, you figure out how to do it, rather than spending every day figuring out how to build a better airplane with less total cost?

Ms. FURCHTGOTT-ROTH. What the National Labor Relations Board is doing to Boeing is absolutely unprecedented.

Mr. ISSA. I just want to know how far, if we let them take it, they should be able to take it next? Shouldn't they be able to just mandate X amount of new jobs in order not to be considered retaliation?

Ms. FURCHTGOTT-ROTH. No. It is in the benefit of the United States for companies to be able to choose their locations and to move from one location to another which, by the way, Boeing did not. Boeing kept its plant in Washington State. We can just have a look at the violence in Washington State over the past week from the longshoremen who are destroying railroad carts and grain to give some indication of why an employer might prefer to build another plant elsewhere if nothing else for geographic diversity as well as because of different costs.

This is sending a chilling effect to employers who want to locate in unionized States. They might very well be stuck there if the NLRB continues with its current policies of not allowing them to move. It also puts them at the mercy of strikes. If there is a strike over some perhaps needless or small issue and that is used in the future as a rationale for disallowing another plant elsewhere, it works to the harm of the United States because then companies just prefer to offshore their manufacturing.

Mr. ISSA. Isn't there a record of exactly that happening in Germany, for example, even though they had a lot to be said for locating in Germany. For a long time, you couldn't close an operation or reduce an operation in Germany and as a result, nobody would make an investment in Germany unless it was sort of a guaranteed investment which usually was a government contract.

Ms. FURCHTGOTT-ROTH. That is correct. The EU also has rules against firing workers which makes it very difficult for employers to take on workers. They know once they have them, they are stuck with them. In the past, we have benefited from flexible labor markets. We have created vast numbers of jobs. We have had unemployment rates 2 to 3 percentage points lower than Europe. We have laughed at Germany for its 9 percent unemployment rate and now it is reversed.

My fellow witness talked about the slack labor market in the earlier part of the last decade but in April 2006, we had a 4.6 percent unemployment rate. That is not a sign of a slack labor market.

Mr. ISSA. I guess I will ask a closing question. It is rhetorical but it is important to the way I think and perhaps your comments will help everyone.

How many of you out of five believe Henry Ford did a service to America in automating and increasing the productivity at Ford plants during his tenure in the Model T and Model A?

Ms. FURCHTGOTT-ROTH. He certainly did.

Mr. ISSA. One of the things we can all agree on. Isn't that part of the challenge we face today, if you can produce a better product for less, which also includes less labor, that is how you end up being a world class creator of jobs? Isn't that the principle that for some reason stimulus, simply adding jobs by paying for them, does the exact opposite of less labor, perhaps, but world class labor that produces a better product? Mr. Schiff.

Mr. SCHIFF. Absolutely. Henry Ford was famous for paying his workers $5 a day.

Mr. ISSA. Highest in the world at the time.

Mr. SCHIFF. That was a ounce and a quarter of gold which at today's exchange rate is $2,500 a week. Ford's workers were making $2,500 a week, the equivalent, paying no Federal income tax and no payroll taxes, there was no minimum wage and no unions. We paid the highest wages in the world, yet we produced the best quality and least expensive products. How was that possible? That was because we had the smallest government. We had minimal regulations and low taxes.

If we want to recreate American industry, we have to recreate that environment. We have to allow businesses to grow and prosper. We have to remove all the road blocks and impediments that Congress has placed in their path over the years.

Mr. ISSA. Dr. Boushey, you are sort of surrounded here, so I will give you the last word.

Dr. BOUSHEY. Thank you, Congressman.

I am glad that Mr. Schiff brought up the $5 a day, that was an important point. The reason Henry Ford did that was to reduce turnover and to keep highly skilled workers. That certainly tells you something and it would be great to see more employers taking that high road strategy today that we don't see enough here in America.

Mr. ISSA. Thank you all.

Thank you, Madam Chair.

Ms. BUERKLE. Thank you, Chairman Issa.

I would like to thank all of our witnesses for coming today and taking time out of your busy schedules. We appreciate that very much.

At this time, this hearing stands adjourned.

[Whereupon, at 12:08 p.m., the subcommittee was adjourned.]