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THE ROAD TO ECONOMIC RECOVERY: PROSPECTS FOR JOBS AND GROWTH

HEARING

BEFORE THE

JOINT ECONOMIC COMMITTEE
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FRIDAY, FEBRUARY 26, 2010

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The committee met, pursuant to call, at 9:27 a.m. in Room 216 of the Hart Senate Office Building, The Honorable Carolyn B. Maloney (Chair) presiding.

Representatives present: Maloney and Brady.

Senators present: Bingaman.

Staff present: Brenda Arredondo, Andrea Camp, Gail Cohen, Colleen Healy, Kinsey Kiriakos, Andrew Wilson, Rachel Greszler, Lydia Mashburn, Jeff Schlagenhauf, Ted Boll, and Robert O'Quinn.

OPENING STATEMENT OF THE HONORABLE CAROLYN B. MALONEY, CHAIR, A U.S. REPRESENTATIVE FROM NEW YORK

Chair Maloney. The meeting will come to order.

I am thrilled to be joined by Senator Bingaman. Congressman Brady will be here momentarily, but I want to start on time because votes are projected for 10:30 and I will have to leave for that.

I first would like to thank Mr. Joerres and Dr. Hassett for their willingness to return to Capitol Hill and testify before the Joint Economic Committee. Our last meeting on February 9th was snowed out, and the weather continues to cause problems. Roger Altman, a former Deputy Treasury Secretary for our country, was going to testify (he's now a leading businessman), and he has been snowed out and is not able to come.

So I ask unanimous consent to put his testimony in the record.

[The prepared statement of Roger Altman appears in the Submissions for the Record on page 40.]

Chair Maloney. Today's hearing continues our in-depth series on job creation. Today we will be examining the prospects of a labor market recovery from the Great Recession, which was fueled by the double-digit crises in both the housing and the financial sector.

A recent op-ed by Professor Alan Blinder—which was based on the testimony that he was supposed to give before this Committee before he was snowed out—presents a clear picture of the two possible policy options to increase private sector employment: either increase demand by consumers and businesses, or give employers the incentive to hire workers.

On Tuesday, the JEC heard testimony from Dr. Doug Elmendorf, Director of the Congressional Budget Office. His testimony showed that an employer tax credit—similar to the one in my bill—is one of the most effective and efficient ways of spurring hiring.

His testimony also showed that extending unemployment benefits has the biggest "bang for the buck" on the economy. Those benefits quickly multiply beyond the original recipients since families will spend all of their benefits on food and their expenses. Those purchases have a ripple effect throughout the economy.

We have come a long way since last January, when the economy lost 779,000 jobs in that month alone, and recorded an average monthly job loss of over 750,000 jobs in the first three months of 2009.

Last month we lost 20,000 jobs. And in the most recent three months of the Obama Administration the average monthly job loss was 35,000. So we are headed in the right direction. Thanks to the Recovery Act, the economy is growing.

The Bureau of Economic Analysis reported that in the final quarter of 2009, the economy expanded at a rate of 5.9 percent.

The Recovery Act included a tax cut for 95 percent of all American families and created jobs while investing in clean energy, infrastructure, and education. While we have brought back the economy from the brink, we are not yet where we need to be in terms of job creation.

Over 8.4 million jobs have been lost during the Great Recession. And in addition to the 14.8 million workers who are currently unemployed, there are 8.3 million workers who are currently working part-time but would like to work full-time.

In the last year, Congress has enacted policies that support struggling families and encourage job creation. These actions include creating and extending the first-time homebuyers credit, boosting funding for small business loans via the Small Business Administration, extending safety net programs, and extending the net operating loss carry-back provision that will help small businesses hire new employees.

But we need to redouble our efforts to create jobs. The Senate jobs bill, which passed this week, is a step forward and an encouraging sign of bipartisanship.

It includes a scaled-down version of my employer tax credit. I am happy that the Senate has included this. As Dr. Blinder said in his op-ed, reducing costs for employers to hire new workers will create jobs.

During today's hearing we will explore other options and hear other ideas to help workers get back on their feet, spark consumer spending, and brighten our economic future.

I am pleased that Dr. Berner was able to testify today and provide us with his forecasts of which sectors and regions of the economy are expected to grow in the coming year.

Mr. Joerres will be giving us Manpower's on-the-ground experience about the increase in demand for temporary workers. Job creation in the temporary help sector is a leading indicator of progress in the labor market.

Since September 2009, temporary help services has added over 247,000 jobs—52,000 in January alone.

Finally, Dr. Hassett will be giving his views about future growth and the health of the labor market.

I am also pleased to see that today's panel will touch on another topic discussed on Tuesday with the CBO, and that is the role of uncertainty about government policies on dampening economic and employment growth.

I look forward to a lively discussion with the panel today, one that I hope will help spark bipartisan efforts to create certainty so that households and businesses will feel confident and will lead our country out of this Great Recession.

[The prepared statement of Representative Maloney appears in the Submissions for the Record on page 42.]

Chair Maloney. Thank you all for coming, and I recognize my colleague, Senator Bingaman.

Senator Bingaman. Thank you all. I don't really have an opening statement. I look forward to hearing from all of you about our prospects for accelerating the economic recovery and creating jobs, and your best suggestions as to what policies we could adopt that have not been adopted. Thank you for being here.

Chair Maloney. You are in charge.

Senator Bingaman [presiding]. Okay. Let me just start, unless you have some preference in the order that you would like to testify, with Dr. Berner. Have you been adequately introduced here? I can certainly do that.

Dr. Berner. I am happy to proceed, Senator.

Senator Bingaman. Let me just briefly indicate, he is the managing director and Co-Head of Global Economics, and Chief U.S. Economist with Morgan Stanley. We appreciate you being here. You direct the firm's forecasting and analysis of the global economy and financial markets, and co-head the firm's Strategy Forum.

You have served here, of course, on the Research Staff of the Federal Reserve in Washington where you co-directed the Fed's Model-Based Forecasting. There are a lot of other things I have written here that I could say about you, but I think that gives us an indication of your qualifications.

We are very pleased that you would be with us today. Why don't you go ahead, and let me hear from you, and then I will introduce Mr. Joerres.

STATEMENT OF DR. RICHARD BERNER, MANAGING DIRECTOR, CO–HEAD OF GLOBAL ECONOMICS AND CHIEF U.S. ECONOMIST, MORGAN STANLEY & CO., NEW YORK, NY

Dr. Berner. Okay, Senator. Thank you, and other Members of the Committee who may not be here. Thanks for inviting me to this hearing.

Following the deepest financial and economic crisis since the Great Depression, the U.S. and global economies are starting to recover.

In our view, however, the recovery will be moderate and job gains modest. In 2010 and 2011, respectively, we expect real GDP to grow by 3¼ percent, and 2½ percent.

We expect annual job growth to average about 110,000 monthly over that 2-year period, excluding hires for the decennial census. Even those job gains, however, are not a foregone conclusion. We have yet to see job growth in our economy, as you know. And, while indicators have improved, that is still a forecast.

More important, as you also know it would take stronger job and economic growth over the next few years to regain the 8.4 million payroll jobs we have lost in this Recession, or to gain the 10.6 million jobs required to restore the employment rate, or the employment population ratio to the one prevailing before we got into the downturn.

Importantly, as well, our unemployment problem has become chronic. Two statistics I think document that fact. The median duration of unemployment has reached 20 weeks, and a record 41 percent of the unemployed have been jobless for 6 months or longer.

So my testimony today I will talk about four specific obstacles to hiring. Each of these has both a cyclical and a structural element to them. For each I will talk about policies that might help foster economic growth and job creation, but first I want to identify, as you asked me to, where job gains are likely to be over the next two years and why.

We think advances in export, infrastructure, capital goods, energy, and health care-related industries likely will account for most of the job gains in the next 18 to 24 months.

That echoes our views regarding the sources of growth in our economy. The combination of strong global growth, the lagged effects of fiscal stimulus, and improving financial conditions—thanks to the efforts of the Federal Reserve—will continue to promote growth and will promote improvement in many of those industries. And of course rising demand for health care services continues.

When we think about where the regional strengths will be, that's a little harder. For example, industries that likely will benefit from exports and other strong sectors happen to be located in regions that were hard-hit by regional housing problems.

In our judgment, the Pacific Northwest, parts of the Rockies, and Upper Midwest, parts of the Southeast, and parts of the Southwest seem likely to us to be the strongest regions.

Turning to export markets and employment, which is important, I expect gains in export volumes of around 10 percent to be sustained over 2010. Paced by their domestic demand, growth in many of our major trading partners—particularly in Asia and Latin America—probably will average around 6 to 7 percent this year, and Canada probably will grow more strongly than in the U.S. A little slower growth in 2011 is likely to occur as the U.S. and overseas policymakers exit from their very expansive fiscal and monetary stimulus.

In manufacturing, some 20 percent of employment in 2006 was directly or indirectly related to exports, and I expect that share to grow over the next two years.

Capital equipment and industrial supplies exports likely will continue to do well, while consumers will represent a rising share of overseas demand.

Now let me turn to some of the obstacles to hiring. I think worries about the sustainability of the recovery are legitimate, as they often are, early in a recovery, and that is maybe holding hiring back.

The fallout from the bursting of the housing and credit bubbles I think has intensified such concerns this time. So I think it remains essential to pursue policies oriented towards reducing housing imbalances, reducing debt, and improving the functioning of financial markets and financial institutions.

In addition, I think there are four specific obstacles to hiring today:

Rising benefit costs;

Mismatches between skills needed and those available;

Labor immobility resulting from negative equity in housing; and

Uncertainty around policies here in Washington, as the Congresswoman mentioned earlier.

I want to turn to what you can do to help the economy and labor markets to improve as quickly as possible. Let's talk about the cost of labor.

Thanks to high fixed costs of health and other benefits, and of taxes on labor to pay for the social safety net, our labor costs are out of line with other countries when adjusted for living standards.

I say "fixed costs" because benefits do not vary with hours worked; they are paid on a per-worker basis. But as employers seek to cut the cost of compensation, these benefit costs drive a growing wedge between total compensation and take-home pay.

The Recession made that wedge bigger as cost-cutting private sector employers cut take-home pay while leaving benefits intact. So relative labor costs go up in that circumstance versus other countries, and median pay suffers.

The long-term solutions to this issue include comprehensive health care reform and innovation to boost productivity and labor skills.

A short-run remedy might include the refundable payroll tax credit that we've just mentioned in the hearing, perhaps for firms that increase their payroll. CBO estimates that would be one of the most effective short-run remedies, as was just mentioned.

The second obstacle I think is a mismatch between skills needed in the workforce, or work place, and what there are in the workforce. Workers' skills have greatly lagged technical change, and the big changes in the structure of our economy.

Dislocations in several industries in the Recession magnify that mismatch as workers who have been trained for one occupation lose their jobs and have difficulty taking another. And even in health care there is a growing nursing shortage that requires new training facilities.

The long-term solution, or solutions, include policies that keep students in school, improve access to education, reorientation of our higher educational system towards specialized and vocational training and community colleges, and of course the training programs that firms like Mr. Joerres seek.

The short-term remedies are a little harder. One short-term remedy might pair training and basic skills that are needed for work with the income support we need through unemployment insurance to help people bridge the gap during jobless spells.

Two other groups seeking employment—newly minted college students and recently unemployed teachers—could be an ideal nucleus, in my view, for a job training corps that would empower jobseekers with new skills.

The third obstacle is labor immobility resulting from the housing bust. Negative equity among a Nation of homeowners, in my view, leads to substantially lower mobility rates—one-third lower, according to one study.

That is leading to a wave of strategic defaults in which borrowers who can otherwise afford to pay decide to walk away from their homes. Whether through foreclosure or default, this process is undermining the economic and social fabric of communities and reducing job opportunities. And so far the policies that we have employed really have not dented the problem.

The long-term solution of course is financial and mortgage regulatory reform which are essential to restore the health of housing finance. Significantly, improving financial literacy in my view is equally important.

In the short run, efforts to stabilize communities plagued by foreclosure are essential, and they are worthwhile, but they are not enough.

Modifying existing mortgages has not worked. Re-default rates following modification are between 50 and 60 percent. I think establishing a protocol for short-sales and principal reduction should be a useful tool in avoiding costly foreclosure and strategic default.

The fourth obstacle is policy uncertainty. I think that is a negative for the economy and for markets. It is clear to all of us that we need to solve our long-term challenges, and there are many—health care, budget and tax reform, financial regulatory reform, retirement savings, infrastructure, the list goes on—and the debates around major initiatives to address those problems are obviously an important part of the democratic process.

But the uncertainty that accompanies major policy change I think is weighing on business and consumer decisions to hire, to expand, to buy homes, and to spend.

Now there is some recent work that confirms this intuition. In effect, the rise in uncertainty increases the option value of waiting as volatility in markets and the economy rises.

Moreover, this line of reasoning suggests that uncertainty reduces the potency of policy stimulus. In effect, it raises the threshold that you have to clear to make a business choice worthwhile. And, conversely, as uncertainty declines, the threshold falls with it.

I can tell you as someone who works in financial markets that market participants are used to thinking that political gridlock is good, that it prevents politicians from interfering with the marketplace. And by the way, I think sometimes that interference is essential and important.

The financial crisis clearly exposed the flaws in that reasoning, however, with respect to appropriate financial regulation whose absence allowed abuses. Indeed, gridlock today is more likely to be bad for markets, as our long-term economic problems are partly the result of past policies and can only be solved with political action.

So the long-term solutions here involve bipartisan leadership to tackle those complex problems one by one in steps that are fair and call for shared sacrifice and benefits.

The short-term remedies are no easier. They involve, obviously, getting together, but they will be a tonic for growth in my view. Reduction of the uncertainty around the political environment here in Washington I think would give some clarity to policies and the direction we're headed, and I think that would support an improvement in our economy and our financial markets, and would pave the way for renewed job growth.

Thank you very much. I will be happy to take your questions.

[The prepared statement of Richard Berner appears in the Submissions for the Record on page 43.]

Senator Bingaman. Thank you very much. I appreciate you being here, and I appreciate that testimony.

Jeffrey Joerres is the Chairman and Chief Executive Officer with Manpower Inc. He joined Manpower in 1993, served as vice president of marketing, and later as senior vice president of European operations and global account management, promoted to president and CEO in 1999. In 2001 he was named Chairman of the Board.

Again, I have more information that I could put out here explaining your eminent qualifications, but thank you for being here and we are anxious to hear your perspective on these questions.

STATEMENT OF JEFFREY JOERRES, CHAIRMAN, CHIEF EXECUTIVE OFFICER, MANPOWER INC., MILWAUKEE, WISCONSIN

Mr. Joerres. Thank you, Senator.

Job creation is the topic that we absolutely deeply believe in, as every day we connect people to jobs. That is what we do for a living.

Globally we have more than 400,000 associates on assignment at any given day. In 2009 we interviewed over 12 million people through our network of over 800 offices in the United States. We absolutely have a finger on the pulse of what is going on in the labor market.

So what are we seeing? Companies are clearly starting to hire. There is no doubt about it. However, this recovery, like the recovery in the last few recessions, will be a jobless recovery.

This is because companies are much more sophisticated in their ability to assess their workforce needs. Companies can determine exactly when they need workers to support the demand for their products and services. So from now on, companies will no longer engage in "anticipatory hiring."

They will instead wait for clear signs of an increase in demand before making permanent hiring decisions. As a result, we would expect that short-term increases in the level of job hiring will be driven by new businesses, or by actual demand.

The Manpower Employment Outlook Survey looks to 28,000 U.S. companies to assess hiring expectations in the quarter ahead. The latest survey shows that twelve percent of those companies said they would increase their staff in the first quarter; 73 percent of the employers expected no change in their hiring.

Why is that important? In the 42 years of this survey the "no change" number has never been that high. Those companies are really stuck in the middle of the stabilization waiting for a sign for them to be able to take on people. The normal number of employers expecting "no change" would be somewhere around 58 percent.

Additionally, the national survey data shows that employers in mining, durable manufacturing, information, government, are expecting hiring in the first quarter versus the fourth quarter of

2009. Slight increases are also expected in nondurable goods manufacturing, transportation, utility, professional and business services. Employers in sectors, as you would imagine, like construction, retail, wholesale, will have a very soft first quarter, and some of the preliminary indications, we say, a softer second quarter as well.

Using the seasonally adjusted data, all regions anticipate moderate quarter-over-quarter growth in their staffing levels, with the highest growth coming from the South and the Midwest. And you can see why: growth in the manufacturing jobs is where our growth is coming from.

A major trend emerging from this down cycle is the number of unemployed workers who will be forced to find new jobs outside their industry-of-expertise. In our company we have labeled these people: "industry migrants," very similar to a migrant coming into the country.

They face challenges including how to adapt old skills to the new demand in the marketplace, and how to represent those skills in a brand new light.

For example, a foreman in an auto company on a shop floor, might have problems fitting into a manufacturing environment.

Another one of these major challenges that workers face in this recovery is the lack of mobility exacerbated by the housing crisis, very similar to what Dr. Berner had referred to. This inability to help homeowners get out from underneath their negative equity problems means that many jobless are unable to take jobs in different locations, when in fact there are available jobs.

We believe that any initiative that the government implements to address the level of unemployment and foster job creation should focus on three specific areas: the individual job seeker; companies; and potential new businesses.

So what can be done to assist in the individual employment? Training programs. Again, as Dr. Berner mentioned, these have very good track records. They also have some challenges associated with them. But workforce development programs and other forms of skill retooling—and I might suggest specifically focusing on these potential industry migrants—to enable them to leverage their existing skills, but move them into different industries.

What can we do to assist corporations? Corporations are more specific than ever about their hiring needs. This is the conundrum. There are people saying: I have the skills. And there are companies saying: your skills aren't good enough for me. That skills mismatch is critical.

They have to have softer skills. They have to have flexibility, adaptability, intellectual curiosity, an interest in lifelong learning; things that we didn't have to have before.

Given the velocity of change in these requirements' skills, all citizens and particularly industry migrants will need to develop them.

Tax credits and incentives for companies to increase the size of their workforce will put needed money in the hands of businesses. However, companies have gotten smarter, in that from this recovery going forward hiring decisions will be made based on demand for their product and services and goods.

Offering incentives will not create new jobs, in my opinion. Rather, they will subsidize the cost of growth of companies that they would have hired anyway.

This use of taxpayer monies in this incentive program is well-intended, yet at the same time will create a tax break for companies, which is good, but if you look at the long-term core it is not getting at true job creation.

Businesses create new jobs. One of the biggest challenges of any Federal Government initiative is getting to the end citizen, and how that end citizen can participate in those programs. Programs to provide this group of people with access to start-up capital, grants, access to cheap real estate, perhaps even using some FDIC-owned real estate, will create jobs.

In conclusion, I am suggesting three specific actions that should be considered to address the three areas of focus I just spoke about:

One, a targeted investment aimed at new business creation. Develop a comprehensive program, breaking down the silos within government to support entrepreneurs to set up and establish new businesses. A new pipeline of businesses must be there in order to replace the continued productivity and efficiency.

A program targeted on unemployment and the homeowner. Again, as Dr. Berner talked about. We need to create a more flexible and fluid labor market, and therefore we need to be able to have people continuing to pay their mortgages so they're not trapped in their city when there's a job offer elsewhere.

A targeted program to address soft skills which will particularly benefit industry migrant populations. This development of these industry migrant populations. This is an opportunity to develop a training curriculum and program through workforce investment boards. Industry migrants require assessment skills, skills' transfer training, and soft skills' training. All of these can introduce the likelihood of this migrant moving to other industries.

Manpower has been in the business of jobs and the job-training business for more than 60 years. We have seen the economic ups and downs. It is clear that this recession is by far the most severe that we've seen.

It has been a privilege to share some of the thoughts that we get and feel from on the ground and those actions I have presented to this Committee. We consider that strong partnerships between government and industry will be critical for rapid progress in the recovery.

It will also be critical that we get it right. Right means systemically so that we are not solving this same issue 18 months from now. The employees of Manpower and I are ready to assist in getting America back to work.

Thank you.

[The prepared statement of Jeffrey Joerres appears in the Submissions for the Record on page 47.]

Senator Bingaman. Thank you very much for that testimony, and I will have some questions when we get to the question part.

Our third and final witness is Kevin Hassett, Director of Economic Policy Studies, a Senior Fellow at the American Enterprise Institute. His research areas include the U.S. economy, tax policy, and the stock market. He previously was a senior economist at the

Board of Governors of the Federal Reserve System, and a professor at the Graduate School of Business at Columbia. He also served as a Policy Consultant to the Treasury Department during the Presidency of George H.W. Bush, and the Clinton Administration.

Dr. Hassett, thank you for being here.

STATEMENT OF DR. KEVIN A. HASSETT, SENIOR FELLOW AND DIRECTOR OF ECONOMIC POLICY STUDIES, AMERICAN ENTERPRISE INSTITUTE FOR PUBLIC POLICY RESEARCH, WASHINGTON, DC

Dr. Hassett. Thank you, Senator, for having me. It is a real honor to be here in the room. Also, I commend—I have turned on my microphone. Is it working? The microphone is not working?

Senator Bingaman. No, I think it works. If you will just pull it a little closer, that seems to be the thing.

Dr. Hassett. How about that?

Senator Bingaman. That's great.

Dr. Hassett. Okay, terrific. Thank you.

It is really an honor to be here, especially before this Committee, which as you can see looking at my fellow panelists has a long tradition of inviting people who give the unbiased truth and are not here to make political points, but rather to help us think about where we are and what we need to do.

As you know, Senator, my testimony was fairly long. And after listening to my two predecessors, a lot of the things they said are things that I agree with explicitly in my testimony. So what I will do is go through the parts of my testimony that offer slightly different, or alternative perspectives and not emphasize the areas of agreement.

So I will begin with a brief overview of our current economic situation, discuss what I see as the most pressing challenges for employment and growth, and then describe policy changes that I think would address our current challenges, especially those challenges in the U.S. labor market.

The headline of my testimony is that it is absolutely clear that the Recession is over, although that is not really commonly discussed, although it is certainly accepted by most economists. I think in the end the date of the end point, or the trough of the Recession will be probably sometime in July of last year.

But even though the Recession is over, as was the case in the previous two recessions, we've begun with something that looks a little bit like a jobless recovery. The labor market is still terrible, and it is improving far too slowly, although it may have very subtly turned the corner lately.

The fact is that we are coming out of what economists now call "The Great Recession," but I think that we need to amend that as we think about our policy challenges because it was "the Great Recession" for whites, but it has been a Great Depression for blacks. If you look at the differences across races in unemployment, for example, it is startling and disturbing and an urgent call to action.

I think also the Great Depression for blacks is not over. So we are starting to see some signs of improvement in labor markets, but if you decompose the statistics and look at the different experience of whites and minorities, you find that minorities are really trailing in a way that challenges policymakers.

And so I think looking at the economy, we are clearly out of the Recession. We have had a tremendous growth quarter, but that growth, a lot of it came from inventories and traditionally inventory spikes are followed by weak quarters; they tend to be negatively correlated, the inventory contributions, which means that there is a downside risk at the beginning of this year and ample room for caution.

I think that, given that, and given the state of the labor market, that we would be wrong not to think about additional measures to take.

Now before I go on to the specific proposals that I would urgently encourage you to consider, I would like to talk a little bit about what we did last year. Because I think it is crucial to not repeat what we did last year, for reasons that I go into in depth in my testimony.

Now the CBO report released just this week provided estimates of the impact of the stimulus, and they offer broad ranges in the report when estimating the economic effects which are intended to encompass most economists' views, and thereby reflect the uncertainty involved in such estimates.

As you know, Senator, the estimates were then actually fairly favorable, giving ranges, you know, well above a million, or two million jobs. My view is that the CBO report is incorrect. And I make these observations here not to make political points about what we did last year, but rather just to emphasize that it is crucial that we look elsewhere now.

Now why do I disagree with the CBO report? Well, the CBO analysis relies on large-scale Keynesian macro forecasting models that were mostly discarded by the economics profession a long time ago.

The CBO analysis concludes that we got lots of jobs created and that the broad range of economists' views would support that, but I disagree. That is not my read of the literature.

A sign of how far off the CBO analysis is comes from the comparison of their broad range to the analysis in a *Wall Street Journal* article, also written this week, by Robert Barro of Harvard.

Professor Barro has been one of the primary contributors to the macroeconomic times series literature that has tried to estimate effects from observed economic data, rather than assume the facts, as is often done by the Keynesian models.

I should note that Barro is perhaps Harvard's most famous macroeconomist, is a virtual lock to win a Nobel Prize, and his work is not out of the mainstream. It has been followed by the work of many others who have made similar findings.

The key point is that Barro estimated that the government's spending multiplier for the first year of the Stimulus 2009 was about .4 percent, pretty small; and the multiplier for year two would be about .6 percent, a little bit bigger, but both of these estimates fall well short of the bottom of the range of CBO multipliers, because the CBO chose to ignore the literature that relies on experience rather than Keynesian speculation.

I believe that the correct position for policymakers as we now look ahead at what to do is to adopt skepticism concerning these effects, and openness to different approaches.

I guess the last point from my testimony that I would like to emphasize is that it is worth adding that we need to be particularly wary of big job creation estimates precisely at this moment.

One reason job creation lags the cycle is that businesses hoard labor and have excess capacity when times turn sour. As the economy recovers, they are able to ratchet up production without making new hires.

Even if the Stimulus did have an outsized effect on output, one would not expect to see a large impact on hiring at the beginning of a recovery. The large job-creation claims just do not add up.

So what should we do, if we're not going to do what we did last year? Well, I highlight a number of things in my testimony which I am going to have to give a kind of helicopter view of, as I am running out of time.

The first thing is that I think that we should recognize that we have a serious opportunity, if we can get our house in order. As Mr. Berner emphasized, uncertainty about future policy and about the course of U.S. prices and the value of the dollar is certainly having a depressing effect on the U.S. economy.

The good news is that there have been many countries in the past that have been in circumstances similar to our own. The literature suggests that those countries that then get their house in order, by having something like the bipartisan commission that was proposed in the Senate recently to reduce the deficit in the long run, well they have seen even near-term economic booms in part, I believe, because the uncertainty about what future policy is going to be is removed.

So I think the first thing we need to think about is not to sharply cut back government spending, for example, in this year, which would certainly have some negative effects on the economy, but rather recognize that we have a near-term opportunity to remove the uncertainty about future policy by getting our house in order in the long run.

Such a fiscal consolidation I believe would be a very beneficial policy going forward. It would give people reason for confidence as they make their plans about the future.

The second policy that I emphasized in my testimony is something known as job sharing, which is really a very smart and clever idea that has been floating around for years and perfected somewhat by some European nations.

Again, as I'm running short, I will summarize it in this way. Right now we have unemployment insurance. And if a firm lays a person off, then they will have a reduction in their wage bill in what they have to pay, and the person who is laid off will get some unemployment insurance.

What job sharing is is a kind of fractional unemployment insurance. So you could reduce a worker's hours by say 20 percent, and then they could get 20 percent of their unemployment insurance.

The experience of such programs is really remarkable. In some European nations like Germany they have had GDP declines very similar to our own, and yet the unemployment rate has barely gone up at all. And many analysts attribute this to their job-sharing program.

I think it would be very cost effective to adopt one now, and it is important to note that it is not too late, even if we are in the first stages of a recovery. The fact is that each month four million or so jobs are created and destroyed, so there is job creation out there, but there is still a lot of job destruction out there.

If we can use job sharing to slow job destruction, say even 10 percent, then that might add up as much as 400,000 to the net job numbers that you see in the top line employment report.

I then go on to discuss the idea of creating jobs directly, which is not something that I would naturally choose to do if asked, but given the state of the labor market we need to really be creative about how we do it. And the good news is that the few programs that we've seen that have tried to create jobs directly have done so at an astonishingly cost-effective way compared to things like the Economic Stimulus.

So, for example, one jobs program that H.R. 4564 is seeking to extend maybe created jobs at a cost of about $10,000 to $20,000 a job, which is, even by optimistic estimates if we accept President Obama's numbers, about one-tenth the cost of creating jobs through the Stimulus.

And the final thing that I mentioned is that, if we want to give people reason for optimism, we can resolve uncertainty through a fiscal consolidation, but we have also got to give America's businesses a break.

The rest of the world has been reducing its corporate taxes for years, and the idea is that now the average for our OECD trading partners is about 10 percent below what our current corporate tax rate is. And so if you are a big multi-national firm deciding where to locate your activity, are you going to locate it in the U.S. where you have to pay 10 percent more of your profits in taxes? Or are you going to choose another location that has lower taxes?

The literature on this is clear. When your corporate tax is as far out of whack as ours is with the rest of the world, then the revenue costs are really extreme from having the high rate and you can reduce the rate without losing much revenue, if at all.

Indeed, I even have references that are listed in my testimony that suggest that the cost of reducing the corporate tax rate might actually be nonexistent. It might actually raise revenue because we're on the wrong side of the corporate tax Laffer Curve. That is actually an opportunity right now.

We are looking for something to do that will not cost much revenue because we do not have much revenue to give, and the corporate tax area is one that both is harming our competitiveness and, too, can be fixed without having a big budget cost.

Thank you very much for your attention, Senator, and that concludes my prepared remarks.

[The prepared statement of Kevin A. Hassett appears in the Submissions for the Record on page 64.]

Senator Bingaman. Thank you all very much for your excellent testimony. Let me at this point put an article in the record that relates to some of the same issues that Dr. Hassett and the rest of you testified to. This is an article entitled "Stimulus Arithmetic," by J. Bradford DeLong, a Professor of Economics at UC Berkeley, discussing Dr. Barro's analysis of the American Fiscal Stimulus Act and its effect on jobs.

[The article titled "Stimulus Arithmetic" appears in the Submissions for the Record on page 79.]

Senator Bingaman. Let me start, Dr. Berner, with a few questions to you. I think your testimony is very useful, particularly in that you organized it in terms of the short term and the long term. That is obviously the reality that we are faced with here in trying to make policy for the country here in the weeks ahead, and the months ahead.

One big debate that I think I hear all of you taking a position on is, we have got some here in the Senate who are taking the position that we should not be spending any more for unemployment insurance, any of these job creation initiatives, payroll tax holidays, these types of things, unless we offset that spending by cuts elsewhere, or by, I guess presumably by increased taxes. But some way or another we need to pay for any continuation of the job creation provisions that we have in law today, or the job maintenance provisions that we have in law today.

I guess I would be interested, if I am understanding your position, Dr. Berner, your position would be that that is not the right policy in the short term? That is probably the right policy in the long term? That there is a distinction we need to keep in mind here about what we do now versus what we do with regard to the long term deficit and fiscal situation in the country.

Is that accurate, or not?

Dr. Berner. Yes, Senator, that is accurate.

I think there are two things that are important. In the short term I think what we are all saying is we need to be smarter about the way we implement programs, and the way we use taxpayer money to implement them.

We are all interested in getting the maximum bang for the buck out of those programs. Income support, for example, is really important in a period of great stress for American families and workers. But as I suggested in my testimony, for example, it might better be paired with training and other things that would make it more productive in use.

And Kevin and Mr. Joerres also talked about ways that we could spend our money more effectively in short-term programs. But I think what we are talking about here—and here is where I would join Dr. Hassett in this—we need a credible plan to get our fiscal house in order, and we have not seen that yet.

I think markets would derive great benefit from that. Not only would we reduce uncertainty, but I think that people would understand that, while it is going to take some time because we have got difficult problems to solve and big challenges to address, a credible plan to resolve our fiscal problems over time I think would be enormously beneficial to markets and to the economy.

Senator Bingaman. So the Deficit Reduction Commission that the President is establishing is the right thing to be doing for the long term, but continued support for job creation initiatives now is also the right thing to be doing? Is that what I understand?

Dr. Berner. It is, Senator. It is the right thing to be doing as long as we do it in a way that is both creative and where we get the most bang for the buck.

Senator Bingaman. This suggestion that Dr. Hassett is making about work sharing, job sharing, is that something you have looked into, Dr. Berner? Does that make sense as a policy option we ought to explore or adopt?

Dr. Berner. Senator, I have not looked into that but it does sound like something we could explore. After all, I do not think we ought to leave any stone unturned. We should explore all options.

And the appeal of what Dr. Hassett is talking about is that if you have people who have their hours significantly cut back, that there is a level of income support there for those people. That builds an automatic stabilizer into the system so that we do not while at the same time reduce hours we also reduce wherewithal for spending and create a problem for consumers where we get into them saving in a precautionary way if there is a lot of uncertainty out there.

So that sort of support could be useful. But I think we ought to also look at other—the other kinds of creative ways to both support demand and to get our economy going to support job creation.

Senator Bingaman. Mr. Joerres, did you have thoughts on any of these questions that I have just posed to Dr. Berner here about what short-term policies make sense for us to consider here in Congress?

Mr. Joerres. Well any time you can get somebody back to work instead of sitting at home makes a big difference. So whether it be some form of job sharing, or the industry that Manpower is in, makes a tremendous amount of difference, because there is an awful lot of research that says the longer you are unemployed, the longer it takes for you to get to a long-term employment situation, even if you just do comparisons between the U.S. and Europe on the long-term unemployment rate. A lot of that has to do with not getting people back to work fast enough.

There are two forms of safety net that must be employed now, because we are in a period where you have to have safety nets. In almost all cases, safety nets do not create jobs. But if we serially look at the connection between safety nets and creating jobs, we are going to see an S-curve environment where you're really going to have that dropoff again. There must be some parallels in order to do that.

To your point earlier, this all costs money, thus we are going to have to make some choices. Are we interested in true, long-term systemic job creation, which is really new businesses filling in the slack of mature businesses continuing to enhance efficiency?

Say I have 5,000 employees and reduce it to 4,500. A new business must come up underneath to 500 people just to maintain those jobs. Right now, the pipeline of new businesses we so desperately need is not there.

So I would suggest to be very clear about safety net services, short-term job creation, or really more short-term job preservation, and then longer term programs in order for us to start this pipeline of new jobs.

Senator Bingaman. All right. Dr. Hassett, maybe you could just comment on the general question that I posed to Dr. Berner as to, as I understood your testimony, you say we have a near-term opportunity to get our long-term house in order, and that is the Deficit Reduction Commission, or at least that is one way to try to begin to address that problem, and you believe that is a good step to be taken?

Dr. Hassett. Yes. I am not sure about the Deficit Reduction Commission, although I have a great deal of respect for the folks who have been charged with setting it up. The fact is that we have got tough choices to make. And as you know, Senator, there have been many more failed commissions in the past than successful ones, and I wish that we were a little more ambitious in this regard.

I also would highlight the part of my testimony where there is a chart for this that looks at the U.S. debt situation, external debt situation, and points out that we really are pushing the envelope in terms of our debt.

And again I am not here to point fingers on who is to blame; it certainly is something that started about a decade ago that we began running up bigger deficits; but the fact is that right now our external debt relative to GDP is worse than the external debts we saw for Latin American countries that have defaulted over the last few decades.

And so if you were to say the U.S. is just like another Latin American country, then I guess I would respond to that: You wish. Actually, it would be a big improvement from where we actually are.

And so I think that, given that that is the circumstance, we need to be very wary of expanding things without thinking about how we are going to pay for them. But we do not have to time them so that they all happen this year.

So, for example, if you could find—and I know that this is something that politicians often refer to but it never really exists, or it never really happens—lots and lots of money that we can save from reducing waste three years from now, or some program that we are actually going to cancel, and the present value of that cancelled out all of our jobs programs, then I think the panelists would all agree that that would be a policy that would have a significantly better effect than one that just added to the uncertainty about how we are going to fix this mess.

But the good news—you know, in some sense it is depressing to think about our fiscal situation, but I think that there is a twist on it that one could think of as good news, in the sense that if you're a person who like me likes to watch the sort of medical mystery style TV show, then if somebody shows up and they've got a knife in them, then it is kind of good news in the sense that you take the knife out, you sew them up, and then they go home. But if somebody comes in and they've got a high fever and you don't know why, then it could be really bad news.

The fact is that we have got some knives in us that we know how to take out and sew up, and so we can fix this thing. It is not a mystery how. And I think the question is just how do we generate the political will; it is not how to design the policy.

Senator Bingaman. Let me also ask, your endorsement of direct job creation I think is very interesting. Because again we get into a real ideological discussion around here whenever we try to appropriate money for direct job creation. And folks take the position that that is a terrible thing, that is government expanding, we should not be doing that, we should be doing some other indirection action through some tax provision to incent someone else to create jobs, instead of directly creating jobs.

But I understand you to be saying that direct job creation seems to be a more successful way to get jobs created at a reasonable cost? Am I understanding you right?

Dr. Hassett. Thank you for pointing that out, Senator. I would add that the thought that started leading me in this direction was that if we had spent the Stimulus last year by just hiring people and paying them the median wage of $38,000, then with the original Stimulus estimate I calculated that we would have created 21 million jobs.

I think with the new-hire CBO number it is climbing to something like 23. And I am not saying that that is something that we really would have wanted to do, but it puts in perspective the notion of, you know, when is a multiplier a multiplier?

If you just actually create the job directly, then it turns out to be a lot more cost effective than to design some big public works program that is going to create some jobs.

I think that in addition the idea that creating jobs directly means big government is incorrect, because I think one could easily envision a program that I would probably want my colleague to the right of me to design where we arranged for firms that hire someone who is unemployed to get a fraction of their salary for the first few months for that person in terms of a wage-sharing or something contribution. If you did that, then the firms would have access to the cheaper labor, so their profits would go up, which would make them want to buy machines, and so on. We would get someone back into the labor force before they are lost forever, as my colleague on the panel mentioned—if people stay out of the workforce for a year or two, then very often they have a hard time ever returning. We have got to send a lifeline to these folks.

So I think that, given all of these concerns, especially if it focused on private job creation, it seems like people of both parties should agree that it is a much more cost-effective way to create jobs than anything else, or many of the other things on the table.

Senator Bingaman. Dr. Berner, I would be interested in your comment on this proposal that Dr. Hassett has about reducing corporate tax rates, and indicating that we are at a competitive disadvantage because of the top marginal corporate tax rate here being so much higher than it is in many OECD countries.

My impression is that, while the tax rate is higher, the effective taxes paid by corporations are not out of line for corporations operating here versus corporations operating in Europe. Am I wrong about that? Do you have any thoughts on this? Or is this something you have looked into?

Dr. Berner. Senator, I have not looked into that comparison, but I think your intuition is probably correct. Because many of our largest corporations are global in scope and they think about their tax liability in the way that they structure it in a global perspective.

But in my testimony I identified something else that on a cross-country comparison basis I think is really important. That is, the role of health care in the workplace.

I think that is one area where we are out of line with other countries. Even though those benefits are a tax deduction because they are compensation for employees, nonetheless they do represent in my view a fixed cost that, when hours are reduced, still persists. They put our cost structure out of line, our compensation cost structure out of line with those of other countries. And a different approach to the way that we deal with health care and the health care benefit provision I think would make us more competitive.

Senator Bingaman. Okay——

Dr. Berner. So I think that is a really important issue.

Senator Bingaman [continuing]. Let me throw out a radical view of things here. Sort of three of our problems are, one is short-term job creation; a second is eliminating uncertainty for the long term; and third is getting our fiscal house in order for the long term—if those are the three big challenges, it would seem to me that a major reform of our health care system accomplishes all three, or holds out promise for progress on all three.

Because it does hold out promise for job creation in the near term. There are direct jobs being created in the proposals we have been talking about. One of the uncertainties, I think you referred to in your testimony, Dr. Berner, that businesses look at is the uncertainty about what is going to happen with health care reform.

And then I believe CBO and most economists are in agreement that over the long term if we cannot reduce the growth in the cost of health care we can't get this debt problem fixed. We can't get our fiscal house in order.

So it would seem that doing something significant on health care ought to be a priority, as it has been for the President. Do you agree with that, Dr. Berner, or not?

Dr. Berner. I do strongly agree with that, Senator. I think that the three things that are important in health care are costs, access, and quality. And many people view them as in conflict with each other.

I actually think that if we do it right, then we can actually achieve a lot of those objectives, and the objectives that you just mentioned. Namely, reduce the cost of health care for businesses and for consumers; improve the quality; increase the access; and because that's such a big part of our fiscal problem going forward, and is only growing over time under current law, that fixing that is imperative right now to get our fiscal house in order.

Senator Bingaman. Mr. Joerres, did you have a perspective on this, whether or not this is an important policy initiative for us to try to deal with? Or whether we can put this off and deal with it down the road? What's your thought?

Mr. Joerres. Well, because of the complexity, it is difficult to put off to down the road. Having said that, in the U.S. we have over 200,000 clients, many of them small- and medium-sized businesses telling us, in their exact words, "I'm not hiring a person until I find out what that is."

Senator Bingaman. Till I find out what?

Mr. Joerres. What that cost of that health care——

Senator Bingaman. What the health care costs are going to be associated with that hiring?

Mr. Joerres [continuing]. Right. So right now, those small- and medium-sized businesses are not going to make a move unless they absolutely have to. Then they can do the math. Because when you take 10 people and move it to 12 and put an additional 30 percent burden on top of a pay rate, or 10 percent, it is too much money for them.

So they are holding out and stopping. So while we need to address it, this process of addressing such a complicated issue during a period of time when you want hiring is creating a stumbling block. Once that legislation is passed, after something is passed, it will require some time for digestion. Because, as an employer, sifting that legislation down to my additional burden cost over pay is going to take awhile.

So while it needs to be addressed for the long term health, portability of jobs, movement of jobs, health care solves a lot of that. And the more we allow for portability of jobs back and forth, the more vibrant our economy will be. The challenge is we are in the middle of a time where we are really vapor-locking small businesses, and they are saying "I am not moving unless I have to."

I think that becomes the biggest issue right now.

Dr. Berner. Senator, if I could just add?

Senator Bingaman. Surely.

Dr. Berner. Mr. Joerres has pointed out something really important. That is, that there are lots of Americans who are staying in their jobs essentially to keep their health care benefits.

That frustrates the mobility that we have in our workforce, the dynamism of our economy. I think that when you make policy you have to consider that that is going to be an important benefit to health care reform, that it is going to actually make our workforce and our labor markets much more efficient and dynamic and free labor mobility.

Mr. Joerres. And there are some very good examples of that. It's a smaller example, but if you were to study what happens in Singapore between the portability of health care and the portability of your pension scheme, it allows a high velocity, which is required in a smaller environment.

Even now in a larger environment, what is happening is that talent needs to move quickly and companies need to move talent. But without the portability of pension scheme, and without the portability of health care, you are really shortening the ability to really create a robust economic and job creation environment.

Senator Bingaman. Dr. Hassett, did you have a perspective on this?

Dr. Hassett. Thank you, Senator.

I think that I understand that the political clock and the economic clock, you know, sometimes they are in harmony and sometimes they are not, and I understand why health care was addressed this year, but I agree that it was probably the wrong time and that health care is best folded into the fiscal consolidation.

We need to build a process for fiscal consolidation, and it will not work without addressing health care. And so I think that many of the facts about our long-run objectives that, even though I agree with specific policies, that those facts are unassailable.

I would just like to make one last aside, Senator, about the corporate tax issue.

You absolutely are correct that if we look at corporate taxes in the U.S. that the actual raw number, the sort of average tax that a firm will pay, is not the highest on earth. It is the corporate tax rate that is. But that is precisely because there is this Laffer Curve in the data.

The fact is that these firms are rocket scientists at locating their profits and low tax jurisdictions. They move the profits around to reduce their global tax rate. And that involves moving stuff out of the U.S.

So that is why, if we lowered our rate, we should not expect to lose a lot of revenue because we sort of lost that revenue already, it is just going to somebody else. There is a real opportunity to make us a more attractive place to do business, without losing a lot of revenue I think in the corporate tax, and I think we would be wrong at this time to ignore it.

Mr. Joerres. I——

Senator Bingaman. Mr. Joerres.

Mr. Joerres [continuing]. Must jump in on that, because 85 percent of our business is outside the U.S., going to 95 percent. $20 billion in our companies, $2 billion right now are in the United States.

None of that is outsource jobs. Our two largest competitors are a Swiss-based company, and a Dutch-based company. In our current environment we have $120 million deficit disadvantage because of taxation with our Swiss-based competitor. So that means we have to do $120 million more of productivity in order to just maintain a competitive position with this company.

None of those jobs have been offshored. None of those jobs are coming back. I am growing markets in Vietnam, in China, and in others. So when I look at taxation, taxation within the minimizing the effective tax rate can be done very, and much more effectively, in a manufacturing environment through the use of transfer pricing.

That is not done within the services industry. I recognize that is not what this is about, but it is a very serious issue.

Senator Bingaman. All right. Well, I am informed that Chair Maloney is on her way back and will be here in about 15 minutes and would like us to recess for a short period, and then she would like to ask some questions. If you folks have the time on your schedule, we would put the Committee in recess at this point and she will reconvene the Committee.

Thank you all very much for being here. I think this is very useful testimony.

[Brief recess.]

Chair Maloney [presiding]. This Committee is called back into order, and I regret and apologize that we had hearings right in the middle of it, and I will be looking at the tapes of this hearing to hear your testimony.

Mr. Brady is on his way back and will be here in a moment, but I would like to ask the witnesses something that I always ask at the monthly hearings of the Bureau of Labor Statistics.

Do you see any bright spots for job growth in our economy? Anyone who would like to give any positive news about job growth in our economy?

Mr. Joerres. I think I can do that. As you had mentioned earlier in some of your remarks, there is a very traditional flow of what happens in the economy. When there is some uncertainty but demand, we are the ones who come back first.

On a weekly basis, the number of people that we are adding, and the additional people that are out on assignment that we are adding, says that this is clearly recovery. The majority of those jobs are going in manufacturing, and they are spread across the entire U.S.

We have not seen a growth rate like this since 1993. So, yes, it is happening. We, like you, have questions: is it sustainable? How long will it be? Is it inventory replenishment? Sure, in some cases. But I would say right now our field of some 800 offices in the U.S. are feeling like, "Wow, it might be over; we're on our way."

Chair Maloney. Well, could you tell us some of the things we could do for the people that have been unemployed, or under-employed, for a long period of time? Do you have any ideas in that area?

Mr. Joerres. It is something we have worked on for a long time. We have organized programs in the under-employed and unemployed. We spend a lot of time on training and development in order to put them in jobs.

What we have found is that work readiness is becoming more and more of a difficult issue. And of course work readiness for the longer and long term unemployed——

Chair Maloney. That is important, Mr. Joerres, because 40 percent of the unemployed have been unemployed for over 6 months, and their skills are deteriorating, and this is a problem.

Do you have any ideas for programs to put in place to reduce long-term unemployment?

Mr. Joerres [continuing]. Well the programs, unfortunately, that we have seen—and I say unfortunately; they work, they have good efficacy, but they take time—that is, to get them back into some type of training, training that is tied to a job. Not training that is just for training's sake.

So the things that we have done in that area, we work very closely at a community level with a workforce investment board to say: Where are the jobs? Where are the people? And try to do surgical training updates to get people into a job quickly.

Chair Maloney. Would anyone else like to testify about the green shoots or bright spots that they see in the economy now?

Dr. Berner. Sure. You know, I think that we are starting to see some advance-indicators. We do actually a survey of all of our industry analysts where I work, and hiring plans—and I think this echoes what Mr. Joerres was saying—hiring plans reported by those companies are up back where they were before the Recession began.

Chair Maloney. Wow. Good news.

Dr. Berner. Those are hiring plans, however, and they haven't materialized yet into action. And I think the discrepancy between the plans and the action has something to do with the uncertainty point that you made, and that we all referred to in our testimony.

But just coming to the issue that you raise about the long-term unemployed, in both of our prepared remarks Mr. Joerres and I referred to training.

The history of training programs is, to some extent, a checkered one but I think the importance of training cannot be denied. The importance of education. So there is a short-term component and a long-term component to that.

In the short term, for example, I propose that we pair the unemployed who are getting income support, which is very much needed, with a pool of unemployed, for example, newly minted colleges students, perhaps some teachers who have been laid off, and get them together in a training program that can give people some basic job skills.

That way, you are giving people important things to do while they are looking for a job. And I think we all agree that when you have long spells of joblessness, that erodes the chance that you are going to get a new job; it erodes your skills; and it erodes your ability to find a new job. All those things are really important.

Chair Maloney. Dr. Hassett, do you see any bright spots?

Dr. Hassett. Yes, thank you, Mrs. Maloney.

I think that first of all an interesting chart, which in questions and answers we always follow up hearings with those, I'll be happy to include, is one that shows the geographic distribution of the economic recovery. Because you can see that there are some states that are actually starting to really look pretty solid again, and other states that are still in deep trouble.

In particular, one correlation that I have seen in some of the work I have done is that if you want to organize them, the states that had the real estate markets that you read the most about are the places that still are even going in the wrong direction, and maybe are not even seeing recovery yet.

So there are some——

Chair Maloney. Well, where are we seeing recovery? Which states? And which regions?

Dr. Hassett [continuing]. One state that comes to mind—I wish I had the chart with me, because it has been about a month since I have looked at it—but one state that I remember was Texas seems to be doing pretty well. Maybe Mr. Joerres has some other detail on that.

The other thing I would say that is a bright spot—and the opportunity that motivates me to be so psyched about job sharing—is that there is always a lot of job creation and destruction going on. That number you see in the Labor Report is very often one-tenth, or one-twentieth of the actual growth flow in that month.

So in November there were more than 4 million jobs created, but there were more than 4 million jobs destroyed. And so the destruction was still winning. But I think that it is important to remember that our economy is a place where there is always creation and destruction going on, and what we need to do is create the circumstances where the creation can overwhelm the destruction.

Chair Maloney. Thank you. My time has expired.

Mr. Brady.

Representative Brady. Thank you, Madam Chair, for calling this hearing.

Mr. Joerres, I was just on a teleconference back to the Woodlands, Texas, participating in an economic outlook conference. On the panel with me was your regional representative, Mr. Arkless, I believe?

Mr. Joerres. Arkless, David Arkless.

Representative Brady. Yes. So apparently a lot of people are interested in what Manpower has to say these days. And I agree with you, I think that the corporate tax rate the U.S. has to shoulder does put us at a competitive disadvantage internationally. And the proposals to raise $120 billion more on top of that from our U.S. companies that are trying to sell American products around this world, to compete, I think will be even more damaging to us.

Dr. Hassett, I am not an economist. I am a Chamber of Commerce executive by trade and work with small businesses. It seems to me the economic models on the Stimulus are outdated. They seem to be one dollar in of government spending generates this much of output, period.

But back home, you listen to our small business consumers, their behavior is modified because they know increased spending leads to new debt, and new taxes. The business community, small, medium, and large, looks at cap and trade, health care mandates, spending, taxes, international tax provisions, and they are frightened by it. The uncertainty.

One of them said, look, it's tough enough to predict the market; trying to predict the market and you guys? I'm not going to do it. I'm holding my money. And I think that is affecting those older economic models.

My question to you is: Thinking about the study that John Cogan and Tobias Cwik and others did examining the forecasts of Christine Roemer and others on the Stimulus, they were using sort of the old Keynesian forecasting models instead of the ones that really sort of deal with those expectations, rational expectations of people, businesses, consumers, and others.

Looking at CBO, who does a terrific job on things, but based on your extensive research and knowledge of macroeconomics, were the CBO's fiscal multipliers used too high? Were there estimates of the Stimulus impact perhaps a little larger than you see?

Dr. Hassett. Thank you, Mr. Brady.

I am a big fan of the CBO, and an especially big fan of its current director, who I think has been in the tradition going back to Alice Rivlin, exactly what we expect of directors. But the thing is, the infrastructure that has been built up to analyze these things has kind of been there since day one.

Too often in Washington proof proceeds by induction. If you remember your math, that if something is true today, it was true yesterday. And so if we adopt a model in the 1970s that tells us how policies affect the economy, then it is very unlikely the government agency will ever stop using the same darn model.

But the fact is that the literature has moved on. One metric—and I was trying to think of the most vivid way I could describe this—but the place where these big, large macromodels were really developed, pushed perhaps the farthest, was the University of Pennsylvania.

Larry Kline got a Nobel Prize for it. Albert Ando, who is a close friend and a mentor of mine, designed the model for the Federal Reserve that was a large Keynesian macromodel. Those were developed in the 1970s. I started graduate school in the mid 1980s. And when I was in graduate school at the University of Pennsylvania, they did not teach these models. Because already they had been rejected by the literature.

And yet, these are the models that are creating the sound bites. I think though that does not mean that we know—we think that it hurt growth last year, or that we know precisely that the Stimulus was a failure and made things worse. What it does mean is that we should have a great deal of skepticism that we know what the right thing to do is.

And so, especially going forward, I think that we have seen some success of some programs that I highlight in my testimony, and that we should try to trust evidence more than models, I think, and be skeptical about what the models say, especially when the model predictions are so at odds with what we see in the literature.

Representative Brady. You know, my gut feel is that the economy has changed; that those models are not as reflective. And I think stimulus almost always arrives after the recession has peaked, and is slow. And I think that today we downplay the economic boost from a lower after-tax cost of capital, lowering corporate income taxes, and on a permanent basis where businesses can count on it, not a gimmick, but where they can count on that rate of return and the ability to invest.

Your thoughts?

Dr. Hassett. I think that you are right, Mr. Brady. And again the way I like to think about it is, not that the Stimulus again made the economy worse last year; I think that there is no question that growth was higher last year because of the Stimulus. It had to have been. The question is how much.

But the problem is that, as we see when we consider that the job measures that I mentioned in my testimony could have created jobs for maybe one-tenth the cost of the Stimulus, when you consider that, and when you consider that we spent an enormous amount of money on it and did not repair the broken policies like the corporate tax that could have made people optimistic about the long run, I view it as something of a squandered opportunity.

Representative Brady. Right. I appreciate all the panelists today. Thank you.

[The prepared statement of Representative Brady appears in the Submissions for the Record on page 81.]

Chair Maloney. Thank you.

Dr. Berner, do you agree with Dr. Hassett on the CBO model used to estimate the effects of the stimulus?

Dr. Berner. Well thank you for your question, Congresswoman. As a former model builder and one who ran the forecasting models at the Federal Reserve, I just point out that we were constantly changing our methodology, and constantly adapting it to reflect new considerations, whether it is structural change in the economy, globalization, and a variety of other things.

The models that we use, and we do not rely exclusively on models because I am old enough to use judgment and experience as my key model, but the models that we use explicitly incorporate the role of expectations, whether it is expectations in financial markets, or for inflation, or the kind of uncertainty that we are talking about that affects business decisions so importantly.

So, you know, I think that that is really important in thinking about how to use those models. And, quite frankly, I think that is something that people often overlook.

Chair Maloney. Can you tell me, in your opinion, and I am asking all of you this question, the number one thing that can be done to stimulate job creation in the short run? Could you give the number one thing you think we could do? Of course it's a combination of things, but if you had one thing that you feel could stimulate job creation in the short run, what would it be? Dr. Berner?

Dr. Berner. You know, Mr. Joerres talked about the role of small business and new business is what we really mean by small business. When we think about what their main problems are, small businesses are telling us in the surveys that we have that their problems are poor sales, access to credit, and the cost of employee health care.

So we need to continue to use policies that improve the functioning of our financial system, that get people access to credit on reasonable terms. We need to address in the short run and over time the cost of health care and reduce the uncertainty around that. And we need to have policies that will continue our ability to access global markets, because that is the key source of growth that I indicated in my testimony.

Exports and the access to global markets are going to be a key driver for our economy.

Chair Maloney. Mr. Joerres.

Mr. Joerres. Well I would really like to do two. One, because I think where we are right now is we are in a critical spot. So I do not want to underestimate what we need to do in some form of what we call safety net, or stop some things happening now.

That is not job creation. That is stopping the slide. And I think we need to do that. I have spoken before, and——

Chair Maloney. So how do we stop the slide?

Mr. Joerres [continuing]. Well we stop the slide in some ways of giving some additional visibility of what will be coming and not coming. We have some limited opportunities to do that.

It is difficult to say that we have long-term and short-term objectives. But in order to do that, it comes down to confidence. Hiring is confidence and demand combined.

Those two combined. We are starting to see the demand. Now is the demand inventory-replenishment? Does the demand start to level off? We don't know that. But I can feel very confident in saying the demand may not level off as much if we give them confidence that we are not going to create policies that get in the way of expanding their business.

Small business must create jobs to back up the efficiency that will be driven out by job deterioration in large businesses.

Chair Maloney. Thank you.

Dr. Hassett.

Dr. Hassett. Thank you, Mrs. Maloney.

You know, I hate to waffle and say two things, but I think that reducing the corporate rate is urgent if we want to create the context that is necessary for long-term growth to really ignite.

But I think that if we were to adopt a job sharing proposal that we could see a response right away, right away. I would expect that the reduction in the corporate rate would have benefits that would be spread out over many years. I think that a job sharing program could slow job destruction almost immediately, if it were a generous one, and we could see a turnaround in labor markets a few months after the proposal became law.

Chair Maloney. Thank you. My time has expired.

Mr. Brady.

Representative Brady. Mr. Joerres, is that uncertainty among your clients real? Do businesses look at—and again, the efforts like on targeted tax credits, or payroll—are sincere efforts to try to help—are small businesses responding to that? But is that uncertainty an issue with your clients in their hiring practices? In their ability to either rehire, hire new, or buy that new warehouse and make an expansion plan?

Mr. Joerres. The number one discussion that we have with our small clients is the amount of uncertainty. Their business is growing. So when the business is growing at a pace where uncertainty is overcome by demand, then of course they'll do that.

But as the demand is somewhat tepid, the uncertainty is their diver. So they are really looking at the tax rate. What is the additional burden on top of an additional person?

I can't emphasize enough that if I'm going to add an additional person, and I don't know what that person's cost is, plus the other 10 percent that I have on existing staff, or if it is going to have an additional 30 percent increase in burden over the cost of pay? That slows down employment decisions. No doubt about it.

Representative Brady. Looking at job opportunities, it seems to me because so many of the world's customers live outside the United States, because other regions are recovering in some ways faster than us, it is important not to just buy American but sell American, sell our products throughout the world, every corner.

Sometimes we can do it with a company from here. Other times they have to have—they are headquartered here, and they have to have a presence overseas to sell our goods and services. Today there is almost an attitude of Benedict Arnold if you are out—if you are large and you are out there competing. You know, if a company expands into another state we say "go get 'em; way to go." A company that expands into another country to get those customers somehow is viewed by some as, you know, some bad actor.

Yet, in almost every study it shows those jobs create stronger headquarters here. A lot of the research and development technology—we have an energy company in Houston that has a project in Algeria. It has 40 workers on site. It has 400 in Houston, monitoring, operating, doing all the services tied to it. So it is a huge help.

Shouldn't we be, as lawmakers, encouraging rather than discouraging companies that are finding new customers in every quarter? Is it outsourcing of jobs? Or is it looking for opportunities to sell more of our products and services?

Mr. Joerres. Because all of these have some complications, I think it would be easiest for me to talk about my specific situation. We are headquartered in Milwaukee. We are 62 years old. We have had three CEOs in those 62 years. Each one of them was born in Milwaukee. So we think Milwaukee is a good place.

Ninety percent of our $20 billion business is outside the U.S. In six to seven years, it will be 96 to 97 percent of our business. While the U.S. is growing, the Chinese market is growing fast. None of this is outsourcing. We are putting thousands of people into jobs in China, in Vietnam, in the Middle East, in Qatar, in Abu Dhabi.

Because of the success in the last 10 years of growing our business from an $8 billion business to a $22 billion business, we have built a brand new building in downtown Milwaukee that has 400,000 square feet that employs 1200 people.

The mayor of the city was all in favor of it, and we have re-energized a park downtown. We could not have done that without our expansion overseas.

Our two largest competitors on a global basis are foreign companies. Their tax rates are anywhere between 8 and 15 percent less than ours, which puts us right now at a disadvantage annually of between $60 and $120 million compared to our two European competitors.

Representative Brady. And my guess is that there isn't that big of a margin. You've got to compete in a pretty tight market, I would imagine, with our competitors?

Mr. Joerres. 3.5 percent net margins. We do a lot of work for a little money, but we love what we do.

Representative Brady. Great. Thank you for your story, appreciate it. We need more of you, by the way.

Chair Maloney. That is an amazing story. Congratulations on your success.

Dr. Berner, Greece and its financial problems are very much—I just came from the Floor, everyone's discussing it, everyone is looking at it, we are all concerned. And I am concerned about the potential impacts to the United States if Greece ends up defaulting on its debt.

Dr. Berner, I know that you have previously reported that the impact to the U.S. of slow growth in the European Union is relatively small. I believe that you said that a one percentage point reduction in growth in Europe would shave only 0.2 percentage points off of U.S. growth, but that you were worried about financial contagion. Can you speak about the crisis in the European Union and Greece and financial contagion?

Dr. Berner. Yes, I can, Congresswoman.

Very briefly, I think the big problem is that you have the potential for what's happening in Greece to spill over into other countries in the periphery of Europe—Portugal and Spain, for example—and that it is important for Greece to be able to refinance its debt over a long period of time, because they have a huge fiscal problem.

They are having difficulty rolling over that debt on terms that they can afford, and they just postponed an auction of 10-year debt this week, as you may have heard, so that they can cool off and get better terms on that debt.

One way or another they are likely to get assistance from their partners in the European Union, That assistance will come with strings attached, of course, because the other members of the European Union do not want to pay for the mistakes that Greece made. But one way or another, that assistance is going to have to come or else they will all—as Ben Franklin was fond of saying—hang together.

And so that is the real problem that the Europeans have. And because of the fiscal consolidation, and because of the increased cost of financing the debt which will spill over into the core of Europe and the increased cost of funding for European banks, all that is going to slow down the European economy.

So we have been pretty pessimistic about Europe to begin with. These developments make us more pessimistic about prospects for Europe. But one of the things we talked about earlier—namely, coming up with credible plans to fix fiscal problems—is also important here.

If Greece and the European Union can fix these problems that are prevalent now in the periphery of Europe and do them in a way that reinstills confidence in investors bringing down the cost of debt for Greece, for its people, for the banks in Europe, that is going to reinvigorate the Greek economy and the European economy.

The key is to come up with a credible plan to do that. As we think about—you know, to your question—as we think about the potential for this contagion, if you will, to spill over into other economies, the point is that people are drawing parallels now between what is happening in Greece, and they are saying where is the next Greece.

It is kind of like during the financial crisis people were saying, after Bear Stearns, where is the next Bear Stearns? And there are some parallels there. So we need to think about the way that, while there are many, many differences between what is happening in Greece and in Europe and what is happening in the United States and around the rest of the world, there are some parallels. And I think the thread that draws them together is that lawmakers around the world need to think about how they are going to deal with fiscal problems, and to articulate how they are going to come up with a game plan to do that in a way that reinstills confidence among investors.

Chair Maloney. Can you tell whether the impact of the reduction in the export sector will be spread across the U.S., or whether certain sections of the country will be particularly susceptible to any reduction in exports to Europe or Greece? In particular, I am concerned about the Greek-American community that I represent, and I am concerned that they may have a burden on them and bear a disproportionate share of this burden.

Dr. Berner. You know, Congresswoman, I have not really done the work on that so I will be pleased to get back to you, if I can, to try to uncover the answer to that question.

Chair Maloney. And additionally, can you estimate the impact to employment in New York City if the financial contagion in the EU spreads to the U.S.?

Dr. Berner. That is a difficult task, but I will do my best and try to get back to you on it.

Chair Maloney. And lastly, Mr. Joerres, you mentioned that your growth—and I am amazed—is 92–96 percent in foreign markets. Do you have offices in Greece?

Mr. Joerres. Yes, we do. We have an operation there.

Chair Maloney. And can you tell us something about what is going on on the ground, information on employment with your organization's employees there?

Mr. Joerres. Right. So our operation in Greece is no doubt feeling the effects of this. Things have kind of grinded to a halt as companies are, needless to say, very concerned about what might be happening.

I can also say that in markets like France, Italy, Germany, Netherlands, the Belgian market, they are not on the ground feeling it at all. We are still seeing improved trends. So, as there is plenty of speculation about what Merck will do, or what others might do to generate recovery, we think that the employment numbers within Europe will have more of a knock-on effect further down than what they have now. Our Greece operation is facing a very challenging environment right now. There is no doubt about it.

Chair Maloney. Thank you. My time has expired.

Representative Brady. Thank you, Madam Chair.

Dr. Berner, exports are one result of successfully selling American products and services throughout the world. And as you point out, one out of five manufacturing jobs is tied to that. And then with service companies like Mr. Joerres', we have a huge surplus. So when we compete and sell overseas, it has huge economic impacts.

We are looking at three pending trade agreements in markets in Colombia, Panama, and a major one in South Korea. We are seeing other countries stepping in ahead of us from Canada, the EU, and others to get in line ahead of us and put us at another competitive disadvantage.

Do you support passage of those trade agreements and opening those markets for U.S. service and production companies?

Dr. Berner. Mr. Brady, thanks for your question.

I support in general the idea that we should have free and open trade, and also the idea that it has to work both ways.

Representative Brady. Yes.

Dr. Berner. So that, you know, when we open our markets to companies in other countries and to other countries, we also want to make sure that we have access to their markets and that we have intellectual property agreements and other things that make sure that we have a level playing field, to the extent that that is possible, in which our companies can compete. And so it does work both ways.

Representative Brady. I think it is important—you know, we are such an open economy in the United States. Panama and Colombia, for example, have one-way trade, almost duty-free and quota-free trade, but we have obstacles when we try to do two-way trade. Clearly agreements like that give us a chance to compete on a level playing field and in every other case have worked beautifully for us. We have doubled, or tripled our exports.

NAFTA, which I've worked on for many years, we've turned a trade deficit into a trade surplus. We even have a manufacturing surplus with our NAFTA countries, as well.

Let me ask you this. Unrelated to exports but related to sort of your view going forward, I notice in your testimony your GDP growth percentages are higher than the Blue Chip this year, but lower next year, and much lower next year than what the White House forecasts.

Is there a reason for that? I know there's always a range, but is there a reason why you see significantly lower economic growth next year than Blue Chip or OMB?

Dr. Berner. Thanks for your question, Congressman.

Yes, there is a reason. And to make it explicit, up until very recently we have been assuming that the tax cuts, the Bush tax cuts, would probably sunset as scheduled on January 1st, 2011. If that is not the case and some of those tax cuts are extended, we would see somewhat faster growth in our forecast.

In addition, we are thinking that our massive Treasury borrowing needs will combine with a return of private credit demand, as the economy comes back, and that will result in a significant increase in interest rates.

So it is a combination of those two things: sunset of the tax cuts, as well as the rise in interest rates would give us somewhat slower growth.

Representative Brady. So continuing the tax cuts helps boost our economy, in other words?

Dr. Berner. It would have a modest positive effect.

I would say, however, as I did in my testimony, that the most important policy decisions that are out there right now are not so much around taxes, but they are around foreclosure mitigation and coming up with a credible plan to do something about our fiscal situation.

If we were to do that, then our forecast for long-term interest rates, U.S. Treasury Rates, would be somewhat lower and you would see that in the marketplace right away. And that would have a short-term beneficial impact on growth. So coming up with a plan, if it is credible, would make a material difference to the outlook.

Representative Brady. Can I go back to why the Bush tax cuts are so good for America—I'm kidding. I'll stop with that one.

Dr. Hassett, consumer demand. It's always hard to know what families are thinking about. Obviously they're looking at their own pocketbook, worried about their jobs, lots of things going through.

The thing I hear back home, and it may be an intangible from an economic issue, but the debt, and the spending is a number one concern of consumers.

Does that weigh on the decisions that a family makes in purchasing a new TV set, or making an economic decision?

Dr. Hassett. Sure. Thank you for the question, Mr. Brady. There is a great deal of scholarship in this area that goes back to Milton Friedman's basic observation that the reason why temporary tax cuts like the ones that we observed last year do not have a really big effect is that people know that they are going to have to pay for them with future higher taxes. And so they are sort of skeptical about the fact that if you take a dollar from them next year and give it to them this year that you are really making them better off.

And indeed I could add that if they are not skeptical about it and they think they are better off, then they are going to regret it next year when they get the tax. So it is not kind of clear that this is a point that argues for the policy, even if you disagree with it.

The fact is, though, if you look at the numbers of future taxes associated with things like the Stimulus, they are really mind-boggling. So for example if we divide the Stimulus last year up amongst all taxpayers, the 110 million or so taxpayers, then the cost of just the Stimulus last year—we are not talking about the deficit—is about $8,000 per taxpayer, a little bit less.

But remember that about half of taxpayers do not pay taxes. And so what that means is that if you are someone who does pay taxes, if you actually had a positive number on that tax return when you mailed it to the IRS, then your number is about expected to be double that.

So if you are someone who paid taxes, then your bill just for the Stimulus will be maybe about $16,000. If we raise the monies for the Stimulus, according to the distribution of the income tax that we now observe, then for people with incomes in the hundred, or two hundred, or five hundred thousand dollar range, the small businesses maybe that have a little bit more money, their bills for just the Stimulus are enormous.

For someone with an income between $200,000 and $500,000, the Stimulus bill will average about $41,000. If we then factor in the debt that we have to pay off, then we are talking about future tax liabilities that are mind-boggling. And I think that American consumers should expect those taxes, if we do not see a big reduction in government spending, they should expect those higher taxes, and they should wisely plan accordingly.

And one reason why we see a spike in the savings rate and lower consumption, I believe, is the expectation of future taxes. Some of them are, as Mr. Berner just referred to, kind of, people thought, baked in the cake. The expiration of the Bush tax cuts is an example of that.

Representative Brady. So people may not know the amount they are going to owe, but they know someone is going to pay.

Dr. Hassett. They know that their taxes are going up and are consuming accordingly, I would add.

Representative Brady. Thank you.

Chair Maloney. I would like Dr. Hassett and Dr. Berner to react to a proposal that one of my constituents, Wilbur Ross, a businessman, put forward through the New York City Partnership.

His idea was to take the unemployment, which many economists say is important not only in terms of helping the unemployed and their families, but this money is plowed back into the economy, therefore driving more goods, more spending, more services, but to take the unemployment and tie it to job training, and tie it to job hiring. Give it to a business that will hire an unemployed person and have their employment run through that business.

Could you, or Mr. Joerres, any of you, could you comment on this idea, or any new ideas that you might have on how we could help job development in our country?

Dr. Berner. Congresswoman, thanks for the question.

As I indicated in my testimony, that is one of the four things that I thought would be very helpful. And specifically, if we look at training programs, and I think we all agree that education and training, training job skills, are extremely important, if you pair training with income support, which we all agree is so necessary to help American workers and families in this time, that that is going to give them the skills they need to acquire—to go out and look for jobs, to be able to perform in jobs when those jobs are available.

And we have a skills' mismatch in America that is profound. I just read the other night, for example, that Microsoft built a development facility in British Columbia because they could not find the skilled workers that they needed in the United States—at the right price.

And also, you know, they ran out of room under their H1B visa program. So that is I think just one little anecdote that supports the idea that we need to improve the skills of American workers and maybe doing that through the income support unemployment insurance programs would help.

It would also help I think to look at newly minted college students, unemployed teachers, retirees, people who have experience and skills who can train others in basic job skills to link them up in a partnership that would help them acquire those skills.

Chair Maloney. Any other comments?

Mr. Joerres. Yes. We have a fair amount of experience in this, as we have worked with several WIBs across the United States, as well as in other countries.

What we have found is that when there is a disconnect between the job training program and finding the job, it is much less effective. When the trainer and the end employer are two different organizations, the training organization is essentially training for government dollars, if I could be so bold.

When corporations almost sponsor or take on the individual as they are going through their training program, the chances of that person getting hired have dramatically improved.

I am sure you have heard many times, Congresswoman, that the companies are saying: you're not giving me the skills I need. You're not doing this. Well what we have said is we have said: "Then get in the game. Get in the game and bring these people all the way through."

So I would ask for a connection between job training and job placement, as opposed to a hand-off. Because that hand-off is a very dangerous hand-off.

Chair Maloney. It sounds like a very good bipartisan effort.

Dr. Hassett.

Dr. Hassett. Madam Chair, in fact in the break a number of the staff and I were actually discussing a very related point; that the Unemployment Insurance Program that we have was kind of designed for the old-fashioned economy where people took a break in August, or something, and got laid off.

And now we have got an economy that requires moving between jobs a lot of time, and search costs are really high, and a really important factor for firms and so on, and it is urgent that we redesign the Unemployment Insurance Program allowing for things like job sharing maybe through the Unemployment Insurance Program, and I would encourage you to consider having a hearing where you ask the best minds, the people who have spent their careers studying it, for proposals.

Because as we analyze the sort of low-hanging fruit right now, given the terrible job market, it seems like all of them are kind of mutations of revising Unemployment Insurance.

Mr. Joerres. I'm sorry. I know the time is limited, but I have such anecdotal evidence here that is compelling. We have about 2500 accountants in one of our organizations that we own.

There are people who have been unemployed in the finance industry. We have been able to find them jobs, put them in jobs, that would be contract jobs. In other words, they might work for three months. They have refused those jobs because if they take that job their Unemployment compensation goes away and they are not sure really what is going to happen.

When in fact, about 50 percent of all the people we put out on an assignment get hired by the company that they are placed in.

So there is something wrong here in not having these hand-offs right that the individual is put in this poor position of either sitting home working on job boards and getting paid, or possibly improving their skills. So it is almost like a job sharing environment that you could consider it not just job sharing but ways of splitting the Unemployment dollars that they might be getting less, paid for by them, getting work experience, and then getting hired.

Dr. Hassett. And just to follow, there are two spikes in re-employment from workers who are on Unemployment Insurance. There is one at the beginning, and there is one near the end. And it is exactly because of that.

Sort of once you are in, then if you go take a job then you are sort of giving up a big spell of Unemployment Insurance that is costly. And so people tend to be very cautious about which jobs they accept once they get into the spell.

Chair Maloney. Thank you. My time has expired.

Mr. Brady.

Representative Brady. I know there have been past proposals on job training where they create not a voucher but a lump sum for workers where they could continue their training, or retraining, take job opportunities if they got that full-time job, they weren't penalized for the money they were given. In fact, even part-time jobs, as long as they were continuing the education and skill building, too. We need to be innovative like that.

At a time when business investment is scarce, why aren't we repatriating more of our foreign investments back to the U.S.? Because of our Tax Code, in 2005 a number of us pushed for a provision successfully in the American Jobs Creation Act to address the issue of stranded U.S. profits, our Tax Code, 35 percent HCI, to bring it back. So we proposed for one year to lower it to a fairly minimal 5 percent, let that investment flow back to the United States.

Even with some restrictions I didn't think belonged there, $300 billion came through that year. Today it's regenerated. We have $600 to $800 billion stranded U.S. profits outside the United States too expensive to bring back.

Why are we not lowering the gate again for a year to bring back that type of investment? It is the size of the Stimulus outside the United States waiting to find a home. Right now, finding a home in another country.

Why aren't we—and I know the government can't direct that investment. You know, it's got to go straight into the marketplace in decisions that benefit the companies, and hopefully the workers, but do any of you have any thoughts on why we would not be encouraging bringing back those investments?

Mr. Joerres. Well I won't speak from a political view because on this I don't have it. I can speak purely from a mathematical view.

Our largest operation in the world is France where we produce $7 to $8 billion a year in that organization, generating somewhere between $250 and $300 million of free cash. We have never repatriated that cash because it is a pure CFO, chief financial officer, calculation.

The only time we will use that cash is when we were able to use that cash to buy assets in the same denomination. In other words, Euro denominated.

Two weeks ago we bought a company in Houston for $431 million, a very good IT contracting staffing company. We decided to use half cash, half stock because we can't get the pull from France to convert it into dollars.

So this is just pure math. This is not about whose tax code, or what tax code. When we look at a transaction like this, we look at it purely from an efficacy of the dollars and return to shareholders.

Representative Brady. Thank you.

Dr. Hassett. Mr. Brady, the one thing I would add, though, is that the reason this mess is happening is that our tax policies are out of whack. It's a symptom, and it is something that happens when our corporate tax rate is so high that people have to locate their profits overseas in order to compete.

And so the problem I have with this proposal—and it is not one that I have ever come out and combatted—but I have two problems with it.

One is that it is salve on the wound. What we really need to do is fix the wound that's driving the problem in the first place.

The second problem is a temporary holiday creates all sorts of uncertainty about, you know, when is the next time they are going to have one of these, that is going to make people not repatriate in the income. And so I think that——

Representative Brady. To bring the gate down permanently?

Dr. Hassett [continuing]. You've got to bring the gate down permanently. I mean, again, as an economist it is obvious that that is the right answer, and I understand budget constraints and so forth, but I think that rather than focus on that gate what I would do is I would focus on reducing the corporate tax rate.

Representative Brady. Got it. Great. Thank you.

Chair Maloney. Thank you. One effort where we do have bipartisan efforts is our effort to cut the debt. Currently it is about $12 trillion, or about 85 percent of annual GDP.

I want to know, how are we comparing to other countries? Do you know what percentage of annual GDP in debt Greece, and say France, or England, or Spain have? Anyone who can answer that?

Dr. Berner. Congresswoman, I don't have the statistics right in front of me, but I think what is important is that our debt is growing rapidly. As you know, at the end of Fiscal 2008 our debt held by the public, you referred to the gross debt statistics, the debt held by the public, which is now about $7.2 trillion, was then 48 percent of—sorry, 41 percent of GDP at that time, and here we are in 2010 and by the end of this fiscal year it will be about 61 percent of GDP.

So it has risen rapidly, obviously because of the Recession. Other countries have gone through a recession. The point here is that we're just on the cusp, as you know, of seeing a major increase in our deficits. And whether you look at CBO's forecast adjusted for realistic assumptions, or the Administration's forecasts, we're going to be looking at deficits of 5 or 6 percent of GDP for quite some time to come.

So our guess is that by, in the next 10 years we will be looking at debt held by the public at 87 percent of GDP. And there's no magic threshold in my view, although some economists think that there is—Ken Rogoff thinks it is 90 percent, for example, in his recent book—where investors start to question the fiscal sustainability of your policies.

Personally, I think that they are already starting to question that. We haven't seen it in our interest rates. They are low. And they are low because other countries are in many cases in worse shape. And so they look to us still as the broadest, deepest, and most liquid financial markets in the world, and the benchmark against which others are judged.

If we want to maintain that status, then we have to think seriously about making the tough choices to get our fiscal house in order.

Chair Maloney. Okay. And in making those tough choices, how much can we reduce the deficit by cutting discretionary spending, say by 10 percent?

Dr. Berner. You know, as you know, Congresswoman, the discretionary spending is not the real story here. The real story——

Chair Maloney. Okay, how much by cutting government spending that is actually discretionary and how much that is mandatory, such as Medicare?

Dr. Berner [continuing]. Well right now, if we look over the next ten years and we take Medicare, Medicaid, and Social Security, they will account for half of all federal outlays. And they are growing very rapidly. And that Medicaid portion assumes that state and local governments will get back on their feet and be able to pay their share of the Medicaid burden.

If they aren't, then what we will see is the Federal Government being asked to pick up an increasing share of that tab, which will make Medicaid grow even faster. And that is the fastest growing health care plan that we have. And so that percentage will likely rise even further.

Chair Maloney. Well on that note, the state and local governments are facing enormous budget shortfalls. We have had states come to the Federal Government and ask for bailouts and total support.

At the same time, the swelling ranks of the unemployed are putting further pressures on the budget. I would like to hear your ideas—any of the panelists—about two problems: the short-run problem in the states and local governments and the potential impact on employment, and how do we deal with the long-run problem of these budget problems in the states?

As you said, if Medicaid can't be assumed by the states, then it is a tremendous pain, or a tremendous problem going forward. Your comments further on these two points?

Dr. Berner. Well from a federal perspective, we obviously have a system of federalism which is not working. Medicaid is one of the key issues in that system. So we all know that when we go into a recession, particularly the deepest Recession we have had in 70 years, the ranks in the Medicaid grow dramatically, and that puts an enormous burden on states that they really can not pay.

In my state, your state, the State of New York for example, it is 50 percent shared. In Mississippi it is only 22 percent at the state level. Either way, it is an enormously growing and unsupportable burden.

So the grants to state and local governments for FMAP assistance, or to offset the cost of Medicaid, have been in the very short run necessary without making cuts to those programs.

But in the longer run, part of health care reform, it seems to me, has to involve fixing the way that we share Medicaid, and the way that the Medicaid program is in fact designed.

At the state and local level, we have enormous fiscal problems that need to be addressed. Obviously the governance there is at the state and local level. They vary tremendously by state.

There are 50 different kinds of problems in 50 different states, and thousands of different problems in local governments as well. Ultimately, tough choices are going to have to be made there because, like it or not, we have been making promises for health care, for pension benefits, and other promises that haven't been funded and that can't be kept. And we are going to have to make a lot of tough choices around those areas, as well.

Chair Maloney. I could listen to this panel all day long. All of you have been inspiring and insightful. You have given us a great deal to think about, but I am told that it is impossible to get back to New York; that the planes are not running, and if we don't watch out the trains won't be running.

So we are going to have to call an end to this. I hope you will come back to testify again. You have given us a tremendous session today. And the truth is, we will have a slow, long climb to get where we need to go in terms of creating jobs in this economy, but we are beginning to see glimmers of opportunity, and certain strategies in certain sectors, and this will help us on an upward trend toward future growth.

My goal is to work with my colleagues in a bipartisan way to develop and enact effective policies that will create jobs immediately and in the long term that ensure that we are getting the most value for our dollars, and helping our economy move permanently in the right direction.

I want to thank all of you for the tremendous work that you do in your lives to help employ and move our economies forward, and we really appreciate your time here today. Thank you very, very much.

Dr. Berner. Thank you.

Mr. Joerres. Thanks for having us.

Dr. Berner. Thank you.

Chair Maloney. Thank you for being here.

[Whereupon, at 12:55 p.m., the hearing was adjourned.]

SUBMISSIONS FOR THE RECORD

PREPARED STATEMENT OF ROGER C. ALTMAN, CHAIRMAN, EVERCORE PARTNERS

Madam Chair and Members of the Committee, thank you for inviting me here today to testify on the labor market and policies for strengthening it.

It seems to me that there are two overarching economic policy issues facing this Congress and the Administration. One is our topic today: jobs and how to improve the difficult outlook which faces American workers. The other is the threatening fiscal deficit, as outlined in the President's proposed fiscal 2011 budget. I might note that the two issues are linked. The deficit, if not tamed, will raise interest rates and put downward pressure on overall growth and on job growth. Indeed, the Clinton years demonstrated that deficit reduction can coincide with strong employment growth.

Let me begin with a quick review of the outlook. By historical standards, it is a slow and difficult one. The latest Bloomberg survey of private sector forecasts average 3.0% real growth rates for both 2010 and 2011. The related forecast for unemployment rates is 10.0% and 9.1%, respectively.

Such growth rates are far below those which the U.S. would typically realize in the years immediately following a severe recession. A historically normal rate for 2010, for example, might approximate 6–7%. We saw that in 1983, the first year of recovery following that deep recession.

But, the downturn of 2008/2009 was caused by rare balance sheet factors. Not the traditional dynamic of overheating and monetary response. History and academic research tell us that the negative growth and employment impacts of recessions following financial crises are especially deep and prolonged.

In this case, that reflects: (1) the over-stretched balance sheets of American households and the diminished consumer spending, especially discretionary spending, which results from it; and (2) the still shrinking balance sheets of our banks and the reduced lending which that causes, which we saw in the FDIC data earlier this week. It is difficult to achieve a healthy recovery when both consumers, whose spending represents 70% of GDP, and banks are retrenching.

Through BLS data revisions, we recently learned the real number of jobs which actually have been lost since the so-called Great Recession began. That number is a staggering 8 million jobs, which means that an entire decade of job creation has been lost. In other words, the number of American jobs today is approximately the same as it was ten years ago, despite our population growing by thirty million over that period.

The unemployment rate, of course, is 9.7% today, and job losses have continued through last month. The underemployment rate, perhaps a better measure of true unemployment, is 16.5%, and this translates into 25.3 million Americans. This includes those who are looking for work and those who have given up and are no longer looking. Further, the employment-to-population ratio has fallen to 58.2%, down from 64.6% ten years ago. This is the lowest level in 26 years.

With our population continuing to grow, America needs around 2% real growth to hold our unemployment rate stable. This is why the 3.0% growth rates forecast for 2010 and 2011 will only lower it modestly.

Let me turn then to strategies for creating jobs, starting with lessons we can learn from the Clinton years. Those were remarkable ones in terms of employment growth. Over the eight years spanning 1993–2000, America saw 22.7 million new jobs. This equates to an average monthly gain of 237,000 jobs, the fastest job growth on record.

Those years also saw strong income growth across the board. Real family income increased almost 3% annually over this period, and all income groups participated rather fully in this growth. In contrast, during the following eight Bush years, real income growth for the bottom 99% of families reached only 1.3%.

The question, then, is what explains the powerful labor markets of the Clinton years? I do not have all the answers, but here are a few factors which played important roles:

- The U.S. experienced relatively high levels of savings and investment during these years. The net investment share of GDP rose from 2.1% to 4.4% under President Clinton. By 2008, it had fallen back to 2.5%. There is nothing which promotes job growth more effectively than strong investment. It expands the capacity of our economy, and that requires more employment.
- One reason for these high savings rates, of course, was the balanced budgets and subsequent surpluses of that period. These meant that both the federal sector and the private sector were saving at once. And, it is savings which finances investment.
- My very large generation—the baby boomers—were in prime working ages and this contributed to high employment rates.

- The boom in technology and technology investment also was a key contributor. The Clinton years saw record amounts of venture capital raised and invested, record amounts of capital raised through technology IPOs and large scale hiring in the tech sector and those businesses serving it.
- Manufacturing employment was stable, and the dollar value of industrial production grew 40%. In contrast, since 2000, the manufacturing sector has shed almost 400,000 jobs a year, and industrial output has been flat.
- The American export sector added 500,000 jobs a year over the Clinton period, but only one fifth of that rate over the following eight years.
- The U.S. stock market rose almost uninterruptedly over those years. The Dow Jones Industrial Average stood at 3,300 when President Clinton took office and 10,400 when he left it. There is no stronger impetus to consumer and business confidence than steadily rising equity prices, especially when matched with fiscal balance.
- Interest rates also remained low. Today, absolute rates also are low, but economic conditions would typically mandate even lower rates.

The natural questions, then, are: (1) which of these factors can be replicated to improve the employment outlook now?; and (2) what other policy initiatives could be taken?

Overall, the Clinton years provided a climate of stability and consistency to our private sector. Employers will tell you, when they run small businesses or large ones, that consistency of policy is important to them and uncertainty is anathema. But, right now, Washington is inadvertently promoting uncertainty. And, that must change, in order to spur investment, growth and jobs.

A central uncertainty relates to the deficit outlook. By any measure, it is threatening and undermines confidence at all levels. The idea that, over ten years, deficits will not fall below 4% of GDP and that debt will exceed 80% of GDP is not acceptable. Indeed, it won't materialize. Either Congress and the Administration will act proactively to rectify it or, at some medium term point, global financial markets will revolt, perhaps through the foreign exchange markets, and impose a solution on the U.S. If the latter scenario results, the solution will be a punitive one.

We all know that 2010 is not the year for deficit reduction. Our economy is still too weak to absorb those contractionary impacts. But, it is not too soon to formulate a plan, beyond the Obama budget, for deficit reduction after this year. In particular, it is important that, later this year, the recommendations of the new Deficit Reduction Commission be taken seriously and given a true vote in the Congress.

A second major uncertainty concerns health care legislation. This is a giant and transformative undertaking with large economic implications. It will affect a high proportion of employers and they need to know whether it will move forward or not. The longer that this uncertainty persists, the slower will be the recovery in confidence levels. Passing health care legislation will not only help dissolve the uncertainty currently surrounding it; it may assist in reigning in our long-term deficits, since the growth in health care costs is the most significant factor affecting the future of the federal balance sheet.

Then, there is the question of new initiatives, both short term and long term. In the first category, President Obama is proposing $280 billion of additional stimulus. That would come on top of the $787 billion package which was adopted last year. The same four components in the 2009 program—extended benefits, state fiscal assistance, infrastructure and tax cuts for middle income Americans and small business—are included in the new proposal.

I support the concept of additional stimulus. The growth and job markets outlooks are too weak. Moreover, last year's amounts, in the context of this economic weakness and the sheer size of our economy, was too small. But, the spend-out rate on the 2009 stimulus was not as rapid as it should have been. Only 34% of last year's total was dispensed in calendar 2009. This is surprising because the greatest stimulus should have been applied in the weakest year. The explanation partially lies in the infrastructure component. Despite countless promises to the contrary from localities, this spends out very slowly.

It would seem wiser to design the new package to take effect more quickly. In turn, that would require maximum emphasis on steps which put money directly into the pockets of middle and lower income Americans. Perhaps, a greater focus on extended benefits and targeted tax cuts, and a lesser one on infrastructure. In addition, the earlier cash for clunkers initiative was an effective one. The homestead provision in the Senate jobs bill, which would use the same principle and extend it to appliances, makes eminent sense.

Next, there is the question of longer term strategies for strengthening the labor markets. Beyond deficit reduction, which I regard as paramount, here are five areas which deserve this Committee's attention:

- Investing in science and technology. Historically, these have generated new industries, from information processing to the internet, and substantial job creation. While most technology businesses aren't large scale employers, their products generate growth, e.g., the iPhone. The new Obama budget recognizes this by increasing federal commitments to basic research. It also emphasizes energy technology, which would seem a clear opportunity.
- More effective education policies at all levels of government. Jobs and wages are becoming more polarized by education level. The urgency of raising high school and college education rates, therefore, is greater than ever.

  In New York City public schools, for example, the high school graduation rate hovers just below 60%. Given the polarization trend, how can America achieve its labor market goals without raising such graduation rates?

  The most important steps which America could take would center around raising teacher quality and increasing the amount of time during which kids are in school. Recent data makes clear that teacher effectiveness is the most important ingredient for student success, together with the sheer amount of quality teaching which kids receive.
- Build stronger connections between education and specific job markets. This is important because the days when certain levels of education assured good employment have receded. It is increasingly important that schools provide the more specific skills which today's workplaces demand. Including skills required by markets adjacent to those schools.

  One way to do this may be to strengthen the community college system in this country. In turn, this could involve subsidies to businesses which provide part-time employment to students in those schools. The more a student acquires skills during school, the more employable he or she is.
- Reduce the constraints on H1B visas. Today, only 85,000 visa are reserved each year for highly skilled workers. But, consistent with reasonable national security tests, we should want every single such worker who wants to come here. They tend to be highly entrepreneurial and foster innovation, start-ups and job formation. Duke University has estimated, for example, that 52% of Silicon Valley start-ups over the past ten years were initiated by foreign born workers.
- Reform the U.S. disability system. Right now, too many older workers who find themselves jobless are moving onto permanent disability status because they cannot find work. The percentage of American males aged 40–54 who are on the disability program has reached nearly 5%. That is testimony to our difficulty in redeploying older workers. We should learn more about the approaches to re-training and re-employment which other nations use, including Germany.

It is difficult to overstate the labor market challenges which America faces in corning years. We are going to need all of these initiatives, and more.

PREPARED STATEMENT OF CAROLYN MALONEY, CHAIR, JOINT ECONOMIC COMMITTEE

I would like to start by thanking Mr. Joerres and Dr. Hassett for their willingness to return to Capitol Hill and testify before the JEC after our Feb. 9th hearing was cancelled due to the snow.

The weather continues to wreak havoc with this hearing.

The Honorable Roger Altman, former Deputy Treasury Secretary, had to cancel his appearance before this Committee because of the snowstorm in New York.

I ask for unanimous consent to include his written testimony in the record.

Today's hearing continues our in-depth series on job creation. Today, we will be examining the prospects of a labor market recovery from the Great Recession, which was fueled by the double blow of crises in both the housing and financial sectors.

A recent op-ed by Professor Alan Blinder, which was based on the testimony he had planned to bring before this committee before the snow shut down DC, presents a clear picture of the two possible policy options to increase private sector employment: either increase demand by consumers and businesses; or give employers the incentive to substitute workers for equipment.

On Tuesday, the JEC heard testimony from the Honorable Doug Elmendorf, Director of the Congressional Budget Office.

His testimony showed that an employer tax credit—similar to the one in my bill—is one of the most effective and efficient ways of spurring hiring.

His testimony also showed that extending unemployment benefits has the biggest "bang for the buck" on the economy.

Those benefits quickly multiply beyond the original recipients since families will spend all of their benefits on food and other expenses. Those purchases have a ripple effect throughout the economy.

We've come a long way since last January, when the economy lost 779,000 jobs in that month alone and recorded an average monthly job loss of 753,000 in the first three months of 2009.

Last month, we lost 20,000 jobs. And in the most recent three months of the Obama administration, the average monthly job loss was 35,000. So we're headed in the right direction. Thanks to the Recovery Act, the economy is growing.

The Bureau of Economic Analysis reported that in the final quarter of 2009, the economy expanded at a rate of 5.9 percent.

The Recovery Act included a tax cut for 95 percent of American families and created jobs while investing in clean energy technologies, infrastructure, and education.

While we have brought the economy back from the brink, we are not yet where we need to be in terms of job creation.

Over 8.4 million jobs have been lost during the "Great Recession."

And in addition to the 14.8 million workers who are currently unemployed, there are 8.3 million workers who currently work part-time, but would like to work full-time.

In the last year, Congress has enacted policies that support struggling families and encourage job creation. These actions include:

Creating and extending the first-time homebuyers credit, boosting funding for small business loans via the Small Business Administration, extending safety net programs, and extending the net operating loss carry-back provision that will help small businesses hire new employees.

But we need to redouble our efforts to create jobs.

The Senate jobs bill, which passed this week, is a step forward and an encouraging sign of bipartisanship.

It includes a scaled-down version of my employer tax credit. I'm happy that the Senate has included this—as Alan Blinder said in his op-ed, reducing costs for employers to hire new workers will create jobs.

During today's hearing, we will explore other options and hear other ideas for helping workers get back on their feet, spark consumer spending, and brighten our economic climate.

I am pleased that Dr. Berner was able to testify today and provide us with his forecasts of which sectors and regions of the economy are expected to grow in the coming year or two.

Mr. Joerres will be giving us Manpower's on-the-ground experience about the increase in demand for temporary workers.

Job creation in the temporary help sector is a leading indicator of progress in the labor market.

Since September 2009, temporary help services has added 247,000 jobs—52,000 in January alone.

Finally, Dr. Hassett will be giving his views about future growth and the health of the labor market.

I am also pleased to see that today's panel will touch on another topic discussed on Tuesday with CBO—the role of uncertainty about government policies on dampening economic and employment growth.

I look forward to a lively discussion with the panel today—one that I hope will help spark bi-partisan efforts to create certainty so that households and businesses will feel confident and will lead our country out of the Great Recession.

PREPARED STATEMENT OF RICHARD BERNER, CO-HEAD OF GLOBAL ECONOMICS AND CHIEF U.S. ECONOMIST, MORGAN STANLEY & CO.

Chair Maloney, Ranking Member Brownback, and members of the Committee, my name is Richard Berner. I am Co-Head of Global Economics and Chief U.S. Economist at Morgan Stanley in New York. Thank you for inviting me to this hearing on Prospects for Jobs and Growth.

Following the deepest financial and economic crisis since the Great Depression, the U.S. and global economies are beginning to recover. Thanks to aggressive monetary stimulus, support from strong global growth and from fiscal stimulus, the U.S. economy is now growing again.

In my view, however, the recovery will be moderate and job gains modest. The financial system, while improving, is still burdened by the legacy of bad lending decisions. Imbalances in housing persist. In 2010 and 2011, we expect real GDP to grow by 3¼% and 2½% (Q4/Q4 change), respectively. We expect annual job growth to average 1% (110,000 monthly) over that two-year period, excluding hires for the decennial census. Even those modest gains are not a foregone conclusion. Job losses have abated, and some labor-market indicators have improved, but employment has yet to turn up.

More important, we would need persistently strong economic and job growth over the next few years to regain the 8.4 million payroll jobs lost since December 2007, not to mention the 10.6 million jobs required to restore the employment rate (employment-population ratio) prevailing before the start of the Great Recession.

Moreover, as you are aware, our unemployment problem has become increasingly chronic. Two statistics document that fact: The median duration of unemployment has reached 20 weeks, more than twice the peak in the deep 1981–82 recession, and a record 41% of the unemployed have been jobless for six months or longer.

In my testimony today, I will identify four specific obstacles to hiring. Each of these hurdles has a cyclical and a structural dimension. For each, therefore, I will discuss policies that might help foster economic growth and job creation both in the immediate future—the cyclical dimension—and for the longer run—the structural part. But first, I want to identify where job gains are likely to be over the next two years and why.

Where will the jobs be? What sectors of the economy are likely to grow in 2010 and 2011, and by how much? How will employment growth vary in different regions of the country? What will be the likely state of the export market over the next two years, and the resulting impact on employment?

Strong sectors. Advances in export, infrastructure, capital goods, energy, and health care related industries likely will account for most of the job gains in the next 18–24 months. That forecast echoes my views regarding the sources of growth in our economy. The combination of strong global growth, the lagged effects of fiscal stimulus, and improving financial conditions will promote improvement in many of those industries. And rising demand for health care services continues. In contrast, employment in residential and commercial construction, retailing, and financial services likely will remain soft as those industries continue to restructure.

Strong regions. Identifying regional strengths and weaknesses is difficult. For example, industries that likely will benefit from exports and other strong sectors are located in regions hard-hit by regional housing woes. Conversely, some regions that fared relatively well in the downturn, like the Midwest, are now doing less well. In our judgment, the Pacific Northwest, parts of the Rockies and Upper Midwest, parts of the Southeast, and parts of the Southwest seem likely to be the strongest regions.

Export markets and employment. I expect gains in export volumes of around 10% to be sustained over 2010. Paced by their domestic demand, growth in many of our major trading partners in Asia and Latin America likely will average 6–7% this year, and Canada probably will expand at a faster pace than the U.S. Somewhat slower growth seems likely in 2011 as the U.S. and overseas policymakers exit from stimulus.

In manufacturing, some 20% of employment in 2006 was directly or indirectly associated with exports, and I expect that share to grow over the next two years. [1] Capital equipment and industrial supplies exports likely will continue to do well, while consumer goods will represent a rising share of overseas demand.

Obstacles to hiring. Worries about the sustainability of recovery are legitimate and probably are holding hiring back. Such concerns are characteristic early in recovery, but this time they are worse because of the lingering fallout from the bursting of the housing and credit bubbles. As a result, it remains essential to pursue policies oriented towards reducing housing imbalances, reducing debt, and improving the functioning of financial markets and financial institutions.

In addition, I think there are four obstacles to hiring that magnify the normal, early-recovery hesitation: Rising benefit costs, mismatches between skills needed and those available, labor immobility resulting from negative equity in housing, and uncertainty around policies here in Washington. Each has both a long-term structural and a shorter-term cyclical element. For each, I'll first discuss the problem and the long-term solutions. Then I will turn to what policymakers can do to help the economy and the labor market improve as quickly as possible.

Obstacle 1. Cost of labor resulting from escalation in benefits. The problem: Thanks to the high "fixed" costs of health and other benefits, and of taxes on labor to pay for the social safety net, our labor costs are out of line with other countries

[1] Source: International Trade Administration, Department of Commerce.

when adjusted for living standards. I say "fixed" costs because benefit costs don't vary with hours worked; they are paid on a per-worker basis. But as employers seek to cut the cost of compensation, these benefit costs drive a growing wedge between total compensation and take-home pay. Unlike in other countries where health care benefits are not directly part of compensation, these rising costs likely have intensified employers' efforts to boost productivity by cutting payrolls. [2] The recession made the wedge between compensation and wages bigger, as cost-cutting private-sector employers cut take-home pay while leaving benefits intact. So relative labor costs go up versus other countries and median pay suffers.

Long-term solutions include comprehensive health care reform and innovation to boost productivity and labor skills. Health care reform to expand access and control costs will reduce the soaring costs of health care for employers and employees alike. Policies that boost worker productivity will reduce labor costs in what will be a win-win for employers, employees and overall living standards, because real wages will rise.

Short-run remedies: A refundable payroll tax credit, perhaps for firms that increase their payroll, would be among the most effective short-run remedies. CBO estimates that a well-designed credit could boost employment by about 9 years of full-time equivalent employment per million dollars of budgetary cost. [3]

Obstacle 2. Skills mismatch. The problem: For years, employers have complained that they don't find the skills they need in today's workforce. Worker skills have greatly lagged technical change and tectonic shifts in the structure of our economy. Immigration restrictions and massive dislocations in several industries in recession have magnified that mismatch as workers who have been trained for one occupation lose their jobs. And even in health care, an oasis of job growth, there is a growing nursing and nursing skills shortage that requires new training facilities. [4]

Long-term solutions include policies that keep students in school and improve access to education, reorientation of our higher educational system towards specialized and vocational training and community colleges, and immigration reform.

Short-term remedies: Our current unemployment situation demands income support through unemployment insurance for those seeking but unable to find a job. Jobless spells degrade worker skills, just when workers need re-training. One remedy would pair training in basic skills that are needed for work with such income support. Two other groups seeking employment—newly minted college students and unemployed teachers—could be an ideal nucleus for a Job Training Corps that would empower job seekers with new skills. As is the case with Teach for America, the Job Training Corps would build a pool of training advocates who then go on to work in other occupations with the perspective and conviction that come from helping others to acquire needed skills. [5]

Obstacle 3. Labor immobility resulting from the housing bust. America's workers have always been footloose. Even in the Great Depression, they looked for work wherever it was. Today, however, about one in four homeowners is trapped in their house because they owe more than the house is worth, so they can't move to take another job. Unlike in the Depression, when homeownership was less prevalent, negative equity among a nation of homeowners leads to substantially lower mobility rates. Owners suffering from negative equity are one-third less mobile according to one study. [6] That is leading to a wave of "strategic defaults," in which borrowers who can otherwise afford to pay decide to walk away. Whether through foreclosure or default, this process is undermining the economic and social fabric of communities and reducing job opportunities.

Long-term solutions: Financial and mortgage regulatory reform are essential to restore the health of housing finance. Significantly improving financial literacy is equally important. [7]

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[2] See Sarah Reber and Laura Tyson, "Rising Health Insurance Costs Slow Job Growth and Reduce Wages and Job Quality," Working paper, University of California at Los Angeles, August 2004.

[3] See Congressional Budget Office, "Policies for Increasing Economic Growth and Employment in the Short Term," February 2010.

[4] See Bridget M. Kuehn, "No End in Sight to Nursing Shortage: Bottleneck at Nursing Schools a Key Factor," *JAMA* 2007; 298:1623–1625.

[5] *http://www.teachforamerica.org/mission/mission_and_approach.htm*.

[6] See Fernando Ferreira, Joseph Gyourko, and Joseph Tracy "Housing Busts and Household Mobility," forthcoming in the *Journal of Urban Economics*.

[7] Efforts by the Federal Reserve and others are especially encouraging. See *http://www.federalreserve.gov/consumerinfo/foreclosure.htm* and *http://www.mymoney.gov/*.

Short-term remedies: Local efforts to stabilize communities plagued by foreclosure are essential, but they are not enough.[8] It is essential to reduce debt, writing off bad loans while not destabilizing the financial system. Modifying existing mortgages seems appealing, but policies aimed at mitigating foreclosures under the Home Affordable Modification Program (HAMP) have not worked because they attempt to modify mortgage payments and not the amount of debt owed; re-default rates following modification are 50–60%. Efforts to establish a protocol for short sales and/or principal reduction should be a useful tool in avoiding costly foreclosure and strategic default.[9]

Obstacle 4. Policy uncertainty is a negative for the economy and markets. America's long-term challenges—health care, budget and tax reform, financial regulatory reform, retirement saving, infrastructure, education, energy, and climate change—are not new. Solving them is imperative. But while the debates around major initiatives to address them are an important part of the democratic process, the uncertainty that accompanies major policy change is weighing on business and consumer decisions to hire, expand, buy homes and spend.

Recent work confirms this intuition, underlining how uncertainty produces negative growth shocks. Nicholas Bloom shows how a rise in uncertainty makes it optimal for firms and consumers to hesitate, which results in a decline in spending, hiring and activity. In effect, the rise in uncertainty increases the option value of waiting as volatility rises. Moreover, this line of reasoning suggests that uncertainty reduces the potency of policy stimulus.[10] That's because the uncertainty can swamp the effects of lower interest rates, transfers or tax cuts. In effect, uncertainty raises the threshold that must be cleared to make a business choice worthwhile, and as uncertainty declines, the threshold falls with it. This notion squares with our long-held view that policy traction from easier monetary policy, improving financial conditions and fiscal stimulus was lacking through much of last year, but improved as uncertainty fell.

I can tell you as someone who works in financial markets that market participants are used to thinking that political gridlock is good, that it prevents politicians from interfering with the marketplace. The financial crisis clearly exposed the flaws in that reasoning with respect to appropriate financial regulation, whose absence allowed abuses. Indeed, gridlock today is more likely to be bad for markets, as our long-term economic problems are partly the result of past policies and can only be solved with political action.

Long-term solutions involve bipartisan leadership to tackle these complex problems one-by-one, in steps that are fair and call for shared sacrifice and benefits. That means setting priorities, making hard choices, communicating the game plan, and getting buy-in for it in advance. I would encourage you to look to the National Commission on Fiscal Responsibility and Reform—the deficit reduction commission—for leadership.

Short-term remedies: Reducing policy uncertainty now could be a tonic for growth. That won't be easy or come quickly, given the political backdrop in this election year. But even some incremental clarity on policies in any of these areas would offer investors a chance to assess the fundamentals again—fundamentals that we still see as improving.

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[8] See *http://www.stablecommunities.org/* for examples.

[9] See, for example, Larry Cordell, Karen Dynan, Andreas Lehnert, Nellie Liang, and Eileen Mauskopf, "Designing Loan Modifications to Address the Mortgage Crisis and the Making Homes Affordable Program," Brookings Institution, October 2009.

[10] See Nicholas Bloom,"The Impact of Uncertainty Shocks," *Econometrica*, vol. 77(3), pages 623–685, 05, May 2009.

Manpower

Testimony of

Jeffrey Joerres

Chairman,

Chief Executive Officer

Manpower Inc.

before the

Joint Economic Committee

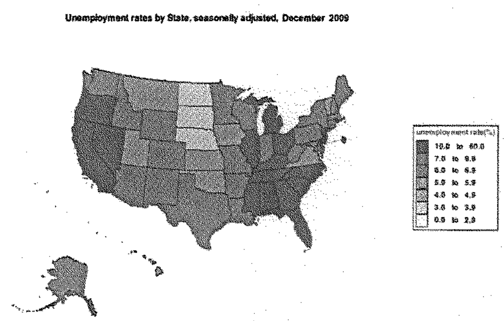
United States Congress

February 26th 2010

Good morning and thank you, Chairwoman Maloney, Vice Chairman Schumer, Ranking Members and Members of the Committee, for the invitation to speak to you today. Job creation is a topic that I care deeply about, and I appreciate the chance to share some of my experiences with you today. At Manpower, we are experts in connecting people to jobs. Our fundamental question to our clients, our employees and our partners is:

What do you do?

We ask that question because *what you do* is part of who you are. And the answer is powerful. Last year, we heard the answer in 82 countries and territories, with more than 400,000 associates on assignments on any given day. In the United States, our network of more than 800 offices sees the faces of jobs data in each community. Manpower is in contact with thousands of candidates every day and interviewed over 12 million people in 2009. We have a detailed understanding of the job market today and because we work closely with our clients, we have our finger on the pulse of where the job market is going. It is abundantly clear that this recession has impacted different parts of the country **(Figure 1 –Unequal geographic impact of unemployment)**, different business types **(Figure 2 – Small business impact much**

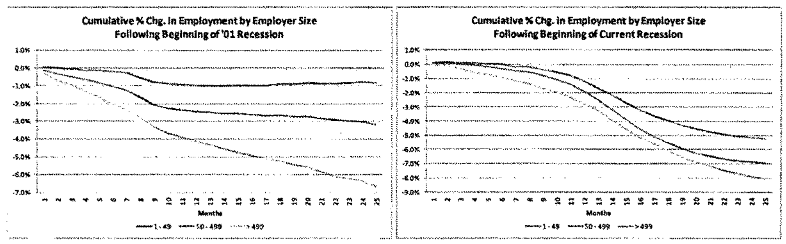


Source: Bureau of Labor Statistics, December 2009

Figure 1 – Unequal geographic impact of unemployment

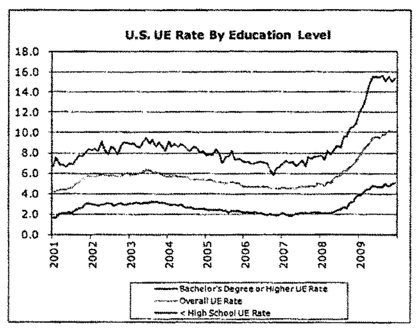
greater this recession), different demographic groups **(Figure 3 – Disparate impact on**

demographics), and different industries **(Figure 4 – Manufacturing hit harder than other industries)** in different ways.



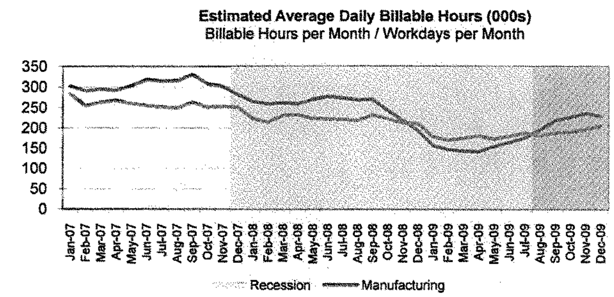
Source: Baird

Figure 2 - Small business impact much greater this recession



Source: Baird

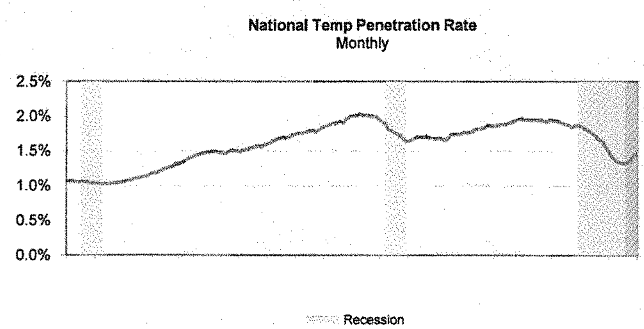
Figure 3 - Disparate impact on demographics



Source: Manpower

Figure 4 - Manufacturing hit harder than other industries

Temporary employment experienced materially deeper contraction during the current recession than either of the prior two recessions. **(Figure 5: This recession hit Temporary Workers hard)**

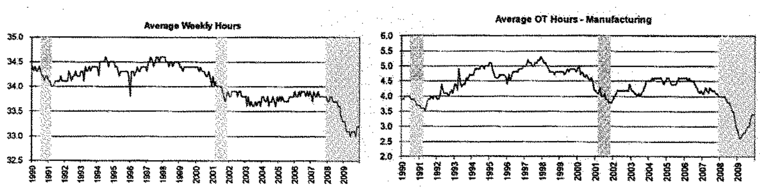


Source: Manpower

Figure 5 - This recession hit Temporary Workers hard

Based on our experience from previous recessions, the "trough" of temporary penetration has occurred within 1 or 2 months after the end of the recession. The National temporary penetration rate for December 2009 was 1.46% (up 0.036% m-o-m) and has increased monthly since July 2009 indicating that we are now potentially coming out of this recession.

This recovery, like the recovery of the previous two recessions will be a "Jobless Recovery." This is because companies have become more sophisticated in their ability to assess their workforce needs. From now on, companies will not engage in anticipatory hiring, waiting instead for clear signals of an increase in demand before making permanent hiring decisions. Companies can determine exactly when they need more workers to support the demand for their products or services. Today's companies have the specific data and insight necessary to determine exactly when they will need to hire. As a result, we expect that short-term increases in the levels of job hiring will either be driven by new businesses and entrepreneurs or by an actual increase in demand. In addition, employers have cut back on the average number of hours that those that remain employed are working, which creates additional capacity must be absorbed before hiring resumes. However, average weekly hours and overtime hours appear to have bottomed and begun to increase as economic activity has increased. **(Figure 6: Average hours worked and overtime appears to have bottomed out).**



Source: BLS, Baird

Figure 6 - Average hours worked and overtime appears to have bottomed out

The good news is that our Average Daily Billable Hours have increased in 10 of the past 11 months (December was the exception). And while there is typically a seasonal peak in Average Daily Billable Hours at the end of Q3 (September), followed by a decline through the end of the year, 2009 has not witnessed this normal trend, instead we experienced sequential billable hours increase through the end of the year. This indicates that employers are experiencing some demand but are exercising caution, postponing hiring commitments until they are sure of sustainable demand. The existence of a strong temporary labor provider market is a critical bridge to helping companies and individuals exit the recession.

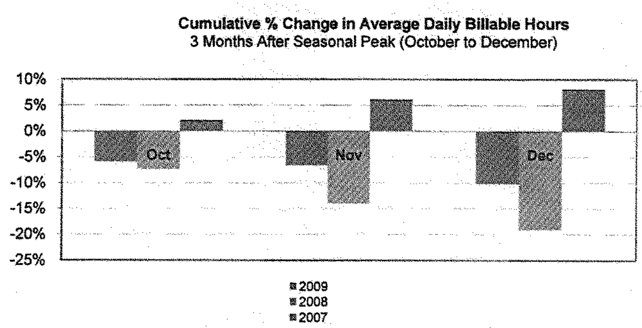


Figure 7 - 2009 bucked the year end trends

Source: Manpower

There is further good news for the source of the recovery in 2010. All indications are that it is being driven by light manufacturing. **(Figure 8: Average industry billable hours trends)** Our Average Daily Billable Hours in the Manufacturing sector declined slightly (-2.9%) in December 2009 but was up 18% over the previous December. **(Figure 7: 2009 bucked the year end trends)** The Manufacturing sector represents about 48% of our total billable hours. No doubt, some of this return is due to the need to replenish inventory from the historically low levels. However, if this trend continues it is a good sign for the long term viability of the recovery.

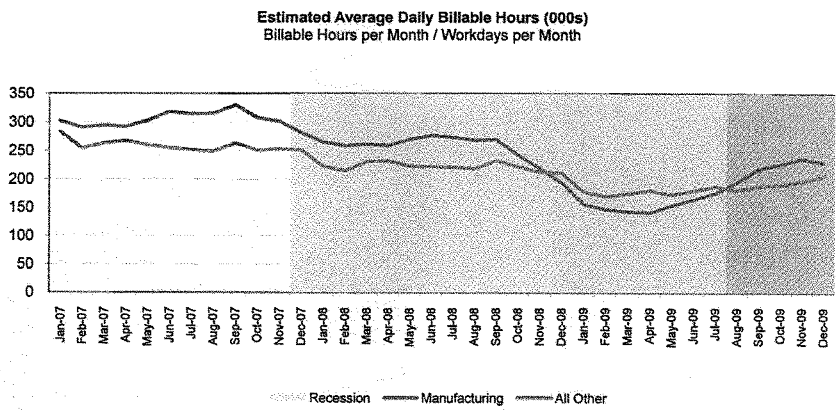


Figure 8 - Average Industry Billable Hours Trends

Source: Manpower

The Manpower Employment Outlook Survey issued quarterly measures employers' intentions to increase or decrease the number of employees in their workforce during the upcoming quarter. It is the only forward-looking survey of its kind, unparalleled in size, scope, longevity and area of focus. It is regarded by many as a good prediction tool for private payroll growth. **(Figure 9: Manpower Employment Outlook Survey versus Private Payroll Growth)**

Manpower Employment Outlook Survey versus Private Payroll Growth
Average monthly payroll growth in the current quarter versus reported
hiring plans for the following quarter
Based on Manpower data for October – December 2009 period

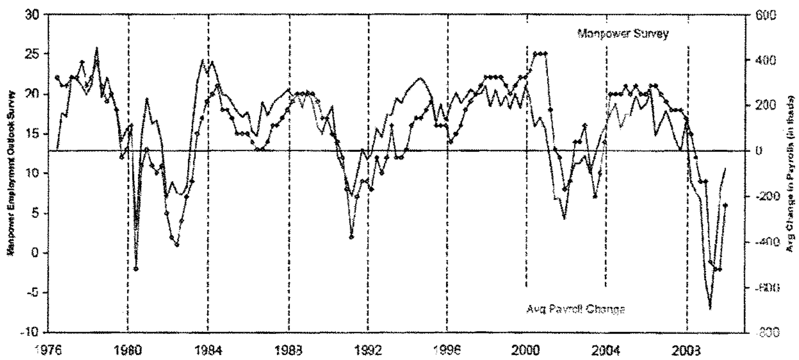


Figure 9 - Manpower Outlook Predictive Capability

Data Sources:
1. Manpower Employment Outlook Survey - U.S., courtesy of Manpower Inc.
2. U.S. Bureau of Labor Statistics, based on private, non-farm payrolls.
Data compiled by Wrightson ICAP, www.wrightson.com

The first quarter is a seasonally slow hiring quarter; however, the survey indicates that Q1 2010 will see an increase over the Q4 2009. This is unusual and indicates increased confidence levels from employers because they are starting to see a sense of stabilization.

Of the more than 28,000 employers surveyed, 12% percent anticipate an increase in staff levels in their Q1 2010 hiring plans, while 12% expect a decrease in payrolls, resulting in a Net Employment Outlook of 0%. When seasonally adjusted, the Net Employment Outlook becomes +6%. Seventy-three percent of employers expect no change in their hiring plans, the highest in the survey's history. The final 3% of employers indicate they are undecided about their hiring intentions.

The data provides encouraging news. A record number of employers plan to keep staff levels stable, which is good for the employed, and an overall positive outlook means expanding opportunities for job seekers. The national survey data shows employers in Mining, Durable Goods Manufacturing, Information and Government expect hiring to moderately increase in Q 1 2010 from Q4 2009, while slight increases are expected among employers in Nondurable Goods Manufacturing, Transportation & Utilities, Professional & Business Services, Education & Health Services, Leisure & Hospitality and Other Services. Employers in two industry sectors, Construction and Wholesale & Retail Trade, anticipate a slight decrease in hiring levels. Financial Activities employers intend to maintain relatively stable staff levels. Using the seasonally adjusted data, all regions anticipate moderate quarter-over-quarter increases in staff levels, with employer confidence highest in the South and Midwest.

A major trend emerging from this recovery is the number of unemployed workers who are forced to find new jobs outside their industries. These "Industry Migrants," as we call them, face a number of challenges including how to adapt old skills to the new demands in the marketplace, how to present their skills in a new light and finally whether or not the new opportunity is in a different location, even when they are available. One of the major challenges workers face in this recovery is the lack of mobility exacerbated by the housing crisis. The inability to help homeowners get out from under their negative equity problems means that many jobless are unable to take jobs in different locations even when they are available. The inability of unemployed homeowners to pay their mortgages adds a glut of housing inventory onto the open market on a daily basis, further suppressing values. Despite high levels of unemployment many employers are still unable to find the right skills to fill job vacancies. About three million jobs remained unfilled throughout the US. International comparability of labor market data is oftentimes difficult, but even with a margin for error, the conclusion is the same: The US misses out of major employment opportunities because of mobility and skill mismatch problems.

(Figure 10: Open job positions in US)

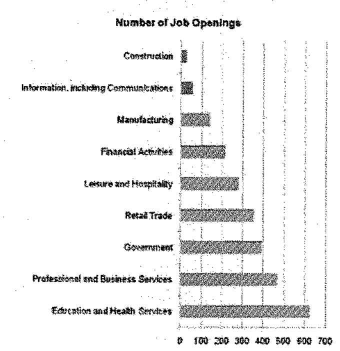


Figure 10 – Open job positions in US

Source: Manpower

Together with several other large companies we have sought to identify some solutions to this problem. If the committee wants our assistance to discuss ways our country can help relieve stress on labor mobility and help unemployed homeowners, we are ready to assist

We believe that any initiatives that the government implements to address the level of unemployment and foster job creation focus on one of three specific targeted areas:

1. the individual job seeker,
2. companies, and
3. the potential new business owner

What can be done to assist the individual seeking employment?

Training programs, workforce development programs and other forms of skill retooling focused specifically on the potential Industry Migrant population to enable them to leverage their existing skill sets and learn new skills for new opportunities.

What can be done to assist corporations to hire more people?

As corporations have become much more sophisticated in their hiring decisions as a result of investments in technology systems, they have also become much more specific on the skills required for a particular job. Corporations are now much more sophisticated and aware of the need to hire individuals who not only have the basic skill sets for a particular job, but also have softer skills, flexibility, adaptability and interest in life-long learning. The velocity of change is requiring these skills. All citizens, and particularly Industry Migrants, will need to develop these skill sets if they want to pass initial resume screening by the employer. Workforce development programs aimed at training the unemployed on these softer skill sets will not only increase the chances of employment but will also improve the private sectors ability to handle change in the future.

There has been talk of tax credits and incentives for companies increasing the size of their workforce. Our latest MEOS survey showed that 73% of US companies have no plans to increase the current size of their workforce during the first quarter. This new level of sophistication in a company's ability to predict demand means a shift in the way hiring decisions are made. From this recovery forward, hiring decisions will be based on actual demand for services and goods and not on anticipatory demand. Companies will only hire when they know that demand is going to increase. Offering incentives will not drive job creation. Rather, they will subsidize the cost of growth for companies that hire using tax payer monies. This incentive program is well-intended, yet ineffective. We believe that this money is better directed at retraining and development efforts for the unemployed.

What can be done to encourage entrepreneurs to start new businesses and drive growth?

Real job creation comes from demand. Each successful new business will result in direct job creation. The stimulus and recovery plans launched last year have resulted in many Americans keeping jobs that might otherwise have been lost; however, if we are to propel ourselves out of this recession, we must focus on new job creation. Our corporation does more than just attract and deploy talent. We also know how to re-deploy talent when our clients restructure, reorganize and re-position themselves in the marketplace. Our business unit that specializes in these outplacement and career transition services called Right Management. It will be no surprise to this committee that Right Management has been extraordinarily busy this past year. Every day, we see extraordinary talent pass through our Right Management offices and many of them take advantage of a program called "Life Options." Life Options helps our clients to see different careers and the paths to pursue them. The number of people that started their own business in 2009 was 17% more than in 2008.

Each new business will create jobs. One of the challenges in any federal government initiative is getting the end citizen engaged in programs. Programs targeted at this group of people to provide them with access to start up capital, grants, access to cheap real estate (perhaps using FDIC owned real estate) will drive new job creation. The challenge many of these people face is a lack of financing. The tight short-term credit markets born from the credit crisis, the lack of venture capital financing available to very small entrepreneurial businesses and the challenge in dealing with the many agencies of government when seeking federal support is, in many cases, too daunting for the potential job creator. Yet, it is exactly these potential small business owners who will drive long term job creation in this country. Not only do we have access to people through Right Management looking to start their own businesses, we have access to labor pools to help them expand when they are ready to grow. I am very interested in working with Congress and the Administration to find a streamlined and effective way to get investment dollars into their hands so that they can start these businesses and work hard to grow them.

We have supported governments and not for profits around the world on the issue of Job Creation. Manpower, in partnership with many local communities, has engaged in a program called "TechReach." TechReach focuses on providing work opportunities to those people who are thought to be "unemployable." Many of these individuals have few skills or the experiences required for the workplace and, in many cases, lack the resources to find their own employment. In Chicago, to be eligible for mixed income housing rent support, residents must work 20 hours per week. So the Chicago area Manpower offices developed a curriculum using both classroom and online training tools from Manpower's Training and Development Center targeted to these "at risk" residents. Each student received hands-on training in resume writing, job interviewing, communication skills and other critical skills. Our Manpower employees also donated professional clothing for participants in the program. Those who are experiencing difficult family situations, such as substance abuse, spousal or child abuse issues, are referred to appropriate agencies in the community for assistance. Since the inception of the program, more than 6,900 people have successfully been placed in skilled jobs. So when they are asked the question: **What do you do?** They can answer with dignity and respect. Other TechReach programs are under way in San Diego and Albuquerque.

During 2009, unemployment levels in the UK rose by more than 30%. The UK Government asked Manpower to help handle the increasing volumes of people requiring state support through the job centers. Manpower was responsible for receiving applications, sourcing appropriate premises for interview and assessment centers, booking candidate appointments, undertaking interviews and skills assessments and developing the IT and business processes to support the secure transfer of associated paperwork. Connecting and engaging the citizens with government programs designed to support them is a core competency of Manpower.

In the Netherlands, we are running the Debt Assistance program for the Rotterdam Credit Bank (kredietbank Rotterdam). In this recession, it became very clear that the number of people owing more money than they could afford had become so large that traditional ways of handling it were not going to work. The government did not have the staff or the capacity to handle it on a timely basis. Manpower now manages and provides assistance in all aspects of the crisis from employment support to financial management skills and debt restructuring / mitigation focused on making sure that every citizen is engaged in the process and is receiving the support made available to them by their government.

In conclusion, I am suggesting three specific actions for consideration to address the three areas of focus that I just outlined, and assist in driving job creation in our country. These recommended actions address the three areas of focus.

(1) A targeted investment aimed at new business creation.

Develop a comprehensive program to support entrepreneurs to set up and establish new businesses. This program should consider access to capital, real estate costs and employment costs. Leveraging the Right Management data as a starting point, initiate a targeted campaign to let them know the support is available and how to access it. The application process should be streamlined. Develop criteria to graduate out of the program as companies grow and hire. The Small Business Administration (SBA) has implemented improved access to financing under the America's Recovery Capital (ARC) program. This program offers qualifying small businesses a long term (6-year) loan facility with zero interest, for use to pay down existing principal debt up to $35,000. SBA is also seeing a 60% increase in its loan volumes as more and more small businesses are taking advantage of these programs. But the SBA works through existing commercial banks and lenders supporting small business entrepreneurs. So small business borrowers need assistance getting to these financing facilities through their banking partners, and new entrepreneurs will be navigating this landscape for the first time. This brings into focus the challenge of would-be entrepreneurs to access available Federal resources that can help them.

Before the "Great Recession" there were already hundreds of Federal program offices, contacts, initiatives, and funding mechanisms for sparking business expansion and job creation. But each Department or Agency has its own delivery system that requires navigating multiple interests, stages of enterprise formation, and steps for job creation.

Under normal conditions, these challenges are often limiting barriers for citizens. During the current Economic Recovery and Rebuilding scenario with millions of citizens in need of their next opportunity, these challenges cause increased frustration, lower opinions of federal interests, and rapid demoralization for all parties seeking to spark job creation.

We are willing to work with Federal agencies to improve communications, education, and access to these valuable programs through our nationwide branch office network. With our businesses and geographic reach, we can provide improved communication and coordination of resources to would-be business entrepreneurs.

(2) A program targeted at the unemployed homeowner.

We need to create more labor market fluidity and we need people to continue to be able to pay their mortgages. Many of the unemployed homeowners laid off during this recession did not receive any form of transition support or advice on how they may be able to change their employment direction or start a new business. Traditional transition services involve one-on-one meetings and discussion, but there is no reason a subset of the training materials, integrated with the information from the first initiative I discussed could not be made available online with webinars and social networking concepts to a larger population of unemployed homeowners looking for support at a fairly low cost per person. You may even consider a new varietal of help for homeowner loan modification for people formally setting up their own business through this initiative.

(3) A program targeting soft skills development training for industry migrant populations.

This is an opportunity to develop a training program and curriculum through the Workforce Investment Boards. There is a unique set of issues related to individuals who have worked for a long period of time in an environment such as the automotive industry or financial institutions. This group of people requires assessment skills, transfer training and soft skills training to increase the likelihood of the migration of individuals to other industries.

Manpower has been in the people business for more than 60 years. We have seen the economic ups and downs. It is clear that this recession is one of the most severe downturns we have experienced. It is a privilege to have been able to share some thoughts on actions this committee can consider in partnership with industry. It is critical that we get this right and that support is timely. I and the employees of Manpower are ready to assist in any capacity to help put America back to work.

American Enterprise Institute for Public Policy Research

Testimony before the Joint Economic Committee on

"The Road to Economic Recovery: Prospects for Jobs and Growth."

Kevin A. Hassett

Director of Economic Policy Studies

American Enterprise Institute

February 26, 2010

The views expressed in this testimony are those of the author alone and do not necessarily represent the views of the American Enterprise Institute.

Chair Maloney, Vice Chairman Schumer, Ranking Members Brady and Brownback, and members of the Committee, it is an honor to be with you today to discuss the important topic of how to create jobs and return to sustained economic growth.

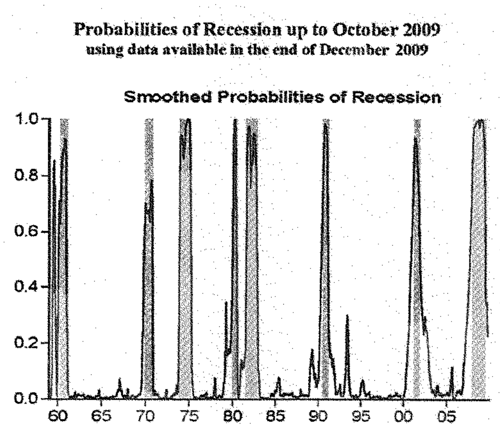
Today I will give a brief overview of our current economic situation, discuss what I see as the most pressing challenges for employment and growth, and also describe policy changes that would address our current challenges in the U.S. labor market.

Where Are We?

After seven long quarters of low or declining economic growth, last quarter's GDP numbers were a beacon of hope from an economy long devoid of good news. This month's announcement that unemployment had fallen below 10 percent fueled some optimism, although it was tempered by news that payrolls had actually declined another 20,000.

According to University of California Economist Marcelle Chauvet's highly reliable model of recession probabilities, there was a roughly 20 percent chance we were still in a recession in October, 2009, using data available to the end of December, 2009 (see Figure 1). The recession is almost surely over, probably ending last July, but the question is, what kind of recovery will we have?

Figure 1.[1]



[1] Chauvet (2009)

There are positive and negative economic signs at the moment. On the plus side, real GDP surged almost 6 percent in the fourth quarter of 2009, and the unemployment rate dropped from 10.1 percent to 9.7 percent by the end of January 2010. The unemployment rate reduction brings into question the strongly negative view that has prevailed amongst economists regarding unemployment. That view holds that unemployment will continue to worsen well into next year, perhaps reaching 11 percent, because job creation typically lags the rest of the recovery

A look at the history of job creation over the business cycle suggests that this consensus view is anything but certain.

Since 1950, there have been 10 recessions in the U.S., with the most recent one beginning in December of 2007 and most likely ending last July. If the recession did indeed end in July, then the decline in unemployment, which began in November, started in the fourth month after the recession's trough. A four month lag between the trough of a recession and the beginning of the decline of unemployment is actually a negative surprise. In the nine previous recessions, the average wait from the end of the recession to the first decline in unemployment was only 2.4 months. So this time it took a little longer.

Why, then, did so many experts expect the lag to last still longer this time? The biggest reason, in my view, is the widespread acceptance of a false narrative regarding the relationship between jobs and recessions, a narrative distorted by the experience of the last two recessions before the current one.

It is true that job creation often lags the cycle. While unemployment often blips down in the beginning of a recovery, the improvement rarely sticks; in seven of the previous nine recessions, the initial decline was reversed in subsequent months.

In the last two recessions -- July 1990 to March 1991, and March to November 2001 -- unemployment had a life of its own, continuing to surge for more than a year after the trough. Those back-to-back experiences seem to have influenced how experts viewed what would happen in the current recovery. But the last two recessions are probably not the best guide. On the way down, recall, they were so mild that economists had begun to accept the view that the world had undergone a "Great Moderation." But maybe recoveries moderated along with recessions.

A more optimistic model would be what happened at the ends of recessions in 1975 and 1982. These are the only two recessions since World War II that rival the current one in terms of severity. In those cases, the first decline in the unemployment rate signaled the good news that a sustained jobs recovery was on the way.

In 1975, the unemployment rate peaked two months after the end of the recession at nine percent, and then began a steady decline that lasted almost five years. In 1982, the unemployment rate peaked at 10.8 percent one month after the end of the recession, and plummeted from there at a rate of about 1.5 percentage points per year.

An explanation for this connection comes from academic work on why the economy tends to snap back more quickly after a steep drop. This behavior, first observed by Milton Friedman, is analogous to that of a string on a guitar. The harder you pluck the string, the quicker it snaps back. Or think of it in these human terms: recovery is faster after a panic, because unlike more gradual forces such as decline in manufacturing, panic is 100 percent gone when it stops.

That unemployment has continued to decline after November is certainly a positive sign, one that gives cause for hope that the jobs picture is finally beginning to turn around. But other indicators suggest that the recovery we are now in is beginning to resemble the "jobless" recoveries of 1990-1991 and 2001. Thus the best model is probably not the pessimistic model that focuses on the two most recent recoveries or the optimistic one that focuses on the most severe recessions of the post-war era. Rather, reality is likely somewhere in-between.

There is ample cause for caution. While GDP increased almost 6 percent in the fourth quarter of 2009, over half of the growth in GDP—3.4 percent—was attributable to changes in inventories. This astonishing impact of inventory has ample historical precedent, and the bottom line has negative implications for the first half of 2010.

As Alan Blinder of Princeton University noted in a 1980 paper, inventories, while accounting for less than 1 percentage point of national output, accounted for 37 percent of the fluctuations in output during the post-war period. Since the 1980s, inventories have sustained their important role in driving changes in GDP. Updating Blinder's calculations through the fourth quarter of last year, inventories have accounted for about 34 percent of historical fluctuations in GDP since 1947.

Something that constitutes a small share of GDP can have a big impact on its overall volatility only if it is swinging about wildly. Inventories fluctuate so much for a simple reason: Predicting the future is really hard. As a firm tries to set its inventory level to match expected future sales, it must balance the financial cost of carrying inventoried items against the risk that customers might not find the product they are looking for. If we see inventories piling up, firms may need to adjust their future activity downward. On the other hand, sales sometimes jump unexpectedly, driving inventories below their desired levels. When that happens, we can expect firms to ramp up production to replenish their stocks.

Since 1970, there have been nine quarters, like the last one, when GDP grew by at least 3 percent and inventories accounted for at least half of that growth. The history of those quarters is hardly a favorable sign of what is in store.

Inventory spikes make for blowout quarters. In the nine quarters with such spikes, the average growth rate was 6.6 percent and the average inventory contribution was 4.4 percent, even higher than what was observed for last quarter. Spikes also produce hangovers. The average growth rate in the quarter after a spike was 0.9 percent, a whopping 5.7 percent lower. In the second quarter following a spike, the average growth rate is just 1.6 percent.

If we experience only the typical decline in growth that follows an inventory spike, first-quarter growth in 2010 will be right around zero. If that happens, talk of a double-dip recession will ignite. Thus, it seems that there are significant risks on both sides. From my point of view, the most important Moreover, even if unemployment continues to improve, it will do so from a terrible level. Policymakers, therefore, would be remiss if they failed to consider policies to improve the employment situation immediately.

Evaluating the Stimulus

It is crucial that something be done, but it is also crucial that it not be a repeat of what has been tried in the past.

The CBO report released this week provides estimates of the impact of ARRA. They offer broad ranges when estimating the economic effects, which are "intended to encompass most economists' views and thereby reflect the uncertainty involved in such estimates." This statement is unusual for the CBO in that it is an assertion about economists' views that is unsubstantiated by any evidence. No poll of economists is cited. Normally, the CBO does better when it makes factual assertions.

If such a poll were conducted, it clearly would not agree.

It is true that Keynesian models tend to predict effects like those mentioned by the CBO. A number of extensive reviews indicate there is a wide array of Keynesian models that suggest economic stimulus can be very effective (for other examples, see Barrell et al. 2004 or Roeger and Veld 2004). For the most part, fiscal multipliers in this arm of the literature range from slightly below 1 to perhaps as high as 1.4, suggesting that there is ample room in such models for significant short-run stimulus.

However, it is also fair to say that most economists learned in graduate school that models like those relied upon most heavily by the CBO provide nonsensical results. The reason the original large scale Keynesian Macro forecasting models were discarded by most of the profession is that they make a simple logical error in assuming that individuals do not change their behavior based on the expectation of future policy. This flaw is easy to conceptualize with the famous "Fort Knox" example. Fort Knox has security, even though nobody has ever robbed it. A Keynesian response to that observation would be to remove the security, since no robberies have ever occurred. Once the security is removed, however, the U.S. loses all of its gold.

Lost gold is the right thought for last year's stimulus.

A sign of how far off the CBO analysis is comes from the comparison of their "broad range" to the analysis in a Wall Street Journal article also written this week, by Robert J. Barro of Harvard University.[2] Professor Barro has been one of the primary contributors to the macroeconomic time series literature that has tried to estimate effects from observed economic data, rather than assume affects, as is done by the Keynesian models. I should note that Barro, perhaps Harvard's most famous macroeconomist, is a virtual lock to win a Nobel Prize. His work is not out of the mainstream, and has been followed by the work of many others who have made similar findings. Barro estimated that the government spending multiplier for the first year of the stimulus (2009) was .4 percent, and the multiplier for year two (2010) would be .6 percent. Both of these estimates fall well short of the CBO multiplier "broad" range of 1.0-2.0 percent for 2009 and 1.4-4.0 percent for 2010.

Barro's analysis is based on econometric evidence, a reliance on experience.[3] The CBO analysis is based almost exclusively on speculation within the context of Keynesian Macro models that were discredited decisively in the 1970s. The range of parameters explored seems to be just tinkering with the range of answers one can obtain within a model that assumes Keynesian effects. The fact that these effects are inconsistent with actual experience as characterized by analysis like Barro's is simply and inexcusably ignored.

The CBO's appendix specifically addresses why it mostly ignores the empirical evidence in work like Barro's, stating that "estimates of economic effects from this research vary widely and

[2] Barro (2010)

[3] Textbook Keynesian models suggest that government spending can increase aggregate output with a multiplier significantly greater than one; the neoclassical theory disagrees. This alternative theoretical argument is described in detail in Barro (2008), which draws heavily on Barro (1981). There he documents that the long-run effect in a neoclassical model of higher government spending is likely very close to zero, but that the short-run effect can be positive. He provides aggregate time-series evidence consistent with these two theories. Also, Barro (1981) distinguishes between the effects of spikes in military and non-military government spending on aggregate output. He finds that increases in military spending raise output, but with a multiplier that is less than one. When government spending was above trend, there were shortfalls in private investment and net exports (Barro 1981, p. 377). However, Barro (1981) does not find that non-military government spending has any positive effects on output. This suggests that, if past incidents are an indication of future results, the current wars may be more productive fiscal policy than the proposed stimulus package.

are sensitive to the time period and estimation strategy used." There are two obvious responses to this. First, ultimately, there is an empirical question about which approach works better to predict the future. Dating at least back to the seminal work of Nelson (1972), economists have known that the empirical time series approach significantly outperforms macroeconomic models in forecasting competitions. The exercise has been repeated almost continuously since then. Ashley (1988) compares data based time series forecasts to those from the large macro forecasters and concludes not only that the time series approach is superior, but that the macro forecasts were so bad that, "most of these forecasts are so inaccurate that simple extrapolation of historical trends is superior for forecasts more than a couple of quarters ahead." More recently, Lees, Matheson and Smith (2007) find that simple time series forecasts outperform those of the New Zealand central bank.

To be sure, some time series papers support larger multipliers than those used by Barro, and others do not. In a recent review, I discussed why the literature is leaning more in the direction of Barro.[4] But, and here is the second response, even if there is a wide variation in the best estimates of what actually happens when you pursue Keynesian policies, the correct conclusion is not to rely more heavily on models that assume large effects, but rather, to conclude that there is a great deal of uncertainty about whether policies like those adopted last year work.

That is, the correct position for policymakers to adopt is one of skepticism concerning these effects, and openness to trying different approaches. This was not the perspective that governed the design of the stimulus, which barely reduced any marginal tax rate at all, and was designed as if we know that the myopic Keynesian models are God's truth.

It is worth adding that one should be particularly wary of big job creation estimates precisely at this moment. One reason job creation lags the cycle is that businesses "hoard" labor and have excess capacity when times turn sour. As the economy recovery, they are able to ratchet up production without making new hires. Even if the stimulus did have an outsized effect on output, one would not expect to see a large impact on hiring at the beginning of the recovery. The large job creation claims seem to ignore this point.

Finally, one should note that this literature, combined with an earlier public finance literature, raises questions concerning the welfare gain associated with short-term increases in spending. Ballard et al. (1985), for example, find that the marginal cost of US$1 of public expenditure is about 17 cents. Browning (1987) finds that the marginal cost ranges widely, between 10% and 300%. Thus, the welfare costs of paying the bill may be greater than the short-term boost to the economy from the most optimistic estimates. This literature would be consistent with Barro's analysis that suggests the stimulus makes us worse off in the long run.

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[4] Hassett (2009)

What Should Be Done?

Given the fiscal pressures, another large stimulus package would be a very bad idea, requiring even more ambitious moves by future policymakers. Instead, we should focus short run efforts on targeted programs to improve the labor market. In addition, we should address convincingly our long run problems, focusing on policies that would eliminate harmful policy uncertainty, and give firms a reason to be optimistic about investments located in the United States. I would ask that you consider four measures.

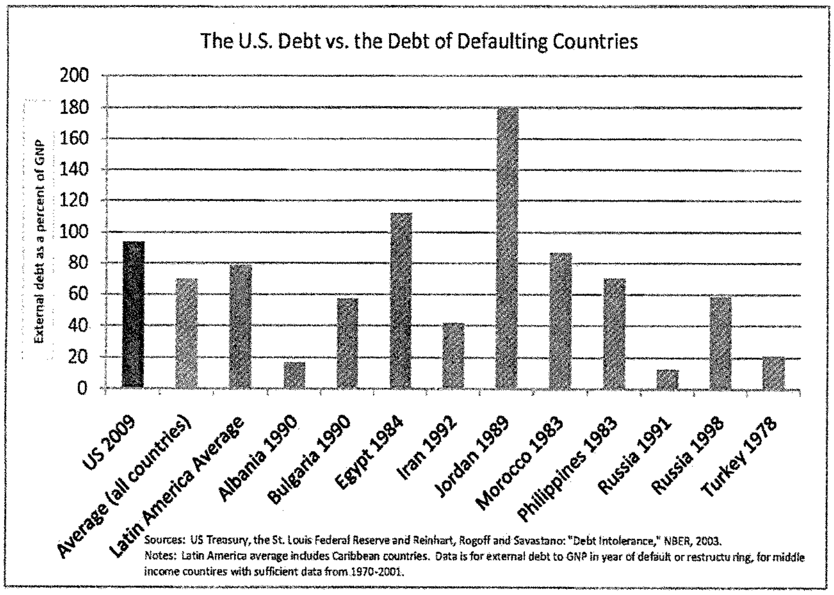
Fiscal Consolidation

As we look to new policies, we must keep in mind the current fiscal situation, and the risks that the situation imposes. Many Americans probably think that it is impossible for the U.S. government to reach the point where its checks start to bounce. The massive expansion of U.S borrowing, both public and private, that has occurred in the past year suggests otherwise.

The nagging problem is that interest payments to our overseas creditors subtract from our ability to consume and invest. Periodically, this debt must be rolled over, with the government and citizens alike borrowing from new lenders to pay off the old. As a nation gets overextended, red flags go up, and lenders take their business elsewhere, and default becomes a real risk. Figure 2 compares the external debt (debt held by foreigners) of the U.S. to the external debt of middle-income countries that experienced default (or restructuring) between 1970 and 2001. U.S. debt is now higher relative to our national income than it was for the typical middle-income country that defaulted on its debt in the 31 years of this sample. This year, our total external debt has reached 94 percent of GNP. There were so many Latin American defaults in our sample (Argentina twice, Brazil, Chile twice, Ecuador twice, etc.) that the chart aggregates all Latin American countries into a single category. The shocking news is that the U.S. is now in worse shape than was the typical Latin American country that defaulted.

And yet it is important to note that even with our unsustainable fiscal situation, default is not necessarily imminent. Countries with deficits this high have historically proceeded down three divergent paths. Some have chosen fiscal consolidation, others have chosen to attempt to inflate away the debt, and others have simply defaulted, if not intentionally, because of the failure to pursue either of the first two strategies.

Figure 2.



In a recent paper with my AEI colleagues Aparna Mathur and Desmond Lachman, we find that the most successful policy responses to high deficits have mimicked that adopted by the U.S. following World War II. That is, successful consolidations have generally reduced spending. Failure to do so exposes the U.S. government to significant default risk that could, if history is a guide, emerge as a factor in financial markets without significant notice. It is my belief that there will be increasing pressure on the U.S. to engage in a fiscal consolidation. It is likely that many firms share that belief, creating an enormous amount of uncertainty regarding future policy. This uncertainty doubtlessly is undermining current activity.

Giavazzi and Pagano (1990) began an enormous literature when they studied the impact of fiscal contractions. They found that in some cases--the first identified were Ireland and Denmark--a country can have a dramatic reversal in economic growth when it achieves a successful fiscal consolidation; that is, when it cuts rather than increases government spending, and raises rather than lowers taxes.[5] Similar results have been found for other countries by Alesina and Perotti (1997), Alesina and Ardagna (1998), and Alesina, Perotti, and Tavares (1998).[6]

Reading through the literature, it is clear that fiscal consolidations can be stimulative. We should also not underestimate the possible current gains from phasing in long run changes that restore fiscal sanity to our budgetary outlook. We could do so either with a specific bill, or by appointing a commission to make the difficult choices for us.

Job Sharing

I encourage Congress to consider a specific economic policy that has been adopted by German policymakers, known as "Kurzabeit" or "short work."

That policy enables firms that face a temporary decrease in demand to avoid shedding employees by cutting hours instead. If hours and wages are reduced by 10 percent or more, the government pays workers 60 percent of their lost salary. This encourages firms to use across-the-board reductions of hours instead of layoffs.

The economic argument in favor of such a policy is powerful. When a recession strikes, firms are faced with a dilemma: sales and profits are down, and many workers are idle. But finding skilled workers is costly and time-consuming, involving large fixed costs. If a firm fires workers, it may incur large hiring and training costs when the recession ends and sales turn back up. Thus, a firm would prefer, all else equal, to hoard labor during a recession.

Firms might well prefer to respond to a 20 percent cut in sales by reducing everyone's work by 20 percent. That way, employees remain part of the firm, and ramping up production is less costly down the road.

A number of factors discourage American firms from making that choice. The biggest is government policy. If a firm lays off workers, the government mails the unemployed a check. If the firm reduces work-hours, there is no government assistance, and employees are left to face the entire decrease in wages on their own.

A U.S. program based on Germany's would be attractive to firms, workers and taxpayers.

It would subsidize firms as they hoard labor, enabling them to keep the best parts of their team even when sales dip. As the economy expands, firms will then be able to expand rapidly too, without sinking tons of time and resources into costly search.

[5] Giavazzi and Pagano (1990)
[6] Alesina and Perotti (1997), Alesina and Ardagna (1998), and Alesina, Perotti and Tavares (1998)

In the U.S., this sort of hour-trimming is most commonly known as work-sharing, and 17 states utilize it in some form to make up part of employees' reduced wages. But few companies are participating because the government's contribution is not large enough to make work-sharing attractive. If the U.S. is to share in the labor-market success of its German friends, it needs a significant expansion of subsidies for work-sharing. Compared with the $787 billion economic stimulus, the costs would be low.

In work in progress, Economist Dean Baker co-director of the Center for Economic and Policy Research and I are working on quantifying the possible benefits of such a program in the U.S. Even at this late stage, the potential benefits seem quite impressive.

For example, the 20,000 job-loss figure for the economy in January was a net number. Every month there is a huge amount of churning with firms adding and subtracting millions of jobs. We don't have data yet for January, but for November the Labor Department reported that a total of 4,176,000 jobs were "created," while 4,340,000 jobs were "destroyed." Roughly half of the lost jobs were due to people voluntarily leaving their jobs. The other half, almost 2 million lost jobs, were cases where people were either laid off or fired.

The November data are typical. The net monthly job gain or loss conceals a huge amount of churning that produces this figure. This is an important policy opportunity, because there is already a massive amount of job creation out there. If we can slow job destruction even a little bit, then we will have set the stage for big increases in net job creation. If the rate of involuntary job loss can be reduced by 10 percent, then it would have the same effect on employment as if the economy generated an additional 200,000 jobs a month. Given the astonishing performance of German labor markets, such a change is not beyond the realm of the possible.

Work-sharing bills have been introduced in both the House and the Senate (H.R. 4135 and S. 2831) based on the programs in the several states. It is my opinion that these bills should be made stronger, with increased incentives for employers and employees to utilize the program. Support for this program comes from both sides of the aisle and we should move forward with it immediately.

For me, the strongest argument for work sharing is that blacks bear a disproportionate share of layoffs, so slowing layoffs through expanded work sharing will benefit them the most. Given their high unemployment, this seems especially important at this time.

Create Jobs Directly

The literature is clear. Someone separated from the labor force runs the real risk of permanently separating from the normal economy. It is crucial that we reconnect as many people as possible before it is too late. The good news is that a lifeline now could easily start a worker back on a positive career track, making the lifeline a much more cost effective policy than years of welfare support.

Direct jobs programs could be a much more powerful way to get this process going than last year's stimulus. If the economic stimulus moneys were spent directly hiring individuals, they would have created 21 million jobs.

The Emergency Contingency Fund (ECF) provides funding for states to temporarily cover a portion of workers' wages in both public and private sector jobs. I believe that Republicans and Democrats should be able to come together and accept a major expansion of this program if it focuses as much as possible on private sector jobs.

Here is how it would work. If a firm sends out a lifeline to a currently unemployed worker, government funds help cover some of the costs. Through the program, federal funds reimburse states 80 cents for each additional dollar they spend getting people back to work. Over time, as the worker's reattachment to the labor force becomes stronger, the federal monies are gradually taken away.

As many as 29 states have or are developing employment programs funded through the ECF, and some estimates show as many as 120,000 subsidized jobs could be created at a cost of only $10,000 to $20,00 per job.

House Democrats have correctly judged this program positively. H.R. 4564, would make funds available for an additional year and presumably provide the publicity needed to increase the reliance of states on direct hiring incentives. Republicans should support such a program too, especially if the program is redesigned to send most of the money to workers employed in the private sector.

After all, a worker participating in the program gets a job. A firm gets an extended period of production from the worker at a heavily subsidized cost. This low cost input should increase the firm's profits, and increase the chances that they will lift their capital investments. It is like an indirect tax cut from the perspective of the firm.

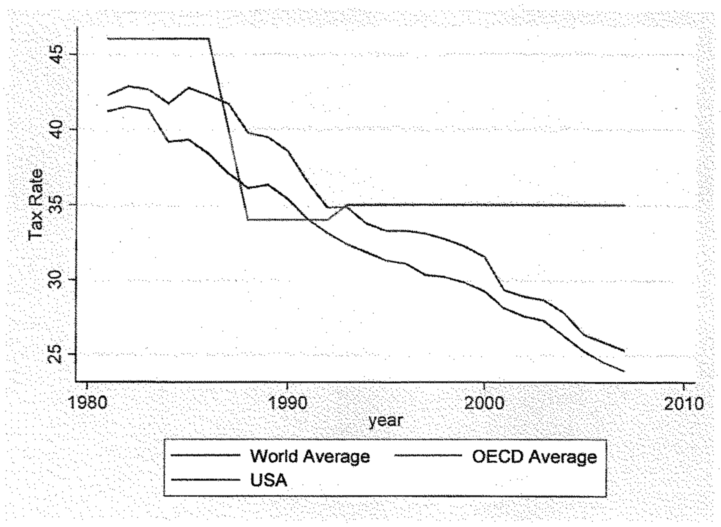
Reduce Corporate Tax Rates

If we want firms to create jobs again in the U.S on net, then we should not underestimate the importance of creating an attractive climate in which firms can operate. The sad fact is, the U.S. is about the least hospitable climate for corporate investment on earth, with the second highest corporate tax rate among developed nations. We should not be surprised that such a statistic accompanies disappointing wage and job growth. The U.S. is increasingly becoming a radical outlier in this dimension. Congress must act to address this before we wake up one day to find that every business that could has decided to locate itself offshore.

The good news is that there are a number of recent studies that have suggested that the U.S. rate is so out of line with the rest of the world that we are on the wrong side of the corporate tax Laffer curve. A phased in reduction of the corporate tax rate, perhaps to something like the OECD average rate of around 25 percent, would likely cost very little revenue, and likely would induce an investment and hiring boom of the first order immediately.

The alternative, continuing to tax firms heavily, but then contriving special provisions that return monies to firms if they create a job, is foolishly complex, and likely counterproductive. Occam's razor applies in this case.[7] If we want firms to create jobs, we should give them a reason to want to expand their U.S. operations.

Figure 3: Top Marginal Corporate Tax Rate – Central Government: Historical Trend: 1981-2007



[7] Clausing (2007)

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STIMULUS ARITHMETIC

(By J. Bradford DeLong, Professor of Economics, U.C. Berkeley Research Associate, NBER; February 25, 2010)

In *The Wall Street Journal* on February 23, Robert Barro made an intelligent argument against the American fiscal stimulus—the ARRA. It is a great relief after wading through the works of those who claim, one way or another, that the basic principles of economics set out by Say and Bastiat make it impossible for government decisions to spend. (They would, if they thought about it for even a minute, realize that their arguments also entail the conclusion that nobody else's decisions to spend can alter the flow of economic activity either, and hence that recessions simply do not happen. Which raises the question of why the unemployment rate has risen from 5% to 10%, but I digress.) Barro is, thankfully, not one of that crew. So my first desire is to wind up Barro and turn him loose to deal with those who stopped reading the economics literature before 1890, and not only never understood Milton Friedman [1] but never understood Friedman's predecessors like Irving Fisher and Knut Wicksell.

However, I think Barro has gotten some key things wrong. First, I believe that Barro makes an error of logic in assessing how his own view of the situation applies to the question of what macroeconomic policy should be.

Barro writes, in "The Stimulus Evidence One Year On," [2] that he:

> estimate[s] a spending multiplier of around 0.4 within the same year and about 0.6 over two years. . . . [T]he [tax] multiplier is around minus 1.1. . . . [Thus] GDP would be higher [because of the ARRA stimulus] than otherwise by $120 billion in 2009 and $180 billion in 2010 . . .

and by $60 billion in 2011.

That is roughly 1.3 million more people employed in America in 2009, 1.9 million more people employed in 2010, and 0.7 million people employed in 2011. Suppose that what the government spent money on is worth to us on average ⅔ of what private-sector spending is worth. Then according to Barro we spent $600 billion on the ARRA and got $400 + $120 + $180 + $60 billion = $760 billion worth of goods and services in return, for a net social profit of $160 billion. And it is not as though that $160 billion would have been offset by a loss of leisure time on the part of those who are not but would have been employed. The cyclically-unemployed do not place a high value on their lost leisure.

Only if you think there are additional large costs lurking down the road—that the ARRA has destabilized price expectations and set in motion a damaging and destructive spiral of deflation, or that the ARRA has used up America's debt capacity and so interest rates have spiked and amortizing the debt will be very costly—does the social profit turn negative. And neither of those things have happened. As the London Economist's "Demcracy in America" correspondent wrote on Wednesday:

> You can argue that private actors will spend the money in ways that generate more employment than government. . . . It's pretty hard to make this argument at a time when banks are not lending . . . because they see few promising opportunities. . . . You can argue that government programmes generally take years to get underway, and by the time the spending gets going, the economy will already be in recovery . . . this argument looks much weaker now than it did a year ago: the recession has been far deeper than expected, we seem to be having a jobless recovery, and unemployment looks set to stay above the 5% "full employment" level for many years . . .

The long-term nominal and real Treasury rates continue to be absurdly low, so much so that I rub my eyes whenever I see them. Just today the Treasury auctioned $32 billion more of seven-year notes at a yield of 3.08% per year. And the market forecast of inflation—the spread between TIPS and normal Treasuries—remains extremely well behaved. As Martin Feldstein wrote yesterday, the market continues to expect consumer price inflation to average only 2.5% per year over the next several decades.[3]

Thus I really do not understand the logic behind Barro's last paragraph in his op-ed, in which he claims:

[1] Who argued that the stimulative effects of expansionary fiscal policy were, as long as interest rates were at more-or-less normal levels, "certain to be temporary and likely to be minor"—but who agreed that the stimulative effects on production and employment were there.

[2] *http://online.wsj.com/article/SB10001424052748704751304575079260144504040.html?*

[3] *http://www.project-syndicate.org/commentary/feldstein20/English.*

> The fiscal stimulus package of 2009 was a mistake. It follows that an additional stimulus package in 2010 would be another mistake . . .

Second, I think Barro makes an error of analysis in reading the current situation. I think Stanford's Bob Hall[4] has a better read on what is going on with respect to the current sizes of multipliers:

> With allowance for other factors holding back GDP growth during those [years of total] wars, the multiplier linking government purchases to GDP may be in the range of 0.7 to 1.0 . . . but higher values are not ruled out. . . . Multipliers are higher—perhaps around 1.7—when the nominal interest rate is at its lower bound of zero, as it was during 2009 . . .

The problem, I think, is that Barro tries to use the total war years of the twentieth century to

> realistically evaluate the stimulus . . . the main results come from fluctuations in defense outlays associated with major wars such as World War I, World War II and the Korean War . . .

Because

> the defense-spending multiplier can be precisely estimated . . .

This suffers from the standard economist's problem of looking for one's lost keys under the lamppost because the light is better there. Yes, the total war defense-spending multiplier can be relatively precisely estimated. But we are not interested in what the multiplier is when the unemployment rate is 3%, we are interested in what the multiplier is when the unemployment rate is 10%. And we are not interested in what the multiplier is when the government is taking all kinds of other steps to diminish consumption and boost private savings via rationing and patriotism-based bond drives, we are interested in what the multiplier is under more normal conditions.

Third, Barro characterizes the stimulus bill as a two-year $600 billion increase in government purchases. But about half of the stimulus money spent to date is on the tax and transfer side, and about a quarter is direct aid to states which enables them not to raise taxes during this recession. It seems to me that Barro should be weighted-averaging his spending multiplier of 0.6 and his tax multiplier of 1.1 to get an ARRA multiplier of 0.9—in which case our social profit is not $160 billion but rather $340 billion, and we should certainly do this again, and again, and again. (Until, that is, there are signs that additional stimulus may start to threaten price-level or debt-management stability, or until unemployment falls far enough to make Barro's multipliers overestimates.)

Fourth, Barro complains that because Christina Romer has "not [carried out] serious scientific research . . . on spending multipliers . . ." he "cannot understand her rationale for assuming values well above one . . ." To say that policymakers should rely only on their own personal research to formulate policy seems to me simply bizarre.

Fifth, Barro assumes that spending in 2009–2010 is then offset by levying equal taxes in 2011–2012, claiming that "the timing of future taxes does not matter." But it does. It matters very much. At the moment the U.S. Treasury can borrow at a real interest rate of zero for five years—and shove all of five-year inflation risk onto the lender at that. Time preference means that the $600 billion addition to the debt today that Barro sees as the cost of stimulus is—because of the easy terms on which the Treasury can finance things right now—not nearly as burdensome as a demand to pay $600 billion now would be. We get the goods now. But the costs are delayed until later, when we will in all likelihood be richer and feel the costs less severely.

Sixth, when future taxes will be levied to amortize the added debt induced by the stimulus, they will be levied at a time at which nominal interest rates will not be stuck at their current floor of zero. The Federal Reserve will then be able to ease monetary policy—reduce interest rates—to offset the fiscal drag. There will be no lost production and employment through Keynesian channels. So I do not see why Barro believes that, although the stimulus boosts employment now, amortizing the stimulus must inevitably reduce employment at some point in the future.

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[4] *http://muse.jhu.edu/journals/brookings_papers_on_economic_activity/summary/v2009/2009.2.hall.html.*

PREPARED STATEMENT OF REPRESENTATIVE KEVIN BRADY, SENIOR HOUSE REPUBLICAN

I am pleased to join in welcoming Dr. Berner, Mr. Joerres, and Dr. Hassett before the Committee this morning.

This is not a good time for American workers and their families. While there are some positive signs in the labor market—the rate of job losses has slowed and temporary services firms have begun to hire more workers in recent months—the unemployment rate is elevated and job openings remain scarce.

President Obama signed the *American Recovery and Reinvestment Act* on February 17, 2009, promising that it would jump start economic growth, create jobs, and reduce the unemployment rate. At the time, two of the Administration's top economists predicted that Obama's stimulus plan would keep the unemployment rate below 8.0 percent.

A year later, the Administration's rosy predictions remain unfulfilled. Since the Obama stimulus plan passed, the United States has lost more than 3 million payroll jobs. The unemployment rate is 9.7 percent.

At first, Administration officials tried to claim Obama's stimulus plan was creating or saving hundreds of thousands of jobs based on reports filed by stimulus fund recipients. However, the news media uncovered so many errors in the tabulation of these "jobs created or saved" that Administration claims became the butt of jokes by late night television comedians.

On Tuesday, the Congressional Budget Office entered the fray with its estimates of how much the Obama stimulus plan contributed to real GDP growth and employment during the fourth quarter of 2009. The CBO used fiscal multipliers to make these estimates. Unfortunately, the CBO's methodology prejudges the outcome and causes it to overstate the likely economic benefits from Obama's stimulus plan.

First, the CBO derived its fiscal multipliers from three macroeconomic forecasting models that use historical relationships among demand-side factors to predict the near-term performance of the U.S economy. These models ignore many supply-side factors. For example, business investment is treated largely as a function of aggregate demand and the real interest rate. Thus, a business tax cut does not affect directly investment by reducing the cost of investing and increasing the after-tax return on capital. Instead, a business tax cut affects investment indirectly through higher aggregate demand as business owners consume a portion of the payouts received from their businesses.

The CBO even acknowledges that the models' demand-side orientation biases its calculation of fiscal multipliers. Quoting from the CBO report, "Because they emphasize the influence of aggregate demand on output in the short run, the macroeconomic forecasting models tend to predict greater economic effects from demand-enhancing policies such as ARRA than other types of models."

Second, two of three macroeconomic forecasting models used by the CBO are "old Keynesian" models that do not allow for rational expectations. This creates a strong upward bias in the CBO's calculation of fiscal multipliers. Consequently, the CBO ignores what I see occurring in my district in Texas: people are saving more and businesses are investing less in anticipation of paying higher taxes in the near future to service the enormous debts from stimulus spending, "cap and trade," and new health care entitlements. Last year, John Cogan, Tobias Cwik, John Taylor, and Volker Wieland found that about ⅚ths of the real GDP growth benefits and almost all of the net job creation benefits of stimulus spending disappear when a "new Keynesian" model that allows for rational expectations is used.

For these reasons, the CBO's fiscal multipliers are biased. The CBO simultaneously overstates the likely economic benefits from stimulus spending and temporary tax rebates and understates the likely economic benefits of business tax cuts designed to reduce the after-tax cost of making job-creating business investments. Therefore, we should take the CBO's claims that Obama's stimulus plan increased real GDP by between 1.5 percent and 3.5 percent and increased the number of people employed by 1.0 million to 2.1 million with a pound of salt.

I am interested in hearing what the private sector experts here today have to say about job creation. I look forward to hearing their testimony.