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THE ECONOMIC OUTLOOK

HEARING

BEFORE THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

ONE HUNDRED ELEVENTH CONGRESS

SECOND SESSION

JULY 14, 2010

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THE ECONOMIC OUTLOOK

WEDNESDAY, JULY 14, 2010

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

The committee met, pursuant to call, at 2:03 p.m. in Room 106 of the Dirksen Senate Office Building, The Honorable Carolyn B. Maloney (Chair) presiding.

Representatives present: Maloney, Hinchey, Cummings, Snyder, Brady, Paul, and Burgess.

Senators present: Schumer, Klobuchar, Brownback.

Staff present: Andrea Camp, Gail Cohen, Colleen Healy, Jessica Knowles, Jane McCullough, Jeff Schlagenhauf, Robert O'Quinn.

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

Chair Maloney. We will call the meeting to order. We just had votes, so we are a few seconds late, but I want to thank everyone for coming, and particularly to welcome Dr. Christina Romer, the Chair of the Council of Economic Advisers, and thank her for her testimony today.

The Council of Economic Advisers and the Joint Economic Committee were both created by the Employment Act of 1946 and share an important history of providing the White House and Congress with an analysis of economic conditions and economic policy. I understand that you joined the Vice President this morning with an announcement on your report, and we are so thrilled you will be testifying today.

Our hearing is on the economic outlook, as well as the impact of the Recovery Act, on the economy. In the first quarter of 2009 when the current Administration took office, the economy was facing the worst economic crisis since the Great Depression: GDP fell by 6.4 percent, the fastest rate in almost three decades; monthly employment losses were higher than any seen since after World War II—in the first quarter of 2009, an average of 753,000 jobs were lost each month.

As you pointed out last fall, Dr. Romer, the shocks that we felt during this recession were greater and more severe than the Great Depression.

As a result of the Recovery Act and other targeted spending programs passed in the 111th Congress, the economy has recovered over the last year.

Private-sector jobs were created in every month of 2010, for six straight months. And GDP grew for three straight quarters, with forecasts of growth continuing for a fourth quarter.

As the Chair of the JEC, I have learned how valuable charts can be to present the story, and here we have it in red, white, and blue—the quarterly change in real GDP. The red is the former Administration, and you see the progress in the blue here is this current Administration.

And the quarterly change in private payrolls, as you see, in the last month are up. We are trending in the right direction.

I am especially pleased that you are appearing before us today before the JEC transmits its mandated response to the Economic Report of the President (ERP). Your testimony here today will inform us as we put the finishing touches on the report that we are literally working on around the clock to finish.

Since January, the JEC has been laser-focused on job creation, holding numerous hearings and issuing a number of reports on this topic. While the economy has expanded, consistent with the ERP's predicted growth for the first half of 2010, I worry that this recovery is still very, very fragile.

It is clear that some of the differences between this Recession and previous recessions might endanger this very fragile recovery.

First, although the unemployment rate has been higher in previous recessions, the long-term unemployment rate—that is, workers looking for work for more than six months—is at historically high levels.

Second, the median duration of unemployment is almost six months, which means that the typical worker searches for six months before finding a job or possibly giving up on his or her job search.

Finally, state and local governments are experiencing significant budget gaps as property and income tax revenues have fallen while aid to unemployed families has spiked and demand for public education has risen.

In order to spur the hiring process, it is clear that additional measures must be taken to create enough jobs for the nearly 15 million unemployed.

I am dismayed by my colleagues who are listening to the political siren's call of short-term cuts to the deficit instead of heeding the economic imperative of robust job creation. Make no mistake: the national debt is a serious challenge for our economy. We need to carefully craft a plan that is smart, effective, and fair.

A long-term strategy on debt reduction is essential for a strong economy for generations to come. And as Chairman of the Board of the Federal Reserve System, Ben Bernanke told the JEC earlier this year when he stressed the need for sustainable fiscal balance, and I quote: ". . .maintaining the confidence of the public and financial markets requires that policymakers move decisively to set the federal budget . . . toward a sustainable fiscal balance." End quote.

However, efforts to translate this need into short-term spending cuts—especially cuts in unemployment benefits—have moved the deficit battle into the homes of the unemployed. This is bad economics and bad public policy.

Dr. Romer, we want to thank you for once again coming before us. We look forward to your important report, and to your testimony today.

[The prepared statement of Representative Maloney appears in the Submissions for the Record on page 56.]

[Chart titled "Quarterly Change in Real GDP" appears in the Submissions for the Record on page 58.]

[Chart titled "Quarterly Change in Private Payrolls" appears in the Submissions for the Record on page 58.]

Chair Maloney. Thank you. And I now recognize for five minutes Mr. Brady. He will be followed by Mr. Schumer for five minutes, and other Members for three minutes.

Thank you.

OPENING STATEMENT OF THE HONORABLE KEVIN BRADY, A U.S. REPRESENTATIVE FROM TEXAS

Representative Brady. Well, Madam Chairman, I am pleased to join in welcoming the Chair of the President's Council of Economic Advisers, Professor Christina Romer, before the Committee this afternoon.

While I often disagree with her advice to the President, I am always appreciative of how accessible you are to this Committee.

On November 2nd, the American people will judge the economic policies of President Obama and Congressional Democrats, and may well direct a mid-course correction, much as professors do with their students at mid-term.

President Obama took office under unfavorable economic circumstances, but so did Franklin Roosevelt and Ronald Reagan. The question is: Has the White House met its economic promises? And are we positioned for long-term growth?

Economists, job creators in the private sector, and families should question: Have President Obama and Congressional Democrats spurred private investment in job creation with their stimulus spending? Or have their policies added costs and uncertainty that have weakened the recovery?

Have President Obama and Congressional Democrats met our demographic challenges and improved our long-term economic prospects? Or have they diminished them through an ideologically driven expansion of the size and scope of the Federal Government, higher taxes, burdensome new regulations, and a reckless increase in federal debt?

To help answer these questions, let us examine the record as measured by the standards that the White House has set for itself and for the country.

In January 2009, Madam Chairman, you published an economic analysis of President Obama's stimulus plan and forecasts that if Congress were to pass this plan, one, the unemployment rate would remain below 8 percent; two, nonfarm payroll employment would increase to 137.6 million by the fourth quarter of this year; and finally, 90 percent of the jobs created would be in the private sector.

Obviously Congressional Democrats passed the stimulus bill and the President signed it into law. Today we see the fourth quarterly report of the stimulus bill, and I will in all honesty nominate it as

a Pulitzer in fiction, which would be humorous but for 15 million American workers who face the harsh reality of no jobs.

What's missing from this report are the benchmarks the White House set for itself, which you can argue, Democrat and Republican benchmarks, but let's look at what the White House said the stimulus would do.

Instead of keeping the unemployment rate below 8 percent, it's at 9.5 percent today and going higher. Nonfarm payroll employment right now is 130.5 million, 7 million jobs short of where the White House predicts it will be at the end of this year. And then since February 2009, instead of 90 percent of the jobs in the private sector being created, just the opposite. The Federal Government payroll has increased by over 400,000. Private-sector, where the jobs in the recovery should actually occur, has lost 3.3 million payroll jobs.

Clearly, the President's stimulus plan failed to work, as was predicted. Instead, this recovery has been unusually weak for one after a severe recession.

Turning to the long-term consequences of the Democrats' economic policy, one sees higher taxes, heavy regulation, gaping Federal budget deficits, and soaring Federal debt.

President Obama and our Congressional Democrats are increasing taxes through legislation. Their failure to legislate in BRAC creep in the non-index portion of the Tax Code, including the Alternative Minimum Tax and Excise Tax on so-called "Cadillac health care plans."

Individual income tax rates will increase at the end of this year, and without a solution up to 27 million families will become ensnared in the Alternative Minimum Tax for the first time.

The top tax rate on capital gains will increase from 15 percent this year to 23.8 percent in 2013, while the top tax rate on dividends will also skyrocket from 15 percent this year to 43.4 percent in 2013.

Congress allowed the research and development tax credit to expire. Moreover, Congress levied new excise taxes on private health insurance plans, pharmaceutical and medical device manufacturers, and tanning salons.

And if these tax increases are not enough to choke the private sector, President Obama and the Congressional Democrats are still scheming to pass new energy taxes through cap and trade legislation and green jobs' legislation.

According to press reports, two Administration panels will recommend levying a value-added tax once the mid-term elections are over.

However, these massive tax increases are still not enough to fund Obama's extravagant Federal spending. The Congressional Budget Office predicts Federal outlays over the next decade will be 24.1 percent of our economy, 4.6 percentage points above the postwar average in this country.

Our long-term fiscal outlook is dire. If current policies remain in place, the Congressional Budget Office projects that publicly held Federal debt will soar to an incredible 947 percent of our GDP by the end of fiscal year 2084.

These are all drags on our economy. Madam Chair, I look forward to discussing these issues with you. Yield back.

[The prepared statement of Representative Brady appears in the Submissions for the Record on page 59.]

[Chart titled "Forecast vs. Reality, Unemployment Rate (%): Actual vs. Stimulus Projections (2009–2014)" appears in the Submissions for the Record on page 61.]

[Chart titled "Job Gains & Losses by Congressional Control" appears in the Submissions for the Record on page 62.]

[Chart titled "Forecast vs. Reality, Change in Non-Farm Payroll Jobs, February 2009 to June 2010" appears in the Submissions for the Record on page 63.]

Chair Maloney. I want to thank my good friend and colleague for his testimony, but there seems to be a lot of revisionist statements in it.

As this chart shows, clearly the economy has improved under President Obama not only in GDP but also in private payrolls. And if you recall, the last month that our former president was in office, this country lost 790,000 jobs.

The chart goes upwards, and we are gaining jobs. We gained 83,000 private-sector jobs in the last jobs report; 33,000 private-sector in the time before; and roughly 550,000 new jobs in the past three jobs reports.

So we are trending in the right direction——

Representative Brady. Well Madam Chairman, since we're not following regular order, let's look at the jobs standards since Democrats took over control of Congress. Up until 2007, fully Republican-controlled Congress added almost 6.7 million jobs. Since Speaker Pelosi was handed the gavel, we've almost lost every one of those jobs back. And the stimulus isn't creating more—3.3 million jobs lost in the private sector since the stimulus began.

Chair Maloney [continuing]. That's not the jobs report that the economists have been talking about. We lost jobs under the Bush Administration. We are gaining them now——

Representative Brady. Well we are——

Chair Maloney [continuing]. And as these charts show, we're trending in the right direction.

Representative Brady [continuing]. Very slowly.

Chair Maloney. Mr. Cummings is recognized for five minutes.

OPENING STATEMENT OF THE HONORABLE ELIJAH E. CUMMINGS, A U.S. REPRESENTATIVE FROM MARYLAND

Representative Cummings. Thank you very much, Madam Chair.

You know, I am sitting here and I am listening to this, and we've got 53,500 people before the end of the day, Mr. Brady, who will lose their unemployment benefits, who will not be able to take care of their children, who will not be able to put food on the table. And, you know, we can go back and forth, but yesterday I was listening to Mr. Gregg, Senator Gregg—I think it was on MSNBC—and he said something that was very interesting. I almost had an accident. [Laughter.]

He said, Mr. Brady, he was asked a question. You know he is no liberal. He is no flaming liberal, and he is a Republican. And he

was asked a question about early on when the Bush Administration came asking the Congress for TARP money, he was asked the question: Was it as bad as it seemed? He said it was worse.

But he said something else. He said, if it were not for—he was talking about TARP—but he said, if it were not for those funds, the unemployment rate would now be around 15 or 16 percent. That's what Gregg said yesterday.

Now, you know, we are digging ourselves out of a deep ditch. And I've said it over, and over, and over again. We all know that 60 percent of the GDP is consumer consumption. We know that. But yet and still, it seems as if there is an effort to, whenever progress is being made—and Chairman Romer, watch out, because it's coming—if you've got anything positive to say, I promise you you will be told that the sky is still falling, that this President had nothing to do with the progress. There is no progress.

I don't care what happens, you will hear that. And at some point we have to join in and root for the home team. I've said that over and over and over again. If we want to constantly say the sky is falling, the sky is falling, the sky is falling, the sky is falling, guess what? The sky will fall.

There has been progress made, whether we like it or not. Maybe it's not moving as fast as we would like. And, yes, predictions were made. But the fact is that those predictions—I mean, keep in mind, we are at 9.5. We could have been at 16, as far as unemployment is concerned.

And so I am looking forward to the report of Chairwoman Romer, but I want us to keep some things in mind. When this President came in, we were losing 750,000-plus jobs a month. That is no longer happening.

Now, you know, I'm not going to stand here and say it was Bush's fault. I'm not going to say that the fact is, it was happening. We were losing. You can blame anybody you want. The fact is, we were losing 750,000-plus jobs every month. In January, back in January when he came in. And now we are not losing that. We are gaining jobs.

And so it is so easy to stand on the sidelines and talk about this ain't happening, and that's not happening, and maybe it's not happening as fast as we want it to, but when you are in a deep ditch, sometimes you've got to climb up slowly because it takes a lot to get out of that ditch to get to level ground.

And so I would beg my colleagues to root for the home team. America is a great country. We've dug ourselves out of ditches before, and we will dig out of this one again. As I said to my constituents over and over and over again, we will get past this economic problem.

The question is not whether we will get past it. The question is: Who will be living in their house? Who will have their job? Will they have their health insurance? Will they have gone through a period of unemployment like millions and millions of Americans have gone through, over six months of unemployment, a substantial number of unemployed have been unemployed for over six months, but will they get through that process still standing?

And I would submit that we need to join in with this President. Join in with Chairwoman Romer who is doing everything she can

to make it possible so that when the storm is over, when the storm is over, people will be still standing, still moving forward, and will still be a part of the All American Dream. And with that, I yield back.

Chair Maloney. Thank you. Senator Brownback has indicated that he will be yielding his five minutes to Congressman Burgess.

OPENING STATEMENT OF THE HONORABLE MICHAEL C. BURGESS, M.D., A U.S. REPRESENTATIVE FROM TEXAS

Representative Burgess. Thank you, Chairwoman Maloney, and Chairwoman Romer welcome to our Committee once again. We appreciate as always your ability to share your time with us.

So we've got another month, another set of facts and figures telling the American People what they already know; that the stimulus is not working. Recent polling out suggests that fully 60 percent of the American People do not believe that the stimulus has worked.

So it begs the question that is asked over and over again, and a question which I will ask you today: Chairwoman Romer, where are the jobs?

Companies are not hiring at rates anywhere near where this Administration claimed they would be. And indeed anywhere near what is required simply to maintain a level state of employment, let alone gain jobs in this economy.

Business and individuals who have the same outlook when it comes to the President, what's it going to do—what is he going to do next that may make it harder for us to move forward?

We hear a lot of talk about rooting for the home team. I wish the White House sometimes would root for the home team. An ill-advised and scientifically suspect drilling moratorium that is already seeing jobs shipped overseas, has rigs pull up anchor and sail to foreign ports, looming EPA regulations on emissions that will have consumers seeing their pocket—their energy bills skyrocket.

Financial regulatory reforms that will take years to implement causing uncertainty in an already fragile market and leading banks to be able to loan less and less money, and really which do nothing, which do nothing to prevent a future financial meltdown, because after all the two biggest problems remain on the Federal ledger in the form of Fannie Mae and Freddie Mac.

People not knowing what the future holds from this Administration makes it very, very difficult for them to invest their capital.

I asked Secretary Salazar in a letter whether the Administration had done any economic analysis of what the drilling moratorium would do to job outlooks in the Gulf Region. To date, no response. I can only assume that this has not been done, or that the Administration would know, as the *New Orleans Times-Picayune* reported, that each job in energy exploration supports an additional four jobs providing supplies and services.

What a deal. You can kill five jobs for the price of one. Now that is a statistic that the White House does not want us to hear.

Sound economies need stability, and this President has provided anything but. He can claim to be pro-business all he wants, but continue to talk of card check and other pro-unionizing regulations? Businesses know they can't afford to take risks right now.

Congressional Democrats even inserted a provision in the War Supplemental essentially forcing state and local fire and police departments to unionize regardless of whether the workers in those departments have expressed any interest in that activity.

Actions speak louder than words. And the actions of this Administration indicate one thing; this President and the people that he has put in place throughout the government have yet to see a rule or regulation that they aren't in favor of passing, and each rule or regulation adds to the cost, adds to the price of doing business, and each rule or regulation makes it less likely that especially small- and medium-sized businesses are going to add a new job.

The Business Roundtable recently sent a report to the White House, a report of exactly what this President's policies are doing to businesses around the country. In a letter to Peter Orszag, Ivan Seidenberg, CEO of Verizon; James Owens of Caterpillar, said business leaders are increasingly concerned that political expediencies of the short term harm our ability to partner with government and create policies that foster growth.

The CEO of JPMorgan told the White House: Punishing whole industries, whether they were reckless or not, just isn't the way to do things. The CEO of Nucor Corporation told *The Wall Street Journal*, there's this common concern that we're not doing things right yet, and it is showing up in the jobs numbers.

One reason this Administration is so likely disconnected with the reality of what life is like in the private sector is so few of the President's top advisors have ever worked in the real world. It is difficult to find someone who has run a lemonade stand or held a paper route.

Professors and academics, people who have spent the bulk of their careers in government, that is who we have dictating to the private sector how CEOs should be running their business. And that is in large part why business overwhelmingly resents and rejects the mandates being thrown at them by the Administration and this Congress.

Maybe if the President started hiring more CEOs in his cabinet, like past presidents of both parties, as they have done for decades, he would start getting the kind of advice he needs to allow the private sector to recover and grow.

It is further dismaying that the Council of Economic Advisers' latest Economic Impact Report admits that any analysis of job creation in each state in this report is, and I quote, "speculative and uncertain," closed quote.

After spending hundreds of billions of dollars to stimulate the economy, a year and a half later we can still only speculate on job growth? There either have or have not been jobs created by the stimulus.

I don't need to speculate. All I have to do is look at the unemployment numbers that have been so stagnant under this President. The stimulus was a failure. I don't have to speculate about that.

President Obama's philosophy in steering this economy seems to be taken directly out of Alice In Wonderland. When I use a word, it means just what I choose it to mean, neither more nor less. And

furthermore, if you don't care where you end up, it doesn't really matter which road you take.

I'll yield back the balance of my time.

[The prepared statement of Representative Burgess appears in the Submissions for the Record on page 64.]

Chair Maloney. I thank the gentleman. Congressman Snyder for three minutes.

OPENING STATEMENT OF THE HONORABLE VIC SNYDER, A U.S. REPRESENTATIVE FROM ARKANSAS

Representative Snyder. Thank you, Madam Chair.

Mr. Burgess, I had both a paper route and a lemonade stand. I never did very well with the lemonade stand because I kept drinking the product, but I hope that gives me some credibility with you. [Laughter.]

I don't have a copy, a written statement, but when I hear somebody say each regulation and rule inhibits job growth, that is just not the nature of a market economy. We have to—I mean the World Cup has referees. Football has referees. Baseball has umpires. We have to have rules and regulations that are fair to business, that are fair to consumers, that are fair to credit markets, that are fair to government, that are fair to the American People. Without them, we have chaos. That has been the history of capitalism.

And so to just—and I don't have it in front of me, but when I hear you say each rule and regulation decreases jobs, in fact it gives people confidence that their investments will be protected, that there will be transparency in their investment—I mean, that is the whole point of the Wall Street reform, the Financial Services Reform bill that is going to be passed this week.

So I think there certainly can be too much regulation. There can certainly be too little regulation. And it's like the Three Bears and the porridge, you've got to find the right blend.

Dr. Romer, it is great to have you here. I hope that our discussion so far today does not sound more like we are concerned about our jobs rather than the jobs of the American People.

I think I will defer from this point on and wait for your opening statement.

Chair Maloney. Thank you, and Congressman Paul for three minutes.

OPENING STATEMENT OF THE HONORABLE RON PAUL, A U.S. REPRESENTATIVE FROM TEXAS

Representative Paul. I thank you, Madam Chairman, and welcome to Dr. Romer.

I am not very good at the partisan blame game, but I am very interested in the business cycle and why we have unemployment. And actually I am interested in the measurement of our problems.

I think sometimes we deceive ourselves, because following some free market web sites that measure unemployment somewhat differently than our government, they come up with a figure of 22 percent unemployment. And also, even the way the Bureau of Labor Statistics measures it, if they looked at all the people who

are not looking for work at the moment, that is 16 percent. So things are not very good.

Also, the GDP is what we measure. If the GDP is going up, everybody is supposed to feel good. But if we spend a billion dollars on a missile and we blow it up, that's an increase in the GDP. And it didn't give us a house. It didn't give us health care or education. So there is a big difference.

And also the inflation rate is very important. If you go back and use the old CPI measurement of inflation, we have 6 percent, not 2 percent. So there is a lot of deception. And the people sense this. I think they would rather hear accurate information than to try to be bamboozled into believing things are just hunky dorey when they know there is a lot of inflation out there.

The other thing that I have concern about, in measuring the GDP if you looked at the GDP in a private way, if somebody had a $200,000 job and he lost the job, and the family had $200,000 or $300,000 of debt, for them to be told that what they need is a million dollar loan, and spend it, buy a house and buy a car and live high, and their personal GDP goes up, but they never measure the debt.

But when we go to the government, we say the government is in debt; they're spending too much; what we need to do is spend. We need to borrow. And the GDP goes up. But if you measure the GDP that goes up because of borrowing, inflating, and spending, and look at that with a better perspective, I would say that maybe the real GDP isn't going up, and maybe that is why we are not having real growth.

There is a big difference between people working hard and paying their bills and actually saving some money. I think the biggest fallacy that we have, because we don't have a correction, is we don't understand how we got here.

We had too much debt and too much mal-investment. And we have not dealt with that. And when you get too much of it, you have to liquidate it. When you get in over your head and you can't pay the bills, you either have to declare bankruptcy or work hard or take a new job.

But we can see this as an individual or a company, but evidently our economic theory now is that governments are exempt from those kinds of economic rules.

I yield back the balance of my time.

Chair Maloney. I thank the gentleman for his statement, and now I would like to introduce Dr. Christina Romer. She is the Chair of the Council of Economic Advisers. Prior to joining the Obama Administration, she was the Class of 1957 Garff B. Wilson Professor of Economics at the University of California, Berkeley. Before teaching at Berkeley, she taught economics and public affairs at Princeton University. Until her nomination, she was co-director of the program in Monetary Economics at the National Bureau of Economic Research, and served as the Vice President of the American Economic Association, where she was also a member of the Executive Committee. Dr. Romer is known for her research on the causes and recovery of the Great Depression, and on the role that fiscal/monetary policy played in the country's economic recov-

ery. That was all valuable experience for what we are confronting now.

Her most recent work, co-authored with her husband, David Romer, also an economics professor, shows the impact of tax policy on government and economic growth.

She is the recipient of the John Simon Guggenheim Memorial Foundation Fellowship, an Alfred P. Sloan Research Fellowship, the National Science Foundation Presidential Young Investigator Award, and the Distinguished Teaching Award at Berkeley.

She received her Ph.D. from the Massachusetts Institute of Technology. Thank you so much for coming, but we have been joined by the Vice Chair, Senator Schumer. He is always on a tight schedule, so I would like to call on the Senator very quickly for his statement, and then we will go to Dr. Romer.

OPENING STATEMENT OF THE HONORABLE CHARLES E. SCHUMER, VICE CHAIRMAN, A U.S. SENATOR FROM NEW YORK

Vice Chairman Schumer. Well thank you very much, Madam Chairperson. I very much appreciate it. I am on a tight schedule. I was supposed to come before you started, so I apologize. I will make my brief statement here and first thank you for the great job you are doing both here and in New York, Madam Chairperson.

And I thank you, Chair Romer. The economy is on the forefront of everybody's mind. The official unemployment rate remains unacceptably high, 9.5 percent. But if you are one of the 15 million Americans who are out of work, the unemployment rate feels more like 100 percent.

Our economy is showing signs of life. As you know, GDP growth is healthy. But we in the Congress need to do more to spur job creation. And as you know, Madam Chair, back in January I teamed up with Senator Hatch of Utah to author a targeted, simple, and cost-effective tax incentive to encourage businesses to hire unemployed workers.

The tax cut we proposed passed the Senate with 70 votes and became law as part of the HIRE Act in March. Today, every business in America is exempt from paying payroll taxes on wages paid to previously unemployed workers. It's that simple.

Hire a person who has been unemployed for at least 60 days, and you don't have to pay the 6.2 percent Social Security payroll tax for that worker for the duration of 2010.

According to a recent report by the Treasury Department, the tax cut has been a wild success. They estimate that 4.5 million unemployed Americans have been hired between February and the end of May, and there is no question many of these workers would have been hired anyway, but there is also no question that many of them would not have been.

And each of those businesses that hired someone saw a tax break. If these 4.5 million stay employed through the rest of the year, businesses will see a total of 5.1 billion in tax savings.

So I think there is no denying that the Schumer-Hatch Tax cut is working. My question that I will ask you to answer after your testimony is: In light of this success, do you support extending the tax cut for an additional six months? What type of impact would

such an extension have on our Nation's long-term economic outlook?

And so that is it. I yield back my time and very much appreciate your letting me speak now, Madam Chairwoman.

Chair Maloney. Always a pleasure, Senator, and we have been also joined by Senator Brownback, so I would also like give him the courtesy of speaking.

OPENING STATEMENT OF THE HONORABLE SAM BROWNBACK, RANKING MINORITY, A U.S. SENATOR FROM KANSAS

Senator Brownback. Thank you very much, Madam Chairman. I apologize for being late. I had two subcommittees I needed to attend.

Welcome, Chair Romer. I am happy to have you here. I am really looking forward to your comments, because it seems like the Administration holds the key to a lot of what is holding back in the economy—uncertainty in regulation, and taxation is certainly buzzing in the air, as businesses consider whether or not they're going to invest, or they are going to hold back.

And we need people investing. We need people moving forward. We need people creating jobs. We need job creation. We need these things to move on forward. And yet that level of uncertainty that is created in the tax and regulatory environment in particular seems to be stymieing a lot of people. And you are now hearing that being expressed in a very open fashion.

So my hope is that you can address that level of uncertainty, particularly on taxes and regulations from the Administration's perspective. Because it is really needed for the American public and the economic health of our country to be able to move forward.

I was very concerned when I saw today's front page of *The Wall Street Journal* that the Fed is citing slower growth rates. We need faster, not slower growth rates taking place. The consumer confidence is getting shaken, not moving in the right directions. Seeing just a number of factors that have raised concern, and I really hope you can address those issues, particularly on taxes and regulation and overall debt and fiscal policy that I think are contributing way too much to that concern.

Chair, thanks very much for holding this hearing. I think it is important that we do it, and important that we hear from the Chair on this.

Chair Maloney. Thank you so much, and we now recognize Chairwoman Romer.

STATEMENT OF THE HONORABLE CHRISTINA D. ROMER, PH.D., CHAIR, COUNCIL OF ECONOMIC ADVISERS, WASHINGTON, DC

Chair Romer. Thank you so much, Chair Maloney, Vice Chair Schumer, Ranking Member Brownback, Congressman Brady:

It is indeed a pleasure to be here today to discuss two issues that are of interest to both the Joint Economic Committee and the Council of Economic Advisers.

One is obviously the economic impact of the American Recovery and Reinvestment Act of 2009. As part of the unprecedented trans-

parency and accountability provisions in the Act, the CEA provides a report to Congress about the Act each quarter.

In this Fourth Quarterly Report released this morning we not only find that the Act has had a substantial effect on output and employment, but that it is leveraging private capital and making an important investment in the future of productivity of the country.

The second topic I will discuss is the economic outlook. The Recovery Act and other actions have helped to turn the economy from free fall to recovery. But much work obviously remains to do to return the economy to full health. And I will discuss the role that the targeted actions currently being discussed by Congress could play in counteracting some of the headwinds to growth that have become more apparent in recent weeks and, by doing so, accelerate the rate of recovery.

Let me begin by discussing what the CEA's new report finds about the impact of the Recovery Act as of the second quarter of 2010. With the Chair's permission, I would like to enter a full copy of the report into the record.

You know, Congress designed the Recovery Act both to begin spending out quickly and to provide crucial support to the economy over a two-year period. It has met and is continuing to meet those goals.

The state fiscal relief, the payments to seniors, the emergency unemployment insurance benefits went out almost immediately and started aiding the economy in the spring and summer of 2009.

The tax cuts went into effect immediately as well, but it was really during tax season—the first two quarters of this year—that many Americans have seen concrete signs in the form of reduced tax payments and increased tax refunds.

In previous CEA reports, we have highlighted the state fiscal relief and the tax cuts and income support provisions of the Act and found evidence of their effectiveness.

Well in today's Quarterly Report we highlight the public investment spending in the Recovery Act. This is the project spending that not only creates jobs in the short run, but leaves us with an expanded and improved ability to create high-paying jobs in the future.

The Recovery Act includes some $319 billion of public investment on everything from basic infrastructure such as roads, bridges, and airports, to 21st Century infrastructure such as a smarter electrical grid and universal broadband. It invests in community health centers, health information technology, education, and job training to improve the health and skills of our citizens—our human capital. And it makes unprecedented investments in basic scientific research to enhance innovation and help retain our competitive edge.

The public investment components of the Recovery Act were always expected to spend out more gradually, because they typically require planning, and they are often awarded through a rigorous competitive process. But these outlays increased by more than 50 percent between the first and second quarters of this year, which explains why the Vice President has named this summer the "Summer of Recovery."

In the area of transportation infrastructure alone, nearly 14,000 projects have been awarded as of the first quarter of 2010.

Now an innovative feature of the Recovery Act is its focus on partnering private investment—or public investment with private and other funds. Much of the Recovery Act investment spending takes the form of matching grants, loan guarantees, interest subsidies, and tax incentives that support and encourage outside investment.

For example, the 48C Advanced Energy Manufacturing Credit gives private firms that pass the Department of Energy's competitive process a 30 percent tax credit for their investments in factories to produce solar panels, wind turbines, and other clean energy products.

The Broadband Initiatives Program provides grants and loans to firms and regional authorities to bring Internet access to rural communities. And the Build America Bond Program subsidizes the interest cost of state and local government borrowing for schools, transportation, and other vital projects so that these entities are encouraged to invest in local infrastructure.

Well the CEA's Report collected information from 15 agencies on the nature and the extent of the leverage provisions in the Recovery Act. We find that roughly $100 billion of Recovery Act funds use leverage, and that these provisions are encouraging co-investment in a wide range of areas.

The greatest use of these innovative provisions are in the areas of clean energy, economic development, and building construction. We estimate that the $100 billion of Recovery Act funds will partner with close to $300 billion of other funds, the majority of which are from the private sector. That is, $1 of Recovery Act funds is matched by $3 of other funds. All told, the $100 billion investment from the Recovery Act will support more than $380 billion of total investment spending.

Now a detailed examination of the incentives for wind energy production suggest that such leverage provisions can have a significant impact on private sector investment behavior. Thus, the Recovery Act appears to be stimulating private investment and job creation at a time when the economy needs it most.

Now in our Report we estimate the impact of the Recovery Act on job creation in two ways.

One is a model-based approach similar to that used by the Congressional Budget Office. This approach uses multiplier estimates based on the historical record to estimate how the Recovery Act tax cuts and outlays likely translate into employment effects.

The second approach that we use to estimate the employment impact of the Act does not depend on policy multipliers estimated from past history. Instead, it uses statistical procedures to project the likely path of employment based on the information available through the end of the first quarter of 2009, when the Recovery Act was passed, and then it compares the actual path of employment with the forecasted baseline.

Now the model-based approach indicates that the Recovery Act has raised employment relative to what it otherwise would have been by 2.5 million jobs as of the second quarter of this year.

Of these jobs saved or created, more than 800,000 are due to the public investment outlays that have occurred so far. The projection approach yields a substantially larger number: It suggests that employment as of the second quarter is 3.6 million higher than it otherwise would have been. By that estimate, the Recovery Act has met the President's goal of saving or creating 3.5 million jobs—two quarters earlier than anticipated.

Now our review of a wide range of other estimates of the employment effects of the Act, coming from private forecasters as well as the nonpartisan Congressional Budget Office, shows that our model-based estimate is very similar to that of outside experts. Our projection-based estimate is higher than other estimates, though very similar to the Congressional Budget Office's high-end estimate of 3.4 million.

There is obviously a great deal of uncertainty around any jobs estimate, and I suspect that the true effects of the Act will not be fully analyzed or fully appreciated for many years. But our compendium of outside estimates shows that respected analysts across the ideological spectrum, as well as the Congressional Budget Office, agree that the Act has had significant benefits on employment and output over the past year.

Well let me turn to the second topic that I want to discuss today, and that is the state of the U.S. economy and the outlook for the future.

First, and most obviously, the economy is doing much better today than it was when I last testified to the JEC in October of 2009. At that point we were just beginning to see the first signs of recovery. We now know that GDP began to grow in the third quarter of 2009, and has been expanding at a moderate pace since then.

In October of 2009 we were still losing jobs, although at a much slower rate than in the depths of the crisis. Since the beginning of 2010 we have been consistently adding jobs. Private sector employment is up nearly 600,000 since the start of the year. In October of 2009, the unemployment rate hit 10.1 percent. It has fallen six-tenths of a percentage point since then to 9.5 percent in the most recent report.

While the conditions are much improved from last October, and dramatically better than they were in the dark days of late 2008 and early 2009, the economy remains far from fully recovered. The financial crisis and the ensuing recession inflicted a terrible toll on American families and workers, and much work remains to be done to repair the damage after the storm.

Now some might see a conflict between my earlier discussion of how useful the Recovery Act has been and the fact that economic conditions are still very tough. But there is none.

The Recovery Act is doing what the Administration and other analysts said it would do: It has increased employment greatly relative to what it otherwise would have been. It has helped to fill in some of the shortfall in demand, and has played a fundamental role in the dramatic change in the trajectory of the economy.

But because the deterioration of the economy was so severe in late 2008 and early 2009, even with this essential aid the economy remains troubled. It is surely little comfort to families that are still

struggling to hear that without the Recovery Act, conditions would have been far worse. But it is, nevertheless, true.

What can we expect for the economy in the months ahead? The past few weeks have seen more mixed economic reports than we saw in the spring. Following the troubles in Europe associated with the Greek debt crisis, stock prices have declined noticeably and financial markets have been subject to greater volatility than we've seen for more than a year.

Perhaps related to this financial sector unease, some measures of consumer confidence have fallen. Also, housing sales and building permits took a decided drop in May, suggesting that a self-sustaining recovery has not yet taken hold in the housing sector.

Importantly, despite these troublesome developments, many areas of the economy continue to show strength. The fact that personal consumer expenditures grew in May suggests that consumer spending, the largest source of aggregate demand, is continuing at a solid pace.

The data on shipments of capital goods in May indicate that business investment in equipment and software continues to grow rapidly. And industrial production has expanded strongly, particularly in the high tech-tech manufacturing sector, where production is up 18 percent since May of 2009. Manufacturing jobs are growing at their strongest pace since 1998.

Now as we look forward, it is clear that the economy continues to face some strong headwinds. The dire situation of state and local budgets means that without additional Federal aid, state and local governments will continue to shed jobs and act as a contractionary force on overall economic activity.

Though credit conditions have ceased tightening, both recent statistics and reports from market participants suggest that many borrowers, particularly small businesses, still find it difficult to get loans. This obviously hinders small business growth and job creation.

Finally, the housing bubble and bust has left many homeowners over-indebted, and the U.S. economy with a substantial over-supply of housing. As a result, the prospects for a rapid growth in residential investment, as we have seen in previous recoveries, are slim.

Because of these persistent headwinds and the recent spate of mixed indicators, most private forecasters are predicting continued growth and job creation, but at a somewhat more subdued pace than the robust growth that looked possible a few months ago. Without further aid, the economy will continue to grow but the rate of recovery will likely continue to fall short of the rapid expansion that is needed to bring the unemployment rate down quickly.

For this reason, the additional targeted actions that the President recommended last winter are even more important today than when he first proposed them. Each of the actions is designed to counteract some of the headwinds that we face, and by doing so to increase the speed of recovery.

The most fundamental of these targeted actions is an extension of emergency unemployment insurance benefits. According to the Department of Labor, 2.1 million Americans have already seen their unemployment insurance benefits stop because of the failure to extend the program. That number will rise to 3.2 million by the

end of this month. It will be devastating both to the families affected and the overall economy if this support is not renewed.

At a time when the unemployment rate is 9.5 percent, there can be little question that such support is deeply needed.

Support for small business lending is another essential program to counteract the headwinds we face. This is an exceptionally low-cost measure that promises to materially increase the availability of credit to small firms currently struggling.

Such credit support, together with the small business tax cuts and bonus depreciation included in the bill, will be a much needed shot in the arm for small businesses. Such support will help them to expand and create jobs.

The third targeted measure that will help to ensure more rapid recovery is additional aid to state and local governments. There has been much discussion in the past week of innovative ways to structure this aid so that it encourages beneficial reforms or pays for itself over time. Many variations have merit, and the Administration is anxious to work with Congress to pass a sound plan. But some form of meaningful state fiscal relief is necessary both to prevent widespread layoffs of teachers, fire fighters, and police officers, and to accelerate job growth throughout the economy.

Now we are all keenly aware of our large budget deficit and the long-run fiscal challenges that we face. The President is committed to meeting those challenges. That is why he has worked with Congress to pass health care reform that will lower the deficit by more than a trillion dollars over the next two decades.

It is why his budget included a three-year freeze in nonsecurity discretionary spending, and why he established a bipartisan commission to forge the necessary consensus for sensible, serious deficit reduction.

It is also why the Administration has pursued a wide range of low-cost measures to spur job growth such as export promotion and public-private partnerships that have proven so successful in leveraging private investment through the Recovery Act.

But not taking additional targeted actions, many of which are fully paid for over the budget window, because of concern about the deficit would be misguided. Allowing the unemployment rate to remain severely elevated for an extended period runs the risk of permanently lowering labor force participation and worker skills. Such permanent damage would not only be terrible for the workers involved, it would be terrible for our long-run budget situation.

Our Report today contains the latest evidence that the Recovery Act has been highly effective at helping to turn the economy from free fall to growth. What we need now is to take some targeted, fiscally responsible additional steps to speed the recovery and finally return the economy to health after the wrenching events of the past few years.

Now much of my discussion this afternoon is appropriately focused on the recovery and the need to jump-start job creation. Nothing is as important as getting Americans back to work. But in closing let me take just a minute to look both further back and further into the future.

Even before the financial crisis and the Recession that followed, the United States was facing economic stress. As documented in

the Economic Report of the President from last February, health care costs were rising rapidly, squeezing both families and businesses. We were failing to invest as much as we should in education and R&D. And our financial regulatory structure had failed to keep up with the technological and behavioral changes in the industry.

These developments were leading to stagnating incomes for middle class families, less innovation, and excesses in our financial system that set the stage for the crisis.

Over the past 18 months, the President and Congress have not only taken unprecedented steps to deal with the Recession, but have also made great progress in facing these longer run challenges.

The Patient Protection and Affordable Care Act passed last March will slow the growth rate of health care costs by improving both the efficiency and the quality of our current system.

The investments in education and basic scientific research started in the Recovery Act and continued in other legislation will build the skills and knowledge base essential for raising standards of living and competing in world markets.

And the financial regulatory reform legislation on the verge of completion will help prevent a repeat of the terrifying meltdown of the financial system that we experienced in the fall of 2008.

By working to both rescue the economy in the short run and rebuild the fundamental sources of productivity and stability in the long run, the President and Congress are charting a path not only back to normal but to a better normal than we had before. Thank you.

[The prepared statement of Dr. Christina D. Romer appears in the Submissions for the Record on page 66.]

[The Council of Economic Advisers' report titled "The Economic Impact of the American Recovery and Reinvestment Act of 2009" appears in the Submissions for the Record on page 77.]

Chair Maloney. Thank you very, very much for your testimony. In your testimony you explained how $100 billion in Recovery Act investments use leverage to encourage private sector investment, the result being that Federal dollars go much further.

I was extremely struck by your statement that $100 billion in Recovery Act dollars supports $380 billion in total investments when we partner with the private sector, with each $1 of investment enabling another $3 of activity.

I would like to ask a question about my home State of New York. I saw in your report that you released today that the Recovery Act has created an estimated 206,000 jobs in New York State, and of course I am very pleased to see that. New Yorkers need every single one of those jobs.

Along those lines, can you tell me how much private investment in New York State has been spurred or sparked by the $100 billion in Recovery Act investments?

Chair Romer. All right. Let me first say, since it came up earlier about state employment numbers, one thing——

Chair Maloney. The microphone. They need to hear you better.

Chair Romer [continuing]. I wanted to first say a word about the state employment numbers. Because it was mentioned, we do

say those are inherently more uncertain than our overall estimates. And it is important to realize we get direct reports from only a small fraction of the recipient of funds. No one fills out a form about the unemployment insurance, or the tax cuts. It's only the direct projects. And that gives us one read on employment by state.

What we try to do in our report is get some estimates about all of the effects on employment. And that is where that larger number that you mentioned comes from. And we do the best that we can, but it is inherently harder when you are trying to do it for 50 individual states.

In terms of how much of the leverage is happening in particular states, we have not actually done that analysis. It was hard enough to get the overall level of analysis, but that is certainly something that I think we would very much like to work on. I know that the Vice President's office is planning to do a follow on to our work. We are really the first step in evaluating these leverage provisions.

And so I think going—looking state by state would be very interesting to the degree it is possible.

Chair Maloney. That would be helpful. But could you elaborate on what sectors, or what areas, are benefiting from this $100 billion in leverage? Is it clean energy? Or loans to small businesses? Or manufacturing? Could you elaborate on what areas are benefiting and possibly give us some examples of some successes that have leveraged these dollars and helped communities employ Americans?

Chair Romer. Absolutely. So in terms of areas, one of the striking things is there are these leverage provisions over a wide range of areas of investment. But the biggest ones are clean energy, building construction, and economic development.

Just some examples of clean energy, the 48C Advanced Manufacturing Tax Credit is one I mentioned in my testimony. That is where people who want to build a factory set up a company to make some of these new clean energy projects partner and get some seed money from the government and do that.

The President is going to be in Holland, Michigan, tomorrow—or later this week to talk about an advanced battery manufacturing plant, which is getting a direct grant from the government, being matched by private funds.

In terms of economic development, a lot of that is the Small Business Administration. We have the loan guarantees that were passed in the Recovery Act. They upped some of those. That is partnering with a lot of loans to small businesses, creating businesses throughout the country.

And then building construction. We know the Build America Bonds that were included in the Recovery Act have been wildly popular with a lot of state and local governments. They are being used to fund everything from schools, to community centers, to other kinds of infrastructure, and those are being very, very widely used and quite successful.

Chair Maloney. Well thank you. My time has expired. Senator Brownback.

Senator Brownback. I understand you are going to have a vote shortly, so I will pass to Congressman Brady so he can go to vote.

Representative Brady. Thank you, Madam Chairman.

I feel like the report, you cherry picked a lot of the economic studies and I think almost made up some of the comparative projections, but what is more disappointing is that your own benchmarks are not included.

My question is: Why don't you have them in there? It was in the first two Quarterly Reports. You can't say that the economy was worse than imagined because the Republicans said your projections were rosy to begin with, so is the White House ducking accountability on the stimulus? Or simply hiding the test so that we can't match it against the poor performance?

Chair Romer. So let me be very clear. First, on the numbers that we compare ourselves to, we are looking at the same range of estimates that we have looked at in all of the four quarterly reports. So that we tie ourselves to the Congressional Budget Office—a highly respected forecaster.

Representative Brady. But is there a reason yours are not in here? I mean, you were very—you were front and center on what the stimulus would do. It was widely reported. Members of Congress debated it on the House Floor and in the Senate, as well, but now they're missing.

Chair Romer. Can I say that, no, they're exactly—the main goal that the President gave was that he thought that this Act would save or create 3.5 million jobs. And that is absolutely the marker that we are looking at and comparing ourselves to.

Representative Brady. So just to be clear, the White House didn't say ever that unemployment would remain below 8 percent? That you would create 137 nonfarm payroll jobs by the end of the year. Or that 90 percent of the jobs would be created in the private sector? You did—and the fact it was actually in the first two Quarterly Reports when it shouldn't have been there?

Chair Romer. It was not in the first two Quarterly Reports. That was in the report that Jerry Bernstein and I put out during the transition. And let me just address it right now, because we did—the picture that you showed is one that has even showed up on Jon Stewart. But let me explain what I think is going on.

I think the most important thing to say: It has nothing to do with the stimulus not working. Every study that comes out, every test that we do says that the stimulus is doing what we anticipated it would do. It's on track to save or create 3.5 million jobs.

Representative Brady. Sure. But I disagree with that, but back to sort of hiding the benchmarks. Why?

Chair Romer. No one is hiding a benchmark. The fundamental thing is about what I have control over, what you had control over in designing the Act is what would the Act do? What none of us has control over is what was happening in the economy, what was going to happen without the Act. And the fundamental——

Representative Brady. Well actually you did estimate—you did estimate originally what would happen without the Act in comparing it against that——

Chair Romer [continuing]. Absolutely.

Representative Brady [continuing]. It is still a failure.

Chair Romer. Okay, so that——

Representative Brady. I guess, again, your benchmarks to me mean something because they're not Republican or Democrat, they

come from the White House. They're no longer cited because obviously the performance has failed to meet the——

Chair Romer [continuing]. No. I want to disagree completely. Our benchmark had always been how many jobs would this save or create. And that is what we are judging ourselves against. That is what we estimate in every way possible. It is what we contract—contact private investigators—private analysts on Wall Street.

Let me come back to what changed between when we made that prediction about what would happen to the unemployment rate is the economy, the track it was on, net of the—without the Recovery Act deteriorated. And I think it is important to realize——

Representative Brady [continuing]. But we were telling you that when you made that prediction.

Chair Romer [continuing]. You know, if you looked——

Representative Brady. We were telling you those were rosy assumptions.

Chair Romer [continuing]. You know, if you go back and look in the Economic Report of the President, which is before your Committee, look in chapter two. Because we actually show you what other forecasters, the blue chip consensus, right, the 50 top forecasters in the country, what they were predicting. I think what you forget is, we were getting a tremendous amount of information that first couple of months, and the economy was turning in a way——

Representative Brady. But with all due respect, we haven't forgot what your benchmarks are. And I don't know how, really, you can claim success when you failed on those three key features. Plus, predictions you would jump start the economy didn't happen. That you'd restore consumer confidence—it is low today, 90 percent of Americans believe the economy is in bad shape, and 3 out of 4 don't believe it is getting better.

And how do you claim the stimulus worked when you've got businesses holding on to $2 trillion of cash that they are not rehiring people with. They're not hiring new workers with. They are not making that investment or expansion decision. That is proof positive that the stimulus has failed, because those companies, eager to recover, simply face uncertainty, don't want to be punished, reluctant to do it. How do you stimulate by causing people to hold on, and businesses to hold on to their own cash?

Chair Romer [continuing]. Congressman, I have to disagree fundamentally with your statement that it hasn't had an incredible impact on changing the trajectory of the economy.

You can't look at the kind of pictures that the Chairwoman showed that showed we were on a trajectory of losing 750,000 jobs a month.

Representative Brady. But last month not a single industry in America statistically showed a significant increase in jobs. Last week, a little less than a half a million people filed for unemployment, and that was celebrated. How can these be signs of success after a stimulus of breath-taking proportions?

Chair Romer. Can we cite the number that we added 600,000 private sector jobs since the beginning of this year? You're not going to get any argument with me, things are still——

Representative Brady. But you've lost 3.3 million jobs since the stimulus passed in that 16 months. We're going the wrong—

it's gone the wrong direction. And the Federal Government workers are the only ones so far that have had safe paychecks.

Chair Romer [continuing]. I think you need to remember again how severe this Recession has been, and how it got dramatically worse before anyone passed any Stimulus Act.

If you want to know about our forecast errors, almost all of them came from the fourth quarter of 2008, and the first quarter of 2009. Before the stimulus could have done anything, the economy deteriorated rapidly. That's the main source of why we're not meeting that benchmark.

Can I also point out one other thing? Which is, while you like to talk about how we've missed our unemployment forecast, it actually turns out that our GDP forecast has turned out to be remarkably accurate. And that in terms of what we said the stimulus would do to GDP, even taking into account the baseline—because part of what's happened is a breakdown in the usual relationship between GDP and unemployment.

Chair Maloney. The gentleman's time has expired. I would like to comment to my very good friend and colleague for whom I have great respect: you say we haven't seen any evidence of a recovery, that uncertainty is preventing businesses from hiring, and that the Recovery Act did not help get the economy back on track.

Of course I disagree with this, but I was also very interested in reading the Republican Study Committee document. This is from the Republican Caucus and their Committee of the Budget. I would just like to read a few sentences in there, and it seems to disagree with some of the statements from my respected colleague, and it's from the newest global financial risk sovereign area that they're writing about, and I quote:

> The U.S. economy began to slowly recover in 2009 from the effects of a long and deep recession and a financial crisis. GDP growth turned positive. In the latter half of this year, financial markets normalized and major credit markets began to function smoothly, after an extended period of paralysis and turmoil. For most of 2010, economists have said a moderate recovery was well underway.

That's just from the Republican document, and I would like to give it to my good friend and colleague.

Representative Brady. Do they cite the stimulus for that? Because I specifically know it doesn't. It cites $1.3 trillion in federal——

Chair Maloney. "The economy is improving," according to the Republican Caucus Report. We have been called to vote, and I would now like to turn it over to Senator Klobuchar and thank her very much for chairing this committee while we run to vote. Thank you for your testimony, and here is the Republican document, which basically says the same thing you were saying, Dr. Romer. Thank you for your hard work.

Senator Klobuchar [presiding]. Representative Cummings.

Representative Cummings. Thank you very much, Madam Chair.

I told you. I told you that they would say the sky is falling, and that the progress that we have made, that the President and your Administration had nothing to do with it. I told you.

You said something that really intrigued me. You said a lot, really, but you talked about small business lending and how significant that would be, and I'm going back to some of the things that Mr. Brady was talking about.

We had the Federal Reserve in my District about three weeks ago, and we had business people come in. And one of the things that they said is that if we could just get access to capital, there are—I mean, one lady stood up and she said: I've got opportunities at my fingertips. I just can't get the capital. And so could you comment on that briefly?

And then I want to ask you about the whole idea—and this is the major question, Dr. Romer—a lot of people think that Democrats, some of us, are not concerned about the deficit. And we are concerned about the deficit. I want you to just—you talked about how it is important that we also create jobs and do those things to spur jobs, and I need you to tell us about the balance. That is, dealing with the deficit and also creating jobs.

Because I've got people, and they are concerned about the deficit, but let me tell you something. They are trying to figure out how they are going to be alive. Although they are concerned about the deficit, they are worrying about being alive to see the effect of the deficit going down.

So can you answer those two questions for me?

Chair Romer. Absolutely. So first on the small business capital, what you are hearing in your District is exactly what we are hearing. Which is, as many parts of the financial system have gotten more stable, it is easier for big firms to issue bonds and get capital, we are still hearing that it is hard for small firms.

And the idea that there are opportunities at our fingertips, and you just can't get the loan to put them into practice. And that was something that Chairman Bernanke also talked about in a recent speech. And that is exactly why, for several months we have had the proposal for a Small Business Lending Fund that takes a small business—a small amount of government money, gives it to—lends it out to community banks that do most of the—small banks that do most of the lending to small businesses at very favorable rates, and encourages them. They get even more favorable rates if they do more small business lending.

It's just a win—it's a very winning proposition. It's very cost effective. But we think it will have a material impact on getting more loans to small business.

Representative Cummings. Now talk about deficit versus—now are you concerned about the deficit?

Chair Romer. Of course.

Representative Cummings. And you are a professional. You have been doing this for years. I just don't want people to think that Democrats and this President are not concerned about the deficit. Can you kind of tell us about what you all are trying to do?

I think you're trying to balance this thing out?

Chair Romer. Absolutely. I can tell you how many times we have had meetings with the President. He is deeply concerned

about the deficit. He is concerned about the fact that it has been a problem we have known about for a good 20 years, that keeps getting kicked down the road, and that is why he set up the bipartisan commission.

He was convinced it was such an important problem, he also knows the only way we're going to solve it is if both parties come together and figure out a solution that we can both live with.

So you will get no argument from me that it is an incredibly important problem. I do want to say that I think that the health reform legislation was a major step in the right direction. For all that we can talk about quality, and efficiency, and expanding coverage, that bill was also a major fiscal action. It was a consolidation that is truly going to help to slow the growth rate of costs, and that is, any study will tell you, the main source of big budget deficits in the future.

So that was an important first step. We absolutely need to do more.

Representative Cummings. Well if I say to you, don't, for example, do unemployment benefits because I'm worried about the deficit, I mean what's your answer to something like that? I'm just curious.

Chair Romer. Well there are two things to say. One is, our budget had a very serious plan. Which is, we knew that the fiscal stimulus was going to be going off. We also in our budget had—letting the tax cuts for the highest income earners expire, as they're set to do at the end of this year. We mixed that with a group of targeted actions like extending unemployment insurance to have a sensible path, what Peter Orszag has described as a "glide path" back down to a smaller deficit. And so that was absolutely—it's important to have a plan, and we had that in our budget.

The other thing is, and so it is important to realize we are making important fiscal consolidation over this year and next year precisely because the fiscal stimulus is going off. And that is an important point.

But the other point that I made is, we do need to worry—when unemployment stays high for an extended period of time, what you worry about is some of those workers are permanently scarred. They drop out of the labor force. They lose their skills, and so are not as employable as they were before. And one of the worst things that could happen is that some of this high unemployment becomes permanent, or structural, because that obviously is terrible for the people involved, and it's terrible for the productivity of the country, but it's also terrible for the deficit.

So I think it is in fact shortsighted to say we need to—you know, we can't do anything today to get the unemployment rate down because of the deficit, when by not taking those actions today you could make the deficit worse in the future by causing unemployment to be permanently higher.

Representative Cummings. Thank you very much. I see my time has expired.

Senator Klobuchar. Representative Burgess.

Representative Burgess. Thank you. Thank you, Senator, for yielding to me.

Chair Romer, are you familiar—the Business Roundtable and the Business Council on June 21st sent to Peter Orszag a list of things. The letter that accompanied it says it's a follow up to your request, Mr. Orszag's request, to both the Business Roundtable and the Business Council for examples of pending legislation and regulations that could have a dampening effect on economic growth and job creation. Surveyed our members to get their views. Attached is an executive summary and a detailed description of what they see as government initiatives that will inhibit growth, paraphrasing there just a little bit.

Are you familiar with this document?

Chair Romer. I am indeed.

Representative Burgess. On page 10 of the document in the detailed portion, about the middle of the page, there's a paragraph devoted to Texas Title 5 permitting and new source review. And this is a complicated subject, and I know it is not really the subject of our discussion today, but let me use this as an example of some of the things that are happening at the level of the Administration that are having an inhibitory effect on investment certainly in my home State of Texas.

On March 31 the EPA formally disapproved of revisions to the Texas Qualified Facilities Exemption Rule that allowed facilities to use certain types of control equipment to make changes in their operations without going through permit review as long as these changes did not result in a net increase in emissions.

So we're not harming the environment anymore, but we were asking—we had some flexibility in implementing new equipment coming online in some plants like refineries that make refined product for gasoline that people depend upon in this country and need to have a stable and price secure source.

So it goes on to say: Continued EPA objections could delay start-up of certain projects already under construction or extend the permitting process for major new projects. In general, a flexible permit can provide a single emissions cap for part of an entire facility in lieu of permitting each individual unit built within the facility.

Here's the important part: Similar rules exist in other states and have not been challenged by the EPA. Is Texas being singled out here? Or are other states that work under flexible permitting from the EPA, can they expect similar Draconian policies to be enacted in New Jersey, Pennsylvania, other states that do refining?

[Submitted by Representative Burgess: Letter dated June 21, 2010, from Ivan G. Seidenberg and James W. Owens to Hon Peter R. Orszag followed by the Business Roundtable report "Policy Burdens Inhibiting Economic Growth" appears in the Submissions for the Record on page 132.]

Chair Romer. Well let me—I'm not going to try to get into the specifics of that particular rule. Let me actually, though, the general issue of regulation, certainly as I said we have been talking to the Business Roundtable. I think probably the most important thing in that letter was the first sentence that said, "as you requested, here's the work that we've done."

I think what you're seeing is, there's been a lot of business outreach. One of the things that I'm at lots of meetings with are meetings with businesses——

Representative Burgess. I don't mean to interrupt, but I'm going to run out of time. Can I—and maybe we can get back to you in writing on this, but this is a terribly important point back home. And the economy of Texas actually has done a little bit better than some other state economies. We're not a basket case yet, but we could be with this type of Federal burden coming down on the state permitting process.

We want clean air in our State. There's no argument about that. This does not increase the pollution burden in the State. We are simply asking for flexibility. And right now you have got the governor of my state, Governor Perry, in a pitched battle with the EPA over this, and it does no one any good to do that. And certainly it is doing nothing to foster job growth, not even in my District. This is down in the Houston-Beaumont area, but it is certainly going to affect the economy of our State.

You talked about the health care bill, and I've just got to ask you. I mean, you don't really believe that that health care bill that was passed is actually going to lower the cost of health care in this country?

Chair Romer. I absolutely believe it will slow the growth rate of health care costs, absolutely.

Representative Burgess. It is a fantasy that really needs to be stamped out and rejected. We're through with the bill. The President got what he wanted. Let's be honest and admit we've driven costs through the roof.

If you're really honest about what happened in that bill, we didn't include the doc fix in that bill. We didn't include it because it was $300 to $500 billion. When that bill comes due, do you really believe that the health care law that is now the law of the land is actually going to reduce the cost of anything for anyone in regards to health care in this country?

We turn tons—tons of regulation over to the Federal agencies. No one has any idea what those rules are going to look like. Your Business Roundtable is concerned about the effect on jobs and job creation of the result of those rules. And if those rules become too onerous, employer-sponsored insurance will indeed become a thing of the past. If you like what you have, you can keep it will become a hollow promise.

And the Federal Government will then have the burden of all of those health care costs that the private sector is now unloading. It will be cheaper to pay the $2000 fine than it will be to keep up with the rules and regulations that are coming out of Health and Human Services and the Center for Medicare and Medicaid Services.

Chair Romer. Congressman, I just have to recommend that you read three wonderful studies done by the Council of Economic Advisers where we went through the provisions of the bill, and our analysis based on outside studies is that it will slow the growth rate of costs by one percentage point per year.

The other thing I think we lose sight of the fact, the reason it was as hard as it was to pass is precisely because it included some very hard things that will help to slow the growth rate of costs: the excise tax on high-priced plans is something that health economists say can genuinely help to slow the growth rate of costs.

The Independent Payment Advisory Board is something that we think can——

Representative Burgess. It scares everyone to death.

Chair Romer [continuing]. We think it is something that can help to slow the growth——

Representative Burgess. And again, my time is up, but I just have to say one thing. Richard Foster, the actuary for CMS, came up with a figure that was available before we voted on the bill, but withheld from Congress, that said the cost of this thing was going to be much greater than what was being advertised.

I have sent letters to Secretary Sebelius. Let us see the notes and e-mails and traffic back and forth of what went on between the actuary and the head at HHS before we voted on this bill. Why was Congress denied accurate cost information on this bill? I have not gotten any answer from the Administration yet.

Chair Romer [continuing]. Can I say, you did get an answer from the Congressional Budget Office, which is one of the sources of high-quality information, and what they said, what we based a lot of our analysis on, is that it would slow the growth rate of costs and save a trillion dollars over 20 years.

Representative Burgess. To paraphrase, they said: Oops, we goofed. I yield back.

Senator Klobuchar. Thank you very much, Dr. Romer, and thank you for being here today.

I am someone, as a former prosecutor, who believes in facts. And I have been hearing a lot of accusations that I believe are not fact-based. And you seem to me like you are someone who is pretty straightforward.

Just to get one fact completely straight, is it true that we lost 3 million jobs in the last six months of the Bush Administration?

Chair Romer. Yes.

Senator Klobuchar. And then is it true that so far this year private-sector employment has increased by nearly 600,000 jobs?

Chair Romer. Yes.

Senator Klobuchar. Okay. Well I think I would rather be on this trend, even though I will admit it is not exactly where we want to be yet, I think everyone knows that, but when we were back before we passed the stimulus package, before we passed the Recovery Act, before we started doing a number of major transportation projects in my State that I know were long overdue, and I guess this question of predictions. At the beginning of the year, I assume you had a counterpart under the Bush Administration that headed up the Council of Economic Advisers. Did they predict that year that the Administration was going to lose 3 million jobs?

Chair Romer. No.

Senator Klobuchar. Did they predict that they would gain jobs, actually?

Chair Romer. I believe they did.

Senator Klobuchar. Well we will have to look at that. I think that is interesting. Because people seem to be making a lot of hay out of things. When I look back at the time when we were basically on the edge of a financial cliff, I remember actually the country came together at that moment, good or bad, with President Bush

and with John McCain, and Barack Obama, and made a decision that we needed to shore up the financial system.

I believe we then continued with unemployment losses under the Bush Administration. President Obama took over. My memory of the facts is in the first month when he took over, while Bush was still President, we lost more jobs in this country in the month of January than the State of Vermont has people.

We then passed the stimulus package. We evened things out, and we are now in what I consider a recovery that is taking too long. I would like it to go quicker, like everyone else.

I will say that in my State the unemployment rate is better than the rest of the country. It's in the low 7 percent. But as Senator Schumer pointed out, when people are hurting in a household, if in their household no one has a job, it is 100 percent unemployment.

But the things that I have found helpful in our State is, first of all, the jump start of the stimulus, but then the belief in the private sector economy and working with small businesses. That is why I so badly want to get the Small Business bill passed. As well as a belief in innovation and American jobs, and America making things again and exporting them to the world.

And I would like to see some shift in focus. I actually spoke with people in the White House about this today. This is a continuation of what the President talked about in the State of the Union, doubling the exports in five years, getting that R&D tax credit through Congress. A major focus on math and science. "Nation building in our own Nation" is what Minnesota native and *New York Times* columnist Tom Friedman calls it.

So I would like you to shift a little bit and talk some about where you see this going in terms of some of the other initiatives outside of stimulus that the Administration is working on that you think will be helpful, starting with the export initiative.

Chair Romer. I would be delighted to, because that is the—you know, one of the issues that we have talked a lot about is the world is different. Before the Recession, we knew that we were saving very little. Consumers had very low savings rates.

We were building a tremendous number of houses so that we had an overbuilding in housing. When we think about what the economy is going to look like as we come through, we are going to need—you know, we don't think consumers will go back to saving zero, and we anticipate that, you know, construction will be a smaller fraction at least for awhile. So the whole question is going to be: Where is the demand going to come from for all of our goods and services so that we keep people employed?

And one of the things that we have identified for the President is, an obvious place where we can expand is exports, right? That creates demand for American products and keeps us employed here at home.

And so we are doing a range of things. A lot of them are simple no-brainers. What we learned from the theoretical economics literature is that often it is just small, fixed costs that make it hard for a firm to get over that first hump of starting to export.

And so just things like providing information through the SBA for small businesses. Or some more credit through the Import-Ex-

port Bank can make a big difference in getting firms that first export experience and getting them used to exporting. So we are taking a major initiative there.

Secretary Locke is working with a tremendous amount of additional commercial diplomacy, taking people around the world trying to showcase American products.

The State Department is taking a lot of the personnel we already have abroad and saying, can you get better at helping, you know, helping our firms sell their products and get used to exporting? And we absolutely think this goal of doubling exports is completely reasonable and something that will be very good for the American economy.

Senator Klobuchar. Senator LeMieux and I have a bill that actually—which we're trying to include in the Small Business package. It's a bipartisan bill. As you know, he's a Republican from Florida. It went through Commerce unanimously. To try to beef up some of that work that the Commerce Department does with small and medium sized businesses, because I have seen huge success in our State along those lines.

I did have one question that Senator Schumer was going to ask and then he had to leave early. He is introducing a bill to extend the HIRE Act for six months. It includes a tax credit for businesses that hire unemployed workers, 179 expensing that allows businesses to deduct expenses in the year they are purchased. By the way, that is something that I heard a lot about when I was out there with our small businesses. And the Build America Bonds.

Is that something you think would be helpful?

Chair Romer. You know, I will tell you that in the fall the Council of Economic Advisers did a lot of research on a jobs tax credit like the Schumer-Hatch tax credit that ended up in the HIRE Act, and we were very enthusiastic. We thought it was something that could have very good employment effects.

And as Senator Schumer mentioned at the beginning, there is some evidence coming in about how many workers are eligible for it, and suggesting that it could be quite effective. I think it is an issue that we need to study to figure out, but what I can tell you is we are very enthusiastic, as always, to work with Congress on measures that will help to put people back to work. So we——

Senator Klobuchar. So one last——

Chair Romer [continuing]. Look forward to talking with you.

Senator Klobuchar [continuing]. Clarification of a fact question before I turn it over to Senator Brownback.

Representative Burgess was asking you about health care expenses, and I thought you made a good case that over the long term that this bill took on the difficult task of bringing down health care costs, which have been going up and up and up at the expense particularly of the self-employed and small businesses in this country.

The CBO score of this, the nonpartisan CBO, which I know is relied on from my colleagues on the other side during the Bush Administration, that agency, to get accurate numbers, the CBO score ten years—is it true that the CBO score of this bill is saving $138 billion over 10 years?

Chair Romer. Yes, it is.

Senator Klobuchar. And for the health care bill, over 20 years the score was that it would save $1.2 trillion? Are those the numbers you are talking about?

Chair Romer. Those are exactly the numbers I am talking about.

Senator Klobuchar. Again, I believe in facts. Thank you very much. I turn it over to my colleague, Senator Brownback.

Senator Brownback. And I believe the taxes kick in in year one, and the benefits not to year four, Chair?

Chair Romer. The important thing is I believe at the end of the ten-year window, it is still positive. So I think that's actually—that's not what's getting you the good number.

Senator Brownback. Well I wonder what the next ten years will bring, when you have ten years of spending and ten years of taxes on that——

Chair Romer. That's when it saves a trillion dollars, or $1.1 trillion.

Senator Brownback [continuing]. Good Lord, I hope you are right.

Chair Romer. I hope the Congressional Budget Office is right.

Senator Brownback. Well, I want to talk about the uncertainty factor that's out there. Because surely you are hearing that. I know the President called a number of business leaders and they cited to him a series of uncertainties to explain why they're not employing. And looking forward, which hopefully you are, I'm sure you're saying look, how do we get these guys to put money in the game, men and women that are investing, creating jobs, trying to create an atmosphere for growth.

One of the things that people look at, saying it is going to drive up costs, is the cap and trade proposed legislation that passed the House. In your Chapter 9 of the Economic Report, the President supports cap and trade, carbon emissions, to transform the energy sector.

CBO questions the premises for cap and trade, and asks how policies reducing greenhouse gas emissions could affect employment. In the May 5th report they say emission reduction policies would decrease employment in energy-intensive industries. Quote, "Eventually the economy would return full employment. Average wages would be lower than that that would otherwise prevail because of the higher cost of energy would reduce the productivity of the economy."

That is a direct quote of the CBO report. Given the uncertainty, given the difficulty we are having in the economy, would the Administration now say it is not time to pass cap and trade legislation?

Chair Romer. So let me first talk about the uncertainty, because it is something that we hear a lot from business. And I think the important thing to realize is, what have been the major sources of uncertainty over the last 18 months?

It has been the financial crisis. It's been the terrible Recession. That has been the number one thing we have worked with the Congress to try to turn around, what the Federal Reserve has been working on, what Secretary Geithner worked on with the Financial Stability Plan. And I think that has been incredibly important.

Also, on the regulatory side, I think as was made—the statement was made very well, often——

Senator Brownback. I'm going to run out of time. Do you have cap and trade—I just was asking you directly about cap and trade, and its uncertainty factor.

Chair Romer [continuing]. What the President has said is he actually thinks getting a sensible energy legislation, like many other changes that we make, can help to resolve uncertainty because people understand what the framework is. And what we do know is we have a problem. We are dependent on foreign oil——

Senator Brownback. Well even though CBO says this is going to drive employment down and wages down, you are for cap and trade at this point in time in our economy?

Chair Romer [continuing]. We are for a comprehensive program that counteracts many of those things, by investing in clean energy, by trying to jump start the clean energy economy. We think a lot of—you know, that that can have very positive employment——

Senator Brownback. Do you believe emission reduction policies would decrease employment in energy-intensive industries?

Chair Romer [continuing]. I think it's going to affect different industries in different ways.

Senator Brownback. What about that industry?

Chair Romer. Like renewable energy, for example.

Senator Brownback. What about in an energy-intensive industry?

Chair Romer. I think we are going to have to develop it very well. That is something that the bills are being very careful to try to make sure that we minimize any costs on some industries——

Senator Brownback. You're an economist. You're an excellent economist. You know this is going to drive down employment in energy-intensive industry.

Chair Romer [continuing]. What it's going to do is to change the nature of what we produce. We think that is something we need to——

Senator Brownback. Will it drive down employment in energy-intensive industry?

Chair Romer [continuing]. I think it is going to depend on how we design it. I think that is going to be the basic thing that has to happen.

Senator Brownback. So you honestly believe it might not drive down employment in energy-intensive industry? It's what the CBO has said. It's what every economist that I've read or looked at——

Chair Romer. So we're going to need to—I would certainly need to think more about the evidence. I think the other thing is, the whole thing the President is trying to do is to invest in new energy technologies, clean energy technologies——

Senator Brownback [continuing]. Create winners and losers?

Chair Romer [continuing]. Because that's the way you're going to counteract any—you know, if you're making carbon fuels more expensive, the way you can counteract that is come up with alternative energy.

Senator Brownback. Will this make carbon fuels more expensive?

Chair Romer. So certainly what a cap and trade system is designed to do is to, as the President has described, is to put a price on carbon.

Senator Brownback. And it will make carbon-intensive fuels more expensive?

Chair Romer. The—most likely. And then what you have to do is to think about how do you deal with those consequences. And you have—you know, you have to remember why we're doing this. No one would choose to do this——

Senator Brownback. Well I understand why we're doing this——

Chair Romer [continuing]. If there weren't a problem.

Senator Brownback [continuing]. And I also watch Europe, what they're doing in backing away from some of these policies now because their economy is in such difficulty.

And I'm thinking why shouldn't we be watching what is taking place there, if that is the same sort of track that we are looking at going down? And if they have already pursued that very aggressively and now they are saying, wait a minute, look at what it is costing us, and look at how difficult this is, maybe we ought to just take a moment and say, well, let's watch what happens here and let's look at this for a little while and see that we don't hurt ourselves in the process.

And in an already soft economy, with all you have been saying today I believe you think this is still a soft economy—I'm not quite sure, but I believe that is what you think?

Chair Romer. It is still a soft economy. It is an economy that is recovering and, as Ms. Klobuchar described, we want it to be recovering faster.

Can I actually say, the President has been having a very positive message here, which is: Let's be growing the alternative energy sector——

Senator Brownback. I'm all for that.

Chair Romer [continuing]. And that's why he's been investing——

Senator Brownback. I'm all for growing the positive end of it. Just don't tax and kill the other end of it in the process. That's why I always think you do these things by investment and innovation, not by taxes and regulation.

So you grow it, and you push it. We've got a hydrogen fuel cell locomotive we built in Topeka, Kansas. BNSF and the Army has done it. It's a beautiful example. But it's an investment in an innovation that isn't us telling the railroads you've got to go to this type of a technology. And, that's how you move through these.

But on the deficit reduction, because I know you've got to be concerned about the deficit, you've said you're concerned about the deficit, it's being added to at $55,000 a second under the Obama Administration. We just had the Budget Director leave office. The Financial Times reports, June 27th, that he resigned, quote, "frustration over his lack of success in persuading the Administration to tackle the fiscal deficit more aggressively."

And we're looking at nearly trillion dollar deficits throughout the next decade. I really hope you can tell us how we are going to start

getting away from this borrowing 40 cents of every dollar we are spending right now and move in the positive direction we need to.

Chair Romer [continuing]. All right, so I think we should very much separate the current deficit, which to a very large degree is being caused by the terrible Recession that we have been through, and our long-run fiscal problem which I absolutely agree is a serious problem and something that we need to be dealing with.

I think if you talk to Director Orszag and you talk to the President, what you will hear is they are both in complete agreement about how important it is to deal with our deficit over time. That's why our budget charts a path to get the deficit down to 4 percent of GDP by 2015, and then sets up the fiscal commission encouraging it to then have a goal of getting it down to 3 percent of GDP, or even further.

So that is a very carefully worked out plan, and something that absolutely is important. And it is going to take people from both sides of the aisle. That's why the fiscal commission is there. This is going to be a hard problem. No one side can solve it by themselves. And we absolutely need to reach that consensus.

Senator Brownback. Thank you.

Thank you, Madam Chairman. If you have a second round, I would like to add another set of questions.

Senator Klobuchar. Wonderful. We will do that.

I just want to go back here, along with my theme of getting to the facts. Senator Brownback was just asking about the Debt Commission, which the President as you know had to basically set up his own bipartisan Debt Commission with former Republican Senator Simpson, Democrat Erskine Bowles of North Carolina, and he had to do that because we were unable to get seven of the Republicans in the Senate who were on the bill to support the statutory Debt Commission.

I was one of the Democrats that held out my vote until we made sure that we got that Debt Commission, held up my vote on the budget. I think it is incredibly important.

My question on this is: What was the debt going in that the President inherited from President Bush?

Chair Romer. Certainly the numbers are that before we ever walked in the door. I believe the deficit was going to be over a trillion dollars. So that was what we inherited. And obviously the debt then accumulated.

Senator Klobuchar. And as the President has reported, decisions were made to shore up the economy when it was teetering on the financial cliff. And how much was added to that, then, for the deficit?

Chair Romer. So in the short run obviously we spent the money that we spent on the Recovery Act. I think an important fact that we have in the Economic Report of the President, when you look at our long-run deficit, all of the actions that we take are about a quarter of one percent of that long-run deficit number that is, as you know, enormous. And so that they are a tiny, tiny fraction.

And that makes sense. It's a one-time expenditure taken in an emergency, and that does not add to your long-run deficit. The kind of things that add to your long-run deficit are rising health care

costs, which are an enormous part of the economy and grow over time, as our population ages.

Senator Klobuchar. Very good. And I am very much looking forward to the suggestions of this Commission. I think it is incredibly important, as many of us do, to do something on this long-term debt. But I think it is very important we get the facts straight about the debt that the President inherited when he got in.

Another fact clarification before I get to my questions. You were asked about the benefits and the costs associated with the health care bill. You and I went over the long-term cost savings with the health care bill. But just to clarify what the benefits are, if you are a senior you will—there was a question. Are there benefits? I think someone had said you won't get the benefits for four years. I thought it was very important to clarify for the record.

In 2010, if you are a senior, are there in fact reductions on the costs of brand name prescription drugs? And additional help with closing the donut hole? Is that correct?

Chair Romer. Absolutely.

Senator Klobuchar. And is it true that the insurance companies will also be barred from limiting the total benefits Americans can use over the course of their lifetime, and that affordable insurance coverage options will also be made available through a high-risk pool for Americans? And that these are short-term goals of this—short-term provisions that will take effect immediately?

Chair Romer. Yes. And I'd love to actually also add, the credits for small businesses are something that kicked in very quickly to help them cover the cost of health insurance for their workers.

Senator Klobuchar. That's right, because right now small businesses are paying 20 percent more than big businesses for their health care. And they are going to be eligible for tax credits up to 35 percent, which I think a lot of small businesses don't know yet, but that will start in 2011. And then finally, that parents are able to keep their kids on their insurance until they're 26 years old. Is that correct?

Chair Romer. That is correct.

Senator Klobuchar. All right. We were talking about some of the long-term solutions here, and things that will be helpful to the economy. One of the things I have been very focused on is how we need to jump start and focus on our university research.

It used to be that we had the Bell Labs, and AT&T Labs, and those kinds of things that would generate ideas and new products, and they would go right into the stream of commerce. We have gotten away from that, obviously. But what I am concerned about, I always think about the Beijing Olympics with the 2000 perfectly synchronized drummers in the opening ceremony. And I thought when I saw that, we're in trouble. And those drum beats are getting louder and louder and louder. And while they are building high-speed rail in Shanghai, we are still debating transportation policy and unfortunately not coming together as we need to as a country. And while Brazil is producing more and more engineers and scientists, we are falling behind.

And so that is my major focus here. And one of the parts of this is how we generate more commercially focused university research. And I mean that in the best of ways, so that that is also focused

on jobs, and that we use our universities and great learning institutions as incubators for new ideas that will become the next Google, or the next Medtronic in Minnesota.

Could you comment on that, and how we can do that, and maybe improve the requirements of the America COMPETES Act?

Chair Romer. I want to first agree with you completely on how important this innovative research is. When you talk to businesses, the thing that they say still gives us an edge in international competition is precisely because the new ideas are tremendously developed here. And so keeping that I think is incredibly important.

If you go back to a speech the President gave very early where he challenged both the government and the private sector to make research and development of our GDP, to reach a number that we have not seen in decades, I think that is an important challenge. It is one that we started to meet through the Recovery Act, and it is something that the President is dedicated to continuing through our funding of things like the National Institutes of Health, the National Science Foundation.

And I think your point about, as much as possible—you know, a natural role for the government is of course in doing what the private sector wouldn't naturally do, like the basic scientific research. But as much as we can help to make the innovations that we develop here then turn into industries here is incredibly important.

And here I will just mention, one of the things that is not particularly exciting to many people is reform of the Patent Office, just making the way that we protect intellectual property when we discover these things is something that we think can help to make this process work better. And that is something that certainly we have been working on that I think is an important thing for us and Congress to work on together.

Senator Klobuchar. Very good. Maybe someone asked you about this before. As you know, we have been struggling to pass the extension of unemployment benefits here. I did a bunch of events back in Minnesota for the week, everywhere from Brainerd, Minnesota, to Lanesboro, Minnesota, and I was really struck by the number of people that just came up to me. And even though we have a lower unemployment rate, if they weren't—didn't care about that. Maybe they had a neighbor that did—how important it is to make sure we have a safety net in place right now for those people who, through no fault of their own, have lost their jobs.

Chair Romer. Absolutely. And the numbers that I gave in my testimony, that by the end of this month 3.2 million people will have exhausted their benefits because the program was not extended. And that is 3.2 million people whose lives will be devastated.

But it is also a drag on the economy. That is, when people have unemployment insurance they spend it. And that is good for local businesses. It's helping to support their communities and help put other people back to work. So it is incredibly important.

Both the Congressional Budget Office, private analysts like Mark Zandi, identify unemployment insurance as one of the stimulus things you can do that has the highest bang for the buck. And I think that is incredibly important for us to keep in mind.

Senator Klobuchar. And one last question before I go back to Senator Brownback. One of the things I have noticed in our State is, because of the recovery, there are businesses that are actually still—are looking for workers, and they don't always match up with the location of where the workers are.

I just want to make a pitch for three businesses that I just visited in the last few weeks, one in the last few months. Digi-Key, up in Thief River Falls, was literally hiring over a hundred people. They make innards for computers. New French Bakery in St. Paul, Minnesota, needed some people for their night shift. They literally don't have enough people to produce the bread. Monogram Meats in the very rural town of Chandler, Minnesota, that I visited just a few weeks ago, was also looking for some new employees.

So I end with that to say, I guess one of my last questions will be, how do you deal with that when there are places that are looking for workers and that's not where the workers are? But secondly, to end with a positive note that there clearly are some signs of recovery across this country.

Chair Romer. I think you are absolutely right that there are signs of recovery everywhere. And I think that is so important for us to keep in mind. But as we have said many times, it needs to be stronger. And I think that is certainly what we are focused on.

On the mismatch, we have heard some. There have been some stories about mismatch in skills. You were describing people aren't where the jobs are. One of the great strengths of the American economy is its flexibility of its workforce.

I would anticipate that when you tell people there are jobs in these areas, I can imagine many people very anxious to get there.

In terms of skills——

Senator Klobuchar. That's why I tried to do it, for the benefit of the C-SPAN viewers.

Chair Romer [continuing]. Excellent.

Senator Klobuchar. Like beef jerky. All right.

Chair Romer. But there's also—you know, within the Recovery Act and certainly there's other legislation, improving our educational system and our job training, making sure that the skills that our children and our existing workers are developing are the skills that are going to be necessary in the 21st Century, is a never-ending challenge. It is what every economy needs to do. We need to constantly be growing and changing, and that is something that we are very much committed to.

And again, working with Congress to make sure that we're spending that money as effectively as possible.

Senator Klobuchar. Thank you very much.

Senator Brownback.

Senator Brownback. Thanks, Madam Chairman.

To start off with a softball for you, I am very pleased that the President set the November timeframe to address outstanding issues on the U.S.-South Korean Free Trade Agreement. I think that is where we can have a broad base of agreement. This is a positive for the economy.

There are issues outstanding still related to autos and beef. It is my hope that those can be resolved. You can submit and aggressively push that before Congress. I would hope, as well, you would

push the trade agreements with Colombia and Panama, as job creators as well, and that you would push those aggressively with the Congress. That would be my hope.

Chair Romer. The President certainly in his State of the Union mentioned those, and he has singled out Korea at the G–20. But I think you point out an important point, which is as we want to increase exports, opening up world markets through trade agreements is an important way to do that, and that is ultimately good for America and for our workers.

Senator Brownback. And I think you can get some broad base of support.

Madam Chairman, you are a noted economist. Is this a good time to pass cap and trade legislation?

Chair Romer. With the—so, I mean the President has said that he thinks this is an issue that we need to face, and that is absolutely correct. So what is true is——

Senator Brownback. So this is a good time to pass cap and trade legislation?

Chair Romer [continuing]. We need to deal with our energy situation. We have—we are dependent on foreign oil. We have a problem of climate change. And there's the opportunities in alternative energy. Now is a propitious time to make sure that we——

Senator Brownback. And it will drive energy costs up. Kansas City, Kansas, Board of Public Utilities projects that it is going to drive up their energy costs 25 percent to their customers over a near-term basis. That's over the next three years. Is that a good thing?

Chair Romer [continuing]. Okay, so let's go back to say the legislation that was passed by the House, the Waxman-Markey legislation, the whole idea of making it a package is that you deal with any consequences in terms of industries, in terms of consumers, by——

Senator Brownback. Fair enough.

Chair Romer [continuing]. By dealing with it.

Senator Brownback. How is Kansas City, Kansas, going to benefit from this?

Chair Romer. So every American is going to benefit by jump starting clean energy, by breaking our dependence on foreign oil, and by not warming the planet to the point of catastrophe. All those are things that need to be dealt with.

Senator Brownback. And my Kansas City, Kansas, their utility bills go up 25 percent. Their cost of gasoline in their car goes up to them on a near-term basis. And maybe some of them see a job opportunity. So by and large they are going to benefit from this in the near term in a soft economy?

Chair Romer. So the key thing has been, right, how do you protect consumers? And so the original legislation had things like a rebate to the energy—you know, to the service providers to insulate consumers.

We can have long discussions on how you design this thing to minimize impact on consumers, to get the benefit through clean energy, you know, preventing climate change, breaking our dependence on foreign oil, and deal with consequences. I would love to

talk with you in detail about how do you design that in the best way possible. The President has said we need to do it.

Senator Brownback. I would prefer you would talk to the American citizens that are looking at prices going up because of this. And my point to you is that, we need to talk about uncertainty, talk about why we're not creating the jobs we need to at this point in time. There's a positive. We can look at trade issues. I think there's a positive we can look at Chinese currency issues. I think that would be a helpful thing if the Administration would really push on China to float its currency. I'm with Senator Schumer on that. I believe the Administration is generally supportive of that policy. I think those are good bipartisan things.

Cap and trade—even if you support the idea this is a bad time for it. That's when you get people keeping their investment on the sideline. Or you get people saying I'm not sure about whether or not to move this on forward.

And it would be wiser, I would submit to you, let's invest in renewables. Let's do more ethanol. Let's do things that support wind energy. But not cap and trade that drives up your costs at a time when you have such a weak economy.

I would really—I am not going to convince you to do that——

Chair Romer. You have convinced me that we should talk more.

Senator Brownback [continuing]. We will be happy to talk with you.

Let me, because I'm going to run out of time, on the Council of Economic Advisers web site you talk about using the best data available.

Chair Romer. Um-hmm.

Senator Brownback. You have created this term "jobs saved." "Jobs created and saved." Now you've got well respected economists that believe this is a nonmeasurable number. I'm sure you're familiar with this.

Chair Romer. Um-hmm.

Senator Brownback. Harvard University Professor Greg Mankiw wrote on a blog: The expression "created or saved" which has been used regularly by the President's economic team is an act of political genius. You can measure how many jobs are created between two points in time, but there is no way to measure how many jobs are saved.

Professor Allan Meltzer, critical in an op ed recently says: The Council of Economic Advisers shamefully embedded a number called "jobs saved" that has never been seen before and has no agreed meaning, and no academic standing.

Now I am certain you are familiar with academic standing on numbers and terms. And I don't want to really dispute with you about the nature of the state of the economy today, but I think we should be on measurables that have been generally agreed to by the profession. And this one is not.

Chair Romer. Actually I disagree fundamentally. Actually, both of those distinguished economists I'm sure actually understand the fundamental notion that any policy has to be judged relative to what otherwise would have happened.

Allan Meltzer is a distinguished economic historian, and everything that we do is about counterfactuals. And in terms of how do

you measure it, that is exactly what our report is about. We go through pages and pages of saying, how do we identify what would have happened otherwise? And therefore, how do you say what we think the contribution of the Recovery Act is?

It is hard. It is not an easy thing to do. That is why we spend weeks writing these reports. It is why the CBO spends weeks. It is why the Federal Reserve is looking at this. It is why Mark Zandi looks at this. Everybody—I mean, it is a well-defined concept. It's just hard. And it doesn't mean that you don't do it. Somebody has to say what's the effect of this policy? And it's just simply not possible to say, well, look at this point, look at that point. This is what the policy did.

You need to know. You need to have some way of estimating what would have happened in its absence. It's the fundamental issue in any economic analysis of a policy measure.

Senator Brownback. Of "jobs saved"? But let me ask you quickly, on the G–20. They recently met and was strongly focused on government deficit spending. And it appeared to be saying that we are all concerned about it, but it did not appear that the Obama Administration was, of what came out of that meeting. And they are saying we need to get deficits under control.

I would hope that the Administration would look at those push—that push by European governments, particularly that they faced in this recent debt crisis, that for most Americans saw that as a shot, a warning shot to us on the track that we are on. And, that you would put more emphasis—I understand your concern about the deficit, but a lot more emphasis.

We just recently pushed the idea of doing a freeze on spending for this next year in the Republican appropriations, and trying to get the rest of our colleagues to go along with that as a way to get focused on this deficit. And I would hope the Administration——

Chair Maloney [presiding]. Would the gentleman sum up? He is way over time.

Senator Brownback. We did about ten minutes on Senator Klobuchar while you were gone——

Chair Maloney. Oh, okay. Okay. All right.

Senator Brownback [continuing]. So I was just saying, well, okay, I will do about ten. And I will sum up here. But my point being, that the G–20 is deeply concerned.

They have confronted this debt crisis that is a crisis of confidence as much as anything. And we cannot let that come to the United States, have that crisis of confidence in the fiscal house in the United States. And I would really hope that if you were more aggressive on dealing with that, we would not confront that crisis of confidence moving on forward. And I am afraid it could come this way.

Chair Romer. All right, so let me first respond by saying, you know, in our budget we talked about a nonsecurity spending freeze, because the President agrees that he thought that was a sensible strategy.

On the G–20, there is no disagreement on the notion that our budget deficit needs to be brought down over time. We agree completely with the other countries of the world that that is an issue that we all face. And I have said before, I think one of the great,

you know, lessons from this crisis is don't—you know, get your fiscal house in order in good times because you never know when you may need the ability to take care of an economy that is in trouble.

But I think a fundamental issue that came up at the G–20 is the rate of exit. Because we do know that fiscal stimulus is having an important effect on the economy. And those distinguished economists that you mentioned, I can tell you from their textbooks, for example, Greg Mankiw's textbooks, he believes that government spending and tax cuts have an effect on the economy.

And if you take away all of that too quickly, what you run the risk of is pushing the world economy back down into recession. So very much what Secretary Geithner and the President were talking about is, as we move toward fiscal consolidation, take into account what is happening in our own country, and what is the appropriate rate of moving in that direction.

That was the only level on which there was any discussion. The overarching goal of getting our deficit under control, I am exactly with you. The President is with you. Director Orszag, Secretary Geithner, we are unified in the importance of getting that under control. That is why we strongly supported the bipartisan commission.

Chair Maloney. Thank you very much. Congressman Snyder.

Representative Snyder. Thank you, Madam Chair.

Dr. Romer, thank you for your patience today. We have been running back and forth for votes. One quick question, if I might, and Mr. Brady is not here, but I am reading from his opening statement when he was talking about things that he considered bad things that President Obama and Congressional Democrats—of which I am one—have done.

One of them is, he states, quote, "The top tax rate on capital gains will increase from 15 percent this year to 23.8 percent in 2013; while the top tax rate on dividends will skyrocket from 15 percent this year to 43.4 percent in 2013". End of quote.

I don't recall you recommending to President Obama that he sign that bill. I don't recall voting for that bill. In fact, that was President Bush's April 2001 Economic Plan that was adopted by the Republican Congress and signed into law by President Bush.

Isn't that correct?

Chair Romer. That is correct.

Representative Snyder. Which Mr. Brady voted for. So when he talks about, and Republicans talk about this "skyrocketing soon-to-come skyrocketing tax increase," it is a plan that they voted for.

And one of the great weaknesses of that plan was that the numbers were gamed so that the 10-year and 20-year numbers would look better because it did come to an abrupt end. They, in my view, did not have the nerve to actually carry it out indefinitely.

And so that is a plan that they voted for. They voted for skyrocketing tax rates, in their words, in 2013, not Congressional Democrats, and certainly not signed by President Obama, and certainly not recommended by Dr. Christina Romer.

Chair Romer. Absolutely. And by structuring it the way that they did, it allowed them to hide the impact that it was going to have on the deficit.

Representative Snyder. That was the big reason for it, yes, to frankly fool the American people.

I want to get into this thing. We have used the word "stimulus" and we have kind of ignored the word "countercyclical," but I want to play that I'm a teacher, if I might, which is probably not going to work, but maybe I will be a better teacher than a lemonade salesman, for Mr. Burgess.

If this [illustrating with water bottles] was the consumption by state government before the recession, jobs drop off, that's what they're buying out of the economy now in state government.

If this was the consumption by local government before the recession, and this glass is what they drop off. If this is the consumption by private corporations, and small business firms, and this is it after the recession begins. If this is consumption by individuals in the economy like myself who is about to borrow some money to have some work done on my house, and this is our consumption after the recession began. This illustrates the problem, I think, which is economy is about demand for product.

And in all these components of the economy, demand has dropped. I can add on another one, which is international buyers. The same thing has happened there. That is demand for U.S. products before. That has dropped off.

Now the only one we have tried to maintain, or even do a little better, is the Federal Government to be a counterweight to all this dropoff. And I want to make one point, and then one question.

My point is, I don't understand what is wrong in the times of a downturn in the economy, why it has become so bad to talk about or advocate for something countercyclical to be a counterweight to this.

My friends on the other side, they were fine to deficit spend to do a military runway in Iraq or Afghanistan, but somehow that money that goes to the Iraq air force base, which it did, to do repairs on the air base, but that's bad and not a good investment in national security. Or $50 million for clean water projects in Arkansas under the stimulus bill is bad, but to deficit spend for clean water projects in Iraq or Afghanistan is good.

I don't get it, when you've got this kind of a situation. But here's my question. And somehow I got, I'd better give them credit, I got put on a Goldman Sachs mailer years ago, and I'm afraid to mention it because they'll probably pull me off, but is there something inherently different now about these components that's making them difficult, making it more difficult, or by choice they are not buying more product to get that up, back to the normal level? It's taking them longer.

Are they making decisions, a deliberate decision, we're going to work on keeping our debt load lower this time around, because we've got some uncertainty out there? And so we're not coming back as fast? Whether you're local government, state government, a corporate entity, big or small, or an individual, and international?

Is there something inherently different about this recovery, using my bottle now?

Chair Romer. You are doing very well at your teaching.

Representative Snyder. And now I am hidden behind bottles. [Laughter.]

Chair Romer. So you make a couple of excellent points. One is just what's the notion of countercyclical policy? And it's precisely what the President has always said. At a time when the private sector is not buying things, the government has a very legitimate, essential role in counteracting some of that. And that is exactly what the Recovery Act was designed to do.

The one thing I would say, though, is one of the key ways it was designed to do it is not just all the government spending, right? We gave very large tax cuts to consumers so that they would go out and buy. We gave unemployment insurance to consumers so they would go out to buy.

We gave the 48C tax credits to businesses so they do more investment. So a whole bunch of that is in fact not in that cup, it is in all of your bottles. And the other thing you were mentioning that I mentioned when you were going is that the world is different coming out of this.

We have a lot of consumers who are over indebted, and so that they may not go back—and we probably do not think they should go back to perhaps the very high spending ways from before the crisis. If consumers are never going to be all the way up to the bottle, you have to ask, well what's going to make sure demand equals? And that is why we talked a lot about exports. That's another source of demand.

I have talked a lot in the economic report about investment. If we can get firms to do more investment, that is going to be something that holds up demand but it is good for our long-run productivity. That is why things like the Small Business Lending Fund, the Bonus Depreciation, the Zero Capital Gains for Small Businesses, that's going to encourage them to invest and be a source of demand for the economy.

So you are absolutely right. We need to get demand up to the level of all those bottles, but I think the composition may be different as we come out of this crisis, and we need to be adjusting policies to try to support that every healthy what we call in the economic report, a rebalancing.

Representative Snyder. Thank you, Madam Chair.

Chair Maloney. Thank you very much.

Dr. Romer, the long-term unemployment rate during this Recession is at an historic high. In your report, you mentioned that the historical relationship between unemployment rate increases and output declines did not hold during this Recession, and that the unemployment rate rose much more than expected given the decline in output.

Do you still believe that this rule-of-thumb known as Okun's Law is holding?

Chair Romer. That's an excellent question. It does go back to how did some of our forecasts not come to be. Part of it was what we discussed at length with Mr. Brady about the deterioration in the economy which was much faster than we or any private sector forecasters were calling for.

But the other piece of that was an unusually bad behavior of unemployment. That given what has happened to GDP, the unemployment rate has risen more than would have been expected. And in the economic report we say it is probably about a point to a

point-and-a-half higher than you would normally expect from that famous relationship called Okun's Law.

I can't help but note it is named after a previous Chair of the Council of Economic Advisers, Arthur Okun. But anyway, this is certainly part of why the unemployment rate is so high, and higher than people had been expecting, is the breakdown in that relationship.

The question is what is going to happen on the other side. So what we have been seeing in the last several months is GDP has started to grow again. The unemployment rate has come down. And I think that relationship is pretty much following the usual Okun's Law relationship.

I think the one thing we of course all hope for is anything, sort of the bad residual that we got in the Recession at some point do we see firms suddenly hiring more, bringing the unemployment rate down more quickly for a given behavior of GDP. I think that is something that is hard to know, but that is certainly a hope that we can have that when this thing really gets going strongly, do you get some of that Okun's Law residual, if you want, back in the recovery phase.

Chair Maloney. Well, many people have noted that during this Great Recession we have been very fortunate to have you and Ben Bernanke, two noted Depression scholars, working in the government and advising us.

A hearing that we talked about that would be interesting, would be a hearing with you and Ben Bernanke on the Great Depression and the lessons that you learned from it.

Some of my colleagues are arguing that we should look to Greece as a cautionary tale of sovereign overspending. Others are arguing that, given a low inflation rate, we are much more likely to end up with a lost decade like Japan faced. Some look at the tight monetary policies put into place during the Great Depression, which many believe prolonged the misery by preventing the flow of credit.

What is the most appropriate lesson for us now? Is monetary policy too tight? What are the lessons that you feel we should be studying and listening to the most?

Chair Romer. Well certainly I think many of the lessons from the Great Depression are actually things that we have put into practice in this Recession. I think it is no accident that Chairman Bernanke and the Federal Reserve took such extraordinary actions and were very creative in thinking about how do we deal with the freezing up of our credit markets, precisely because Chairman Bernanke had studied how devastating the evaporation of credit in the 1930s was.

Likewise, what we learned in the 1930s is that a collapse of aggregate demand does indeed cause the economy to go into a tailspin. And exactly what we have tried to counteract through our policies is that decline in aggregate demand. That is where the motivation for the Recovery Act came from, and it is where the motivation from the expansionary monetary policies have come from.

I think if I would take one lesson—it is actually a short note that I wrote last year—is actually from later in the Great Depression, from the experience of 1937. Because I think what we saw then is the economy was recovering, it was on track, and there was a de-

sire to have both monetary and fiscal contraction, to basically get back to normal as fast as we can on the policy side.

And exactly what we saw is another terrible recession in the middle of the Great Depression in 1938. So I think one of the things that we do need to be cautious of, it goes back to what we were talking about about the G–20, is everyone agrees policy has to go back to normal. We have to get our deficit under control.

It is a question about when can the economy manage that. What is the right trajectory? Do you have a glide path? Or do you have a very quick adjustment? I think that is the lesson that I am certainly very aware of and thinking about as we go forward.

Chair Maloney. Well actually the Senator and I had a personal conversation once that this would be a fascinating hearing. So I would like to welcome him to ask some questions on the Great Depression, the lessons we have learned, and have a little discussion about it, since we probably will not be having a hearing on it. Here is our opportunity.

This was one of your requests for a hearing.

Senator Brownback. Yes, and thank you. And you have been very kind to accommodate some of those.

There is another school of thought that thinks that a lot of the requirements put in by the Administration during the Great Depression also added to the uncertainty of the environment during that period of time. And that is what I keep hearkening back to you on, because that is what I am hearing people say.

Now I don't base that—I don't have a poll number to base that on. I don't have something else. But that you create that uncertainty out there. That's why I've been harping at you on cap and trade at this point in time, why you would push for something like that.

That is one of the other lessons. Now I would appreciate your thoughts about when you read economists right about that point within the Great Depression. You must not think that was a particular problem during that era?

Chair Romer. I feel very strongly that the main thing that went on in the Great Depression was a collapse in aggregate demand, and that is what caused the high unemployment. And the arguments that the regulatory regime was important I think are greatly overblown and actually not a very big part of the story at all.

Let me come back—I mean the issues of uncertainty, you act as though not dealing with climate change, with our dependence on foreign oil, somehow resolves uncertainty. And in fact those are problems that we have to face. And many times by dealing with the problems you actually resolve the uncertainty.

And I will give the example of our CAR rule, right? There was a lot of question about how were we going to enforce emission standards? California doing one thing. And it was actually industry that said: Can you just come together? We're happy to have a rule, but we need the certainty of that rule.

And after we passed it, what you found was the truck manufacturers came and said we want one of those, too. So that oftentimes getting the legislation, getting things—actually setting down the rules of the road can help to resolve uncertainty. And that is the same with a comprehensive energy plan. We know——

Senator Brownback. I will guarantee you——

Chair Romer [continuing]. We're going to have to deal with it——

Senator Brownback [continuing]. That if you put cap and trade in, you're going to get a big fight here. You're going to get a big fight in the country anyway. And you're not going to get the investment that you could get in renewables on an easy basis if you don't put cap and trade in.

I'll give you an easy one. Why don't you raise the ethanol limit up to E15, instead of 10 percent ethanol? Domestic produced. Looks like it works pretty well. You open up to a renewable industry. You get bipartisan support for it. Why not pick those pieces like that that you can look at and you can say, now we could do something like that?

Chair Romer [continuing]. But what the President has described is one of the ways—again, let me come back to by——

Senator Brownback. You're not going to go with 15 percent ethanol?

Chair Romer [continuing]. We are always happy to discuss things, and I'm sure Secretary Vilsack would be delighted to talk to you, as well.

Senator Brownback. Well I would like for you to look at it.

Chair Romer. We will certainly do that. But I do think the—pointing out what everyone knows, which is that we are on—again, it's like the budget deficit—on an unsustainable path in terms of our foreign consumption, or consumption of foreign oil, in terms of emissions. We're going to need to deal with it. By dealing with it, we actually get certainty. By putting a price on carbon, then people know how to make their investment.

That can actually be very good for investment, because people know what they need to do. And it is in fact—you know, if you are worried about uncertainty, actually dealing with this, dealing with this problem that is not going to go away, can very much help to deal with it.

Chair Maloney. I would say that finally acting on financial regulatory reform in many ways is making the economy more stable, as people now know the rules of the game to move forward.

I would like to ask the question that I hear from my constituents, which is about a lack of access to credit, a lack of access to capital. We did pass a $30 billion loan pool that the Administration supported, which I think is important, but we are also reading that banks are holding onto excess reserves.

Why are banks holding onto these excess reserves that they have and not lending? Why do you think that's happening? And is that what happened during the Great Depression? What happened after they recovered somewhat?

Chair Romer. This is fun. This is—so one of the things that happened actually in 1937 was there were a lot of excess reserves, and what the Federal Reserve did was to change the reserve requirements and just declared that those were now required reserves.

And what we discovered was, banks said, no, no, no, we wanted to be holding excess reserves. We've just been through the Great Depression. They were very nervous. And we actually saw them

gathering more excess reserves around the new—above the new higher limit.

So we do I think have to be careful about figuring out sort of what is driving bank behavior. I know Chairman Bernanke was also talking about what regulators were doing on the ground, and how the Fed was trying to talk to them about, you know, making credit-worthy loans when they were, you know—when there were possibilities to do so.

So I do think that we do need to be careful as we go forward. But there is a certain amount of remembering what a terrible crisis we've been through, and how it was a searing experience, not just for American citizens but often for some of these small banks. That was a very frightening time for them as well.

So you can imagine some of their behavior. I think what we're trying to do through the Small Business Lending Fund is exactly to make the banks have access to capital provided by the government at a good price, if they are willing to do lending as a way of making them feel more confident about doing lending. And we think that is a very sensible strategy.

Chair Maloney. That is a strong argument for that. We could use some help in passing that bill in the Senate, Senator. I hope you would take a good look at it.

Senator Brownback.

Senator Brownback. I've taken a lot of good looks at that bill. The numbers I am seeing is it is going to drive down employment and drive up costs. But I understand we have a difference of perspective on that.

I just want to thank the Chair for being here. I do hope you get a lot more aggressive on looking at this deficit. I don't want to see this crisis of confidence come to these shores. And your stance and your view on that would be very helpful to be aggressive on that so we don't see that.

Chair, thank you for having such an open hearing. I appreciate that, and I appreciate your willingness to discuss.

Chair Maloney. I am just going to keep talking about the lessons from the Great Depression, if it's all right with you, Senator.

Do you think the Fed is favoring keeping prices stable over full employment?

Chair Romer. So at this point, Madam Chair, I think it is very important to remember that the Federal Reserve is an independent agency, and I think one of the rules that we in the Administration follow is to not comment on Federal Reserve policy.

Chair Maloney. Okay, well let me ask it a different way. Isn't the inflation rate well below the targeted level?

Chair Romer. So that I think, I mean I think we can have a very interesting discussion on inflation. Because what is certainly true is the usual relationship is that when the economy has high unemployment the inflation rate comes down.

We have absolutely been seeing that happen in this Recession. And certainly in the last few months, both the level of inflation and expectations about inflation are continuing to come down, and are getting to quite low levels.

Chair Maloney. Is deflation a risk?

Chair Romer. It is certainly, as the unemployment rate stays high that puts continued pressure on inflation. So, yes, it is a risk.

Chair Maloney. Since the Fed can't lower the targeted federal funds rate—they've already lowered it to between zero and 25 basis points—to influence short-term interest rates, what other tools do they have in their arsenal to spur employment?

Chair Romer. Well here I would mainly again I think the most appropriate thing would be for you to bring Chairman Bernanke in. I think certainly there have been reports in the press of various things that other countries have done. For example, we hear about quantitative easing, which is things like the Fed did last year when they bought a lot of mortgage-backed securities and pushed down mortgage interest rates. So that is something that other countries have certainly been doing. That is an obvious additional tool that the Fed has certainly used in the past.

Chair Maloney. Senator Schumer asked me to ask this question. He is introducing a bill that we passed in the House and the Senate called the HIRE Act that gave tax credits to employers to hire unemployed people, and he is putting a bill in to extend it for another six months.

Do you believe this has had a positive impact on employing unemployed Americans? And do you believe the Administration might support such an endeavor?

Chair Romer. So, Senator Klobuchar actually asked the same——

Chair Maloney. Oh, she already asked it?

Chair Romer [continuing]. Question. Certainly the answer that I had given then is that we were very big fans of the Schumer-Hatch, the HIRE Act, and that we thought that a jobs tax credit was something with very good job bang for the bucks that are on the line.

And so it is something that we are going to be monitoring. Treasury just did a study on the number of workers that are eligible. I think it is something that we certainly are anxious to talk to Senator Schumer about and see what he has in mind, and to pull together the evidence.

Chair Maloney. Many of my constituents ask me and others about whether or not we might be seeing a double-dip recession. What is your forecast for the economy? Will growth and employment gains in the second half of 2010 be better or worse than the first half? I am asked this question all the time, and I'm sure you are too.

Chair Romer. The first thing to say that's important is I do not foresee a double-dip.

Chair Maloney. Great.

Chair Romer. I think what most of the private forecasters are saying is we have gone through a period of turbulence. The troubles in Greece that we talked about and slower growth in Europe are something that has certainly unnerved financial markets and caused some certainly lower growth abroad.

I think what most people are thinking is that, like the Blue Chip Consensus lowered their forecast just a very small amount, but it's still basically steady. I should say that the Administration twice a year does an official forecast that comes out first with the budget,

and then with the mid-session review that's going to be coming out certainly before the end of this month, and I would rather not get ahead of the Administration's forecast. But we will be coming out with our updated forecast.

Chair Maloney. Thank you. I am hearing in my District, and I believe probably Senator Brownback is also hearing, the struggles of small businesses' access to capital. I am astounded at how many respected firms that have been in business for many, many years, who have always paid their bills and been outstanding businesses, tell me they can't find or get access to capital to hire and move forward. And it is a huge challenge. I am hearing it in the Democratic Caucus. I believe it is a problem all across the country.

Could you tell us what the Administration is doing to ease that? Could you comment further on the Small Business Loan Guarantee Program? Are there any other initiatives or actions that we could take to help small businesses have greater liquidity so that they can move into the future with more confidence?

Chair Romer. So I hear exactly the same things that you are hearing. And again, Chairman Bernanke gave a speech earlier this week talking about what they were seeing in their data; that, yes, small businesses are having trouble getting credit. And that is something that is impeding their growth and job creation.

It is absolutely one of the headwinds that we face, and should be dealing with. When we did a very comprehensive review of this, what we thought was the best way forward was exactly the Small Business Lending Fund that is in the legislation. We thought cutting small business taxes, by having zero capital gains on equity that small business owners put in, we think that's a very sensible strategy.

We proposed some small changes to the Small Business Administration Loan Program so that they could have bigger loan amounts. All of those we think are, from talking to small businesses, things that are likely to work. They are what we thought was the best shot we could take at dealing with this problem.

So our main plea is to get it through the Congress, because we think it would be very helpful.

Chair Maloney. Another area of concern—if you could comment on the economics of the unemployment benefits. Many economists have testified before us that all of this money is plowed back into the economy. It is not only the humane action to take care of unemployed workers, but it also has the effect of keeping them working, or looking for a job, instead of going on welfare and Social Security Disability, which is very costly to the country and certainly it's better for us to have them working to get employed. And every one of these dollars goes back into the economy.

I believe we have 15 million unemployed Americans at this point. We have passed unemployment benefits in the House. We are hopeful that the Senate will pass it. And if you could, please comment on the economics of the unemployment benefits. This Committee did a study, because some of my colleagues on the other side of the aisle were saying that giving the unemployment benefits would in some way discourage workers from looking for a job, and our report showed just the opposite. They very much want a job, and they are frantic to find a job.

So your comments on the importance of extending the unemployment insurance?

Chair Romer. Absolutely. I think what your report found is I think very much what the economics literature finds. Especially to the degree that there are incentive, or disincentive effects from high unemployment insurance benefits, those are issues that apply in normal times when the unemployment rate is much lower at more normal levels.

At a time when there is a lack of jobs, the main effect that it has is keeping people attached to the labor force. And I can't think of anything we want more, exactly what we're worried about is workers becoming discouraged, dropping off, losing their skills, and not looking for work.

The other point that you made about its stimulus impact is again very much supported by the economics literature. I cited, while you were away, a study by the Congressional Budget Office that said that this was a very cost effective form of stimulus.

I know Mark Zandi, it's at the very top of his list in terms of what he thinks has the best bang for the buck. And I think that is an important point to keep in mind. It is a program that is both humane to the people involved, but good for the overall economy, good for the people in the community that get the jobs producing the things that unemployed workers buy with their unemployment insurance.

Chair Maloney. Well, my colleague has raised the concern that many of us share on the deficit and the debt, but can you put it in perspective, how much of this deficit problem is related to the Recession?

Chair Romer. So I think an important thing is, in the short-run deficit, a very large fraction, or probably about half, is due to the Recession and half to the policies that we inherited from the past. And it makes sense. When you have a terrible Recession, tax revenues go down. Your expenditures for things like unemployment insurance go up. And that naturally tends to swell the deficit.

In terms of our long-run deficit, however, it is a very small part of the long-run problem. The one-time actions that we take to deal with this emergency add just a tiny bit to your deficit over time. The much bigger determinant of the long-run deficit are things like health care costs, the aging of the population, things like that.

Chair Maloney. Does my colleague have another question?

Senator Brownback. I do. Because the unemployment insurance issue has come up here so much, wouldn't it be best if that were paid for?

Chair Romer. No, is the simple answer.

Senator Brownback. It's not best if it was paid for by the Federal Government?

Chair Romer. What I would certainly say, the way we set up our paygo rules and the whole idea, we had our long discussion of countercyclical policy, I think if anything counts as an emergency it is unemployment of 9.5 percent. You will get no argument from me, we should pay for many things. We should deal with our deficit over time.

I would not get held up over paying for a temporary one-time extension of unemployment insurance.

Senator Brownback. What if that is what is holding it up from passing? What if it would pass but for being paid for? Would you then still argue it should not be paid for?

Chair Romer. I think the important thing is figuring out how it is paid for. Because—so that if you cut expenditures that would be aiding the recovery at the same time that you are doing the expenditures for UI, in terms of the over—you may help the particular people that are getting the funds, but in terms of the overall health of the economy you wouldn't have accomplished very much.

Senator Brownback. So you would prefer it not pass if you have to pay for it? Is that—because that's the whole— if I could, Chairman, that's the whole issue in the Senate. We did the doc fix after it was paid for. We did the homebuyer tax credit, after it was paid for. Those passed with unanimous consent. That means everybody agreed to it.

This sits there ready to go, if it's paid for. And you would argue it would be better not to pay for it and it not pass?

Chair Romer. There are certainly other ways to pay for it. And our budget had listed various things that could be used to pay for various priorities. And I think, you know, so obviously I think the important thing is, you know, we need to work to do this because we all agree this absolutely has to be done.

And figuring out what we can do that will get this necessary insurance in a way that is good for the economy is I think something we can work on. And I am happy to work on the details with you.

Senator Brownback. So you do support paying for it?

Chair Romer. I support passing it. And that is certainly important, and I would love to work with you and talk with you about what's the best way to do that.

Senator Brownback. Well I never seem to get a straight answer out of you. You're not opposed to not paying for it? Can I put it that way, and that's accurate?

Chair Romer. No. You're putting words in my mouth. We're having a very sensible discussion——

Chair Maloney. She wants it passed, and she thinks it's economically important.

Senator Brownback. I agree with that.

Chair Maloney. If you can find a pay-for, go find it.

Senator Brownback. We found a pay-for. And you'd support that if we can find a pay-for?

Chair Romer [continuing]. So at this point I don't know what we're saying, but what I do know is we absolutely need this extension——

Senator Brownback. I agree with that.

Chair Romer [continuing]. We absolutely—you know, I think there are many things that absolutely need to be paid for. An emergency extension of unemployment insurance is typically not paid for. The whole point is that it's an emergency, and that you actually need the stimulus that it provides.

And if you wish to pay for it, and you think that's important, let's think about what's the best way to do that in a way that is economically sensible and doesn't counteract any of the way in which it is helping the economy. And that is what I stand for, and would love to talk with you more.

Chair Maloney. Another important part of the economy is the housing. Housing is always a large part. In some ways it is as much as 25 percent. Do you think that the rebound in the housing was due to the the Homeowners' Tax Credit? Do you believe the Homeowners' Tax Credit was responsible for the movement that we saw in our economy in that area?

Chair Romer. So what we certainly—I mean, what the Homeowners Tax Credit is it's like the Cash For Clunkers Program. It gives you an incentive to do the activity while it's in place.

And what we found with Cash For Clunkers is, what that did is to bring demand for new cars, not just from a few months in the future, but it seems to be probably from very far in the future because we've seen car sales continue at a higher level than they were before the program.

I think we don't know yet about the first-time homebuyers credit. It certainly seemed to—you know, we do see that people hurried up and bought their homes before it expired. I think what we don't know is from how far in the future they brought it forward.

The big drop off in May says well maybe it didn't move it all that much from the future. So I think that is going to be the issue, and it is a hard one.

Chair Maloney. And also we are facing the issue with the local and state governments, with the FMAP that many of us are supporting. Many economists are concerned that the budgetary shortfalls for our state and local governments will result in additional layoffs and service cuts at a time when our economy is very, very fragile.

Was aid to the states a cost-effective and efficient form of stimulus? Did it work? We certainly appreciated it in New York State, but I'd like an overall statement.

Chair Romer. You will absolutely get one from me. I think it is one where we had not had that much experience with that form of stimulus, so we did not have that much evidence to go on when we passed it. But certainly the conditions were dire and it was worth a try.

I think all of the evidence since then is that it has been particularly effective. And I will actually cite our first quarterly report on the Recovery Act, because we highlighted the state fiscal relief, and actually did I think a very innovative study trying to really pin down causation. And what the results of that showed is that it was very effective. And looking state by state, we saw a very big impact.

Chair Maloney. How does it compare to other components that were in the Recovery Act such as tax cuts? What was more stimulating? What was more effective in getting the economy churning again?

Chair Romer. So I think we would put the state fiscal relief as one of the highest ones. I think when you look at conventional macro-economic models, typically tax cuts have less stimulative impact than direct government expenditures. And we would put state fiscal relief closer to the direct government expenditures.

Chair Maloney. Do you think that additional state aid is warranted now in our financial recovery?

Chair Romer. I do indeed. The numbers that you get from various sources will tell you that state and local governments have a—still have a budget deficit of about 1 percent of GDP. If they deal with that by cutting spending, raising taxes, that is going to be a contractionary force on the economy.

And so it is something I think we can very sensibly—I think it would be money very well spent. It would help keep our teachers in the classroom, and our policemen on the beat.

Chair Maloney. We passed a stimulus of $10 billion for teachers in a supplemental budget in the House, and we hope the Senate will act on that, too.

One of the good news items that you had in your report was manufacturing, where we are gaining jobs. What do we need to do to sustain the current gain in manufacturing, the current manufacturing trend that is very positive? What do we need to do to keep this going?

Chair Romer. You are exactly right, that manufacturing is one of the areas that we have seen coming back in the recovery. I think the numbers are we have added some 126,000 jobs in manufacturing. Industrial production is up something like 8.2 percent in the last 11 months, and that is certainly a trend that we are very encouraged by and want to see continuing.

What is one of the things that the President has talked about is how important it is to make sure that we—that our manufacturing continues to grow and evolve. He has identified clean energy technologies as an industry of the future, and one that we know China is working very hard on, Korea, many other countries, Germany, and he doesn't want to get left out. And that is part of what is I think so innovative about the Recovery Act.

In our second Quarterly Report we actually talked about how about $90 billion of the overall Act went into the area of clean energy, broadly defined. And a lot of that was designed to help jump start this, to help make our transition to clean energy work better. And I think that is going to be something that is very important.

Those public/private partnerships that we have been talking about in our report, and that the President will be highlighting later this week in Michigan, are—I think—an important step towards helping that sector come back very strongly.

Chair Maloney. Well, I could listen to you all day, but I am supposed to be voting in another committee, and I am sure the Senator has other demands. But it was really fascinating. It is always a really wonderful opportunity to hear your report.

We are honored that you discussed the economic outlook and your fourth CEA report on the Recovery Act before our Committee. We are deeply grateful. I look forward to your future reports on the leveraging between the private/public sector job creation projects. I found that very interesting and certainly support your desire to move forward with special reports on how they are affecting the various states. It is very clear that we need to expand every tax dollar we have and have each go further and further to help spur jobs. And the fact that you have been able to document that is very, very good news.

I thank you for documenting that the Recovery Act is trending, moving this country in the right direction, and I would like to con-

tinue working hard in Congress to try to help move these proposals to have access to credit, and help create jobs in our country. And believe me, I do not think either one of us will stop until every American who wants a job has a job and our economy is strong enough to support their desires.

I want to thank my colleague and good friend, Senator Brownback, for being here today, and all our colleagues. I thank especially you, Chairman Romer, for your outstanding report today and for your public service. Thank you so much for being here. We look forward to the next time. We hope we hear again from you soon. Maybe you can come back when you have your states reports and tell us what states have innovative ideas that are really working and helping us employ Americans.

Thank you so much. This meeting is adjourned.

[Whereupon, 4:40 p.m., Wednesday, July 14, 2010, the hearing was adjourned.]

SUBMISSIONS FOR THE RECORD

PREPARED STATEMENT OF CAROLYN MALONEY, CHAIR, JOINT ECONOMIC COMMITTEE

I want to welcome Dr. Christina Romer, the Chair of the Council of Economic Advisers, and thank her for her testimony here today.

The Council of Economic Advisers and the Joint Economic Committee were both created by the Employment Act of 1946 and share an important history of providing the White House and Congress with analysis of economic conditions and economic policy.

Our hearing today is on the economic outlook as well as the impact of the Recovery Act on the economy.

In the first quarter of 2009, when the current Administration took office, the economy was facing the worst economic crisis since the Great Depression:

- GDP fell by 6.4 percent, the fastest rate in almost three decades.
- Monthly employment losses were higher than any seen since after World War II—in the first quarter of 2009, an average of 753,000 jobs were lost each month.

As you pointed out last fall, the shocks that hit the economy in the Fall of 2008 were larger than those that caused the Great Depression.

As a result of the Recovery Act and other targeted spending programs passed in the 111th Congress, the economy has recovered over the last year:

- Private sector jobs were created in every month of 2010; and
- GDP grew for 3 straight quarters with forecasts of growth continuing for a fourth quarter.

As the Chair of the JEC I have learned how valuable charts can be to present the story of the economy. This chart clearly shows that the Recovery Act had a clear impact on the economy's upward trend.

I am especially pleased that you are appearing before us just before the JEC transmits its mandated response to the Economic Report of the President.

Your testimony here today will inform us as we put the finishing touches on that report.

Since January, the JEC has been laser focused on job creation, holding numerous hearings and issuing a number of reports on this topic.

While the economy has expanded, consistent with the ERP's predicted growth for the first half of 2010, I worry that this recovery is still very fragile.

It is clear that some of the differences between this recession and previous recessions might endanger this fragile recovery:

- First, although the unemployment rate has been higher in previous recessions, the long term unemployment rate (that is for workers looking for work for more than 6 months) is at historically high levels.
- Second, the median duration of unemployment is almost 6 months—which means that the typical worker searches for six months before finding employment or possibly dropping out of the labor force.
- Finally, state and local governments are experiencing significant budget gaps as property and income tax revenues have plummeted while aid to unemployed families has spiked and demand for public education has risen.

In order to spur the hiring process, it is clear that additional measures must be taken to create enough jobs for the nearly 15 million unemployed.

I am dismayed by my colleagues who are listening to the political siren's call of short term cuts to the deficit instead of heeding the economic imperative of robust job creation. Make no mistake. The national debt is a serious challenge for our economy.

We need to carefully craft a plan that is smart, effective and fair.

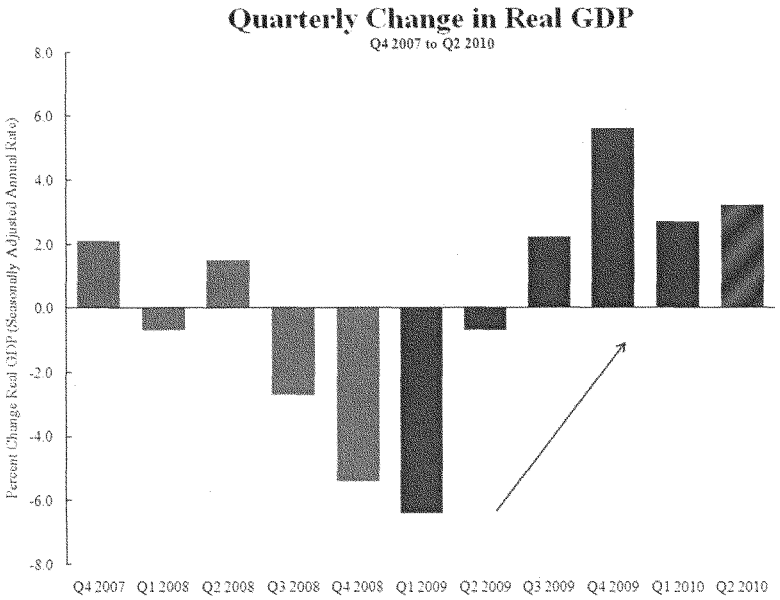
A long-term strategy on debt reduction is essential for a strong economy for generations to come.

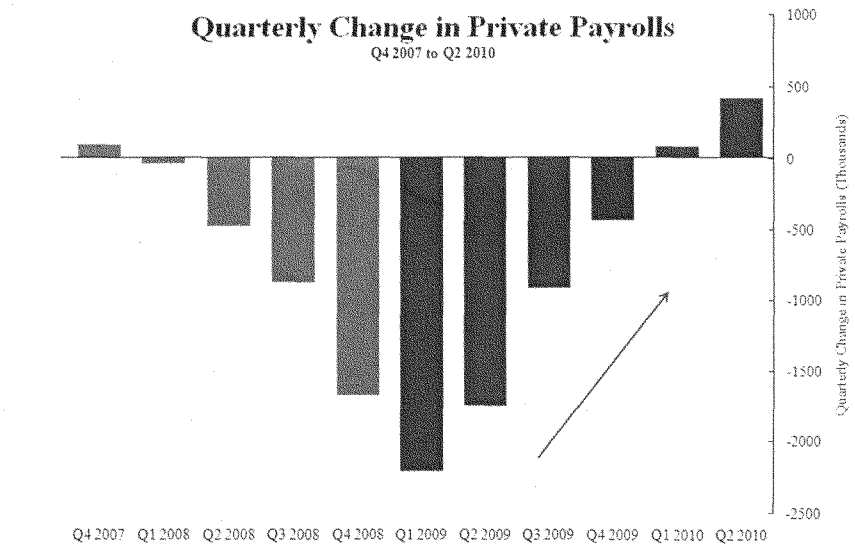
As Fed Chairman Ben Bernanke told the JEC earlier this year, ". . . maintaining the confidence of the public and financial markets requires that policymakers move decisively to set the federal budget on a trajectory toward sustainable fiscal balance."

However, efforts to translate this need into short-term spending cuts—especially cuts in unemployment benefits—have moved the deficit battle into the homes of the unemployed.

This is bad economics and bad public policy.

Dr. Romer, we thank you for your testimony and I look forward to working with you as the committee continues our focus on fixing the economy, helping struggling families, and, above all, putting people back to work.





Note: Q2 2010 Real GDP is the consensus forecast from Blue Chip Economic Indicators (July 10, 2010).
Sources: JEC Majority Staff Calculations based on data from the Bureau of Economic Analysis and Bureau of Labor Statistics, Payroll Survey.

PREPARED STATEMENT OF REPRESENTATIVE KEVIN BRADY

I am pleased to join in welcoming the Chair of the President's Council of Economic Advisers, Professor Christina Romer, before the Committee this afternoon.

On November 2, 2010, the American people will judge the economic policies of President Obama and Congressional Democrats and may direct a midcourse correction, much as professors do with their students at midterm.

President Obama took office under unfavorable economic circumstances, but so did Franklin D. Roosevelt and Ronald Reagan. The question is, has the White House met its economic promises, and are we positioned for long-term growth? Economists, job creators in the private sector and families should question:

- Have President Obama and Congressional Democrats spurred private investment and job creation with their "stimulus" spending, or have their policies added costs and uncertainty that have weakened the recovery?
- Have President Obama and Congressional Democrats met our demographic challenges and improved our long-term economic prospects, or have they diminished them through an ideologically driven expansion of the size and scope of the federal government, higher taxes, burdensome new regulations, and a reckless increase in federal debt?

To help answer these questions, let us examine the record as measured by the standards that you set for yourself. In January 2009, you published an economic analysis of Obama's stimulus $787 billion plan and forecast that if Congress were to pass this plan:

1. The unemployment rate would remain below 8.0 percent
2. Non-farm payroll employment would increase to 137.6 million by the fourth quarter of 2010.
3. Ninety percent of the jobs created would be in the private sector.

Congressional Democrats passed the stimulus bill, and President Obama signed it into law on February 17, 2009. Now let us compare your promises with reality.

1. Since the stimulus was enacted, the unemployment rate has never been below 8.0 percent. It has been as high as 10.1 percent and was 9.5 percent last month.
2. In June 2010, non-farm payroll employment was 130.5 million, 7.1 million payroll jobs short of your forecast.
3. Since February 2009, only the federal government has added payroll jobs. The private sector has actually lost 3.3 million payroll jobs.

Clearly, Obama's stimulus plan failed to work as you predicted. Instead, this recovery has been unusually weak for one after a severe recession. Average real GDP growth was 7.5 percent in first three quarters after the 1981–82 recession under Reagan compared with 3.5 percent in first three quarters after the 2007–09 recession under Obama. In the first twelve months of recovery, the United Stated added 3.1 million payroll jobs under Reagan, compared with a loss of 170,000 payroll jobs under Obama. Similarly, the unemployment rate fell by 2.3 percentage points under Reagan, while it increased by 1/10th of a percentage point under Obama.

Turning to the long-term consequences of the Democrats' economic policies, one sees higher taxes, heavy regulation, gaping federal budget deficits, and soaring federal debt.

President Obama and Congressional Democrats are increasing taxes through legislation, their failure to legislate, and "bracket creep" in the non-indexed portions of the tax code, including the alternative minimum tax and excise tax on so-called "Cadillac" health care plans. Individual income tax rates will increase at the end of this year. Without a fix, up to 27 million families will become ensnared in the AMT.

The top tax rate on capital gains will increase from 15 percent this year to 23.8 percent in 2013, while the top tax rate on dividends will skyrocket from 15 percent this year to 43.4 percent in 2013. Congress allowed the research and development tax credit to expire. Moreover, Congress levied new excise taxes on private health insurance plans, pharmaceutical and medical device manufacturers, and tanning salons.

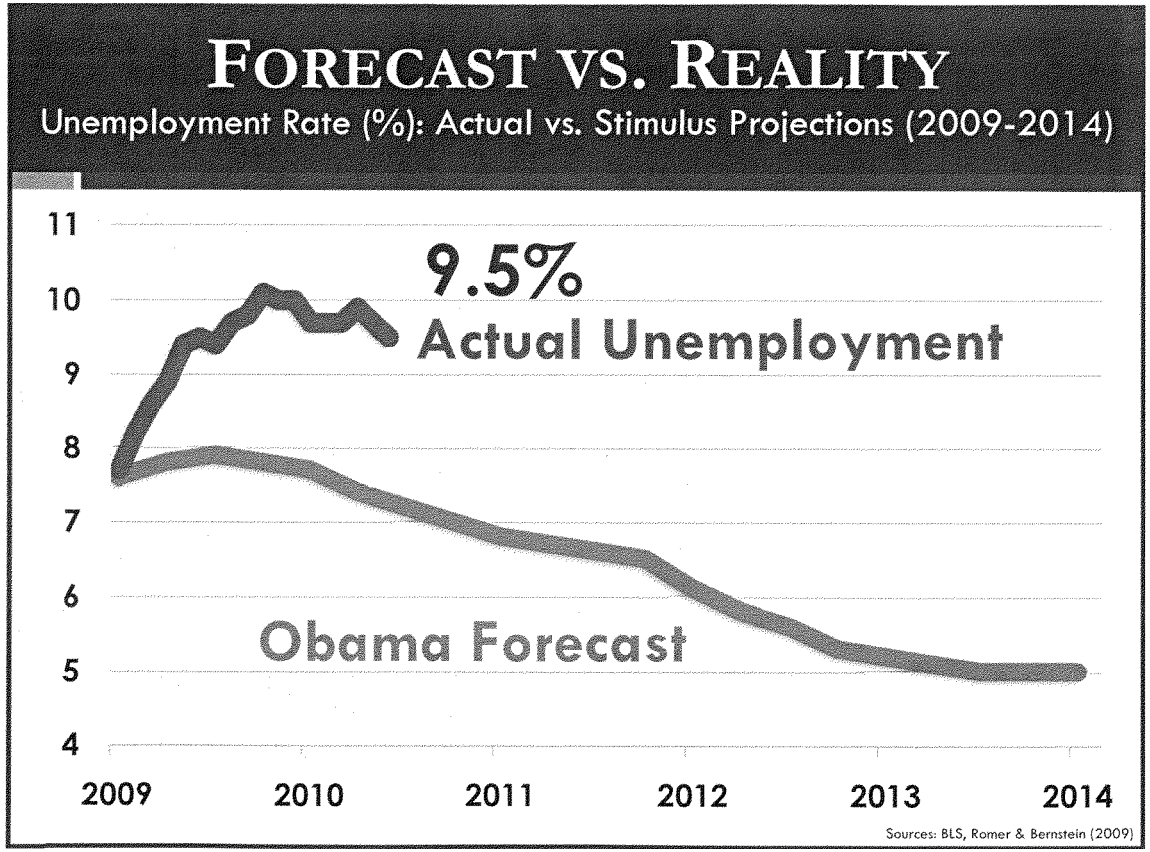
If these tax increases aren't enough to choke the private sector, President Obama and Congressional Democrats are still scheming to pass new energy taxes through "cap and trade" legislation. According to press reports, two Administration panels will recommend levying a value-added tax once the midterm elections are over.

However, these massive tax increases are still not enough to fund Obama's extravagant federal spending. Based on Obama's Budget, the Congressional Budget

Office projects that average federal outlays over the next decade will be 24.1 percent of GDP, 4.6 percentage points above the post-war average of 19.5 percent of GDP. The federal budget deficit will never be less than 4.1 percent of GDP. And publicly held federal debt will climb from 53 percent of GDP at the end of fiscal year 2009 to 90 percent of GDP at the end of fiscal year 2020.

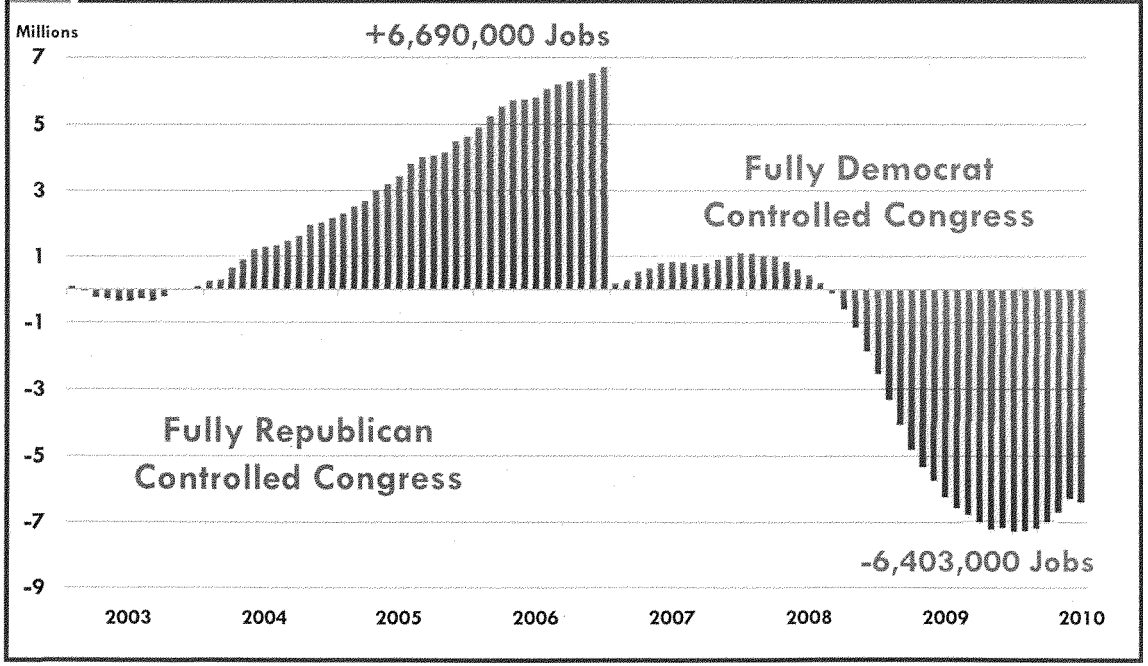
Our long-term fiscal outlook is dire. If current policies remain in place, the Congressional Budget Office projects that publicly held federal debt will soar to an incredible 947 percent of GDP by the end of fiscal year 2084.

I look forward to discussing these issues with you.


FORECAST VS. REALITY
Unemployment Rate (%): Actual vs. Stimulus Projections (2009-2014)
11
10
9
8
7
6
5
4
9.5%
Actual Unemployment
Obama Forecast
2009
2010
2011
2012
2013
2014
Sources: BLS, Romer & Bernstein (2009)

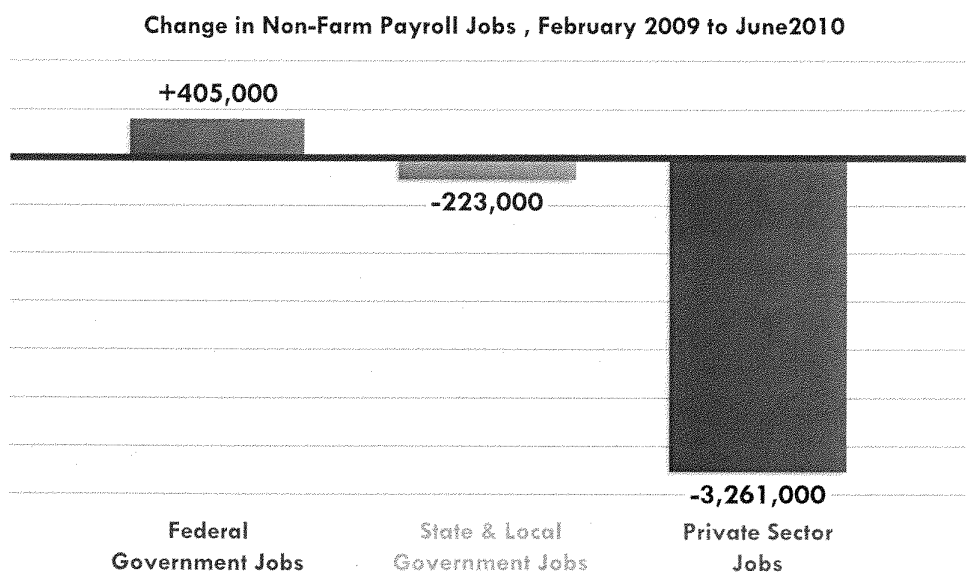
Job Gains & Losses by Congressional Control

Cumulative Non-Farm Payroll, 2003 - Present



FORECAST VS. REALITY

"90% of the jobs created are likely to be in the private sector"
--Romer-Bernstein



Sources: BLS, Romer & Bernstein (2009)

PREPARED STATEMENT OF REPRESENTATIVE MICHAEL C. BURGESS, M.D.

Thank you, Madam Chairwoman.

Here we go again. Another month, another set of facts and figures that are telling the American people what they already know—the so-called Stimulus isn't working. **WHERE ARE THE JOBS???** Companies aren't hiring at rates anywhere near where this Administration claimed they would be at this time. Businesses and individuals have the same outlook when it comes to this President—what's he going to do next to make it harder for us to move forward?

An ill-advised and scientifically suspect drilling moratorium that is already seeing jobs shipped overseas, as rigs pull up anchor and sail to foreign seas. Looming EPA regulations on emissions that will have consumers seeing their energy bills skyrocket. Financial regulatory reforms that will take years to implement, causing uncertainty in an already fragile market and leading banks to be less likely to loan money, not knowing what future things this Administration will do to harm their capital outlooks.

I asked Secretary Salazar whether the Administration had done any economic analysis of what this drilling moratorium would do to job outlook in the Gulf region. To date, we have gotten no response. I can only assume that this hasn't been done, or the Administration would know, as the *New Orleans Times Picayune* reported, that each job in energy exploration supports an additional 4 jobs providing supplies and services. Kill 5 jobs for the price of 1—there's a statistic you don't hear coming out of the White House.

Sound economies need stability, and this President has provided anything but. He can claim to be "pro-business" all he wants, but with continued talk of Card Check and other pro-unionizing regulations, businesses know they can't afford to take any risks right now. Congressional Democrats even inserted a provision in the War Supplemental essentially forcing state and local fire and police departments to unionize—regardless of whether workers in those departments have expressed any interest. Actions speak louder than words, and the actions of this Administration indicate one thing—this President and the people he has put in place throughout the government have yet to see a rule or regulation that they aren't in favor of passing, and each rule and each regulation adds cost to the price of doing business.

The Business Roundtable recently sent the White House a report of exactly what this President's policies are doing to businesses around the country. In a letter to Peter Orszag, Ivan Seidenberg, CEO of Verizon, and James Owens, CEO of Caterpillar Inc., said business leaders are "increasingly concerned that political expediencies of the short-term harm our ability to partner with government to create policies that foster growth." Jamie Dimon, CEO of JPMorgan told the White House "Punishing whole industries, whether you were reckless or not, just isn't the way to do things." And Dan DiMicco, CEO of Nucor Corp., told *The Wall Street Journal*, "There's this common concern . . . that we're not doing the right things yet, and it's showing up in the jobs numbers."

One reason this Administration is likely so disconnected with the reality of the private sector is that so few of the President's top advisors have any real-world experience. Professors and Academics, people who've spent the bulk of their careers in government—that is who we have dictating to the private sector how CEOs should be running their businesses, and that is a large part of why businesses overwhelmingly resent the mandates being thrown at them by this Administration. Maybe if the President started hiring more CEOs in his cabinet like past Presidents from both parties have done for decades, he would start getting the kind of advice needed to allow the private sector to finally grow.

Further cause for dismay is the Council of Economic Advisers' latest Economic Impact report admits that any analysis of job creation in each state in this report is "speculative and uncertain." After spending hundreds of billions of dollars to "stimulate" the economy, a year and a half later we can still only "speculate" on job growth. There either have been or have not been jobs created by the stimulus. I don't need to speculate, all I have to do is look at the unemployment numbers that have been stagnant under this President. The Stimulus was a failure. I don't have to speculate about it.

President Obama's philosophy in steering this economy seems to be taken directly from Lewis Carroll's *Alice in Wonderland.* When talking to Alice, Humpty Dumpty tells her ""When I use a word, it means just what I choose it to mean—neither more nor less." Further, the Cheshire Cat might provide some insight into the game plan for this Administration's policies:

> "Would you tell me, please, which way I ought to go from here?"
> "That depends a good deal on where you want to get to," said the Cat.
> "I don't much care where—" said Alice.

"Then it doesn't matter which way you go," said the Cat.
"—so long as I get SOMEWHERE," Alice added as an explanation.
"Oh, you're sure to do that," said the Cat, "if you only walk long enough."
(*Alice in Wonderland, Chapter Six*)

This Administration has been playing fast and loose with words, facts and figures in relation to the economic outlook of this country since it came into office 18 months ago. The American people are catching on. The rhetoric needs to stop.

With that, I yield back.

For release on delivery
2:00 p.m. EDT
July 14, 2010

Testimony to the Joint Economic Committee

The Impact of the Recovery Act and the Economic Outlook

Christina D. Romer
Chair, Council of Economic Advisers
July 14, 2010

Chairwoman Maloney, Vice Chairman Schumer, Ranking Member Brownback, Congressman Brady, it is a pleasure to be with you today to discuss two issues of interest to both the Joint Economic Committee (JEC) and the Council of Economic Advisers (CEA). One is the economic impact of the American Recovery and Reinvestment Act of 2009. As part of the unprecedented transparency and accountability provisions of the Act, the CEA provides a report to Congress about the Act each quarter. In the Fourth Quarterly Report released this morning, we not only find that the Act has had a substantial effect on output and employment, but that it is leveraging private capital and making important investments in the future productivity of the country.

The second topic I will discuss is the economic outlook. The Recovery Act and other actions have helped to turn the economy from freefall to recovery. But, much work obviously remains to return the economy to full health. I will discuss the role that the targeted actions currently being discussed by Congress could play in counteracting some of the headwinds to growth that have become more apparent in recent weeks and, by doing so, in accelerating the rate of recovery.

Impact of the Recovery Act

Let me begin by discussing what the CEA's new report finds about the impact of

the Recovery Act as of the second quarter of 2010. With the Chair's permission, I would like to enter a full copy of the report into the record.

The Changing Composition of Recovery Act Stimulus. Congress designed the Recovery Act both to begin spending out quickly and to provide crucial support to the economy over a two-year period. It has met and is continuing to meet these goals. The state fiscal relief, payments to seniors, and the emergency unemployment insurance benefits went out almost immediately, and started aiding the economy in the spring and summer of 2009. The tax cuts also went into effect immediately, but it has been during tax season (the first two quarters of this year) that many Americans have seen concrete signs in the form of reduced tax payments and increased tax refunds. The Internal Revenue Service estimates that more than 95 million households received the Making Work Pay tax credit from the Recovery Act and that average tax refunds were up by over $200 from last year in part because of this and other Recovery Act tax provisions. In previous CEA Recovery Act reports, we have highlighted the state fiscal relief and the tax cuts and income support provisions of the Act, and found evidence of their effectiveness.

In today's quarterly report, we highlight the public investment spending in the Recovery Act. This is the project spending that not only creates jobs in the short run, but leaves us with an expanded and improved ability to create high-paying jobs in the future. The Recovery Act includes $319 billion of public investment on everything from basic infrastructure such as roads and bridges to twenty-first century infrastructure such as a smarter electrical grid and universal broadband. It invests in community health centers, health information technology, education, and job training to improve the health and skills of our citizens—our human capital. And, it makes unprecedented

investments in basic scientific research to enhance innovation and so help retain our competitive edge. All of these investments will help increase the long-run productivity of our economy and the standard of living of ordinary Americans.

The public investment components of the Recovery Act were always expected to spend out more gradually, because they typically require planning and are often awarded through a rigorous competitive process. But as of the end of June, roughly two-thirds of the public investment funds included in the Act had been obligated, and more than $86 billion had been outlayed. Public investment outlays increased by more than 50 percent between the first and second quarters of this year, which explains why the Vice-President has named this summer the "Summer of Recovery." In the area of transportation infrastructure alone, nearly 14,000 projects had been awarded as of the first quarter of 2010. Importantly, as the other stimulus in the Recovery Act gradually winds down over the next few quarters, the public investments will continue at a rapid pace, providing continued support to the economy.

Leverage Provisions of the Act. An innovative feature of the Recovery Act is its focus on partnering public investment with private and other funds. Much of the Recovery Act investment spending takes the form of matching grants, loan guarantees, interest subsidies, and tax incentives that support and encourage outside investment. For example, the 48C Advanced Energy Manufacturing Credit gives private firms that pass the Department of Energy's competitive process a 30 percent tax credit for their investments in factories to produce solar panels, wind turbines, and other clean energy products. The Broadband Initiatives Program provides grants and loans to firms and regional authorities to bring internet access to rural communities. And, the Build America Bond program subsidizes the interest cost of state and local government

borrowing for schools, transportation, and other vital projects, so that these entities are encouraged to invest in local infrastructure.

The CEA's report collected information from 15 agencies on the nature and extent of these leverage provisions in the Recovery Act. We find that roughly $100 billion of Recovery Act funds use leverage, and that these provisions are encouraging co-investment in a wide range of areas. The greatest use of these innovative provisions are in the areas of clean energy, economic development, and building construction. We estimate that the $100 billion of Recovery Act funds will partner with close to $300 billion of other funds, the majority of which are from the private sector. That is, $1 of Recovery Act funds is matched by $3 of other funds. All told, the $100 billion investment from the Recovery Act will support more than $380 billion of total investment spending.

A detailed examination of the incentives for wind energy production suggests that such leverage provisions can have a significant impact on private sector investment behavior. Thus, the Recovery Act appears to be stimulating private investment and job creation at a time when the economy needs it most.

Jobs Impact. In our report, we estimate the impact of the Recovery Act on job creation in two ways. One is a model-based approach, similar to that used by the Congressional Budget Office. This approach uses multiplier estimates based on the historical record to estimate how the Recovery Act tax cuts and outlays to date likely translate into employment effects. Importantly, when we apply this approach, we err on the side of caution and consider only the effects of the government expenditures and tax cuts; we do not include the employment effects from the private investment spending that may have been leveraged by the innovative features of the Act.

The second approach that we use to estimate the employment impact of the Act does not depend on policy multipliers estimated from past history. Instead, it uses statistical procedures to project the likely path of employment based on the information available through the end of the first quarter of 2009, when the Recovery Act was passed. It then compares the actual path of employment with the forecasted baseline. This projection approach implicitly takes into account features such as the innovative leverage provisions that may have caused the Recovery Act to have impacts different from previous fiscal actions. At the same time, it is important to realize that this approach also captures any unusual influences on the economy, either positive or negative, other than fiscal policy.

The model-based approach indicates that the Recovery Act has raised employment relative to what it otherwise would have been by 2.5 million jobs as of the second quarter of 2010. Of these jobs saved or created, more than 800,000 are due to the public investment outlays that have occurred so far. The projection approach yields a substantially larger number: it suggests that employment as of the second quarter is 3.6 million higher than it otherwise would have been. By this estimate, the Recovery Act has met the President's goal of saving or creating 3.5 million jobs—two quarters earlier than anticipated.

Our review of a wide range of other estimates of the employment effects of the Act shows that our model-based estimate is similar to that of outside experts. Our projection-based estimate is higher than other estimates, though very similar to the Congressional Budget Office's high-end estimate of 3.4 million. There is obviously a great deal of uncertainty around any jobs estimate, and I suspect the true effects of the Act will not be fully analyzed or fully appreciated for many years. But, our compendium

of outside estimates shows that respected analysts across the ideological spectrum, as well as the non-partisan Congressional Budget Office, agree that the Act has had a significant beneficial effect on employment and output over the past year.

Economic Outlook

Let me turn to the second topic I want to discuss today—the state of the U.S. economy and the outlook for the future.

Current Conditions. First, and most obviously, the economy is doing much better today than it was when I last testified to the JEC in October 2009. At that point, we were just beginning to see the signs of recovery. We now know that GDP began to grow again in the third quarter of 2009, and has been expanding at a moderate pace since then. In October 2009, we were still losing jobs, although at a much slower rate than in the depths of the crisis. Since the beginning of 2010, we have been consistently adding jobs: private sector employment is up nearly 600,000 since the start of the year. In October 2009, the unemployment rate hit 10.1 percent. It has fallen six-tenths of a percentage point since then, to 9.5 percent in the most recent report.

While conditions are much improved from last October, and dramatically better than they were in the dark days of late 2008 and early 2009, the economy remains far from fully recovered. The financial crisis and the ensuing recession inflicted a terrible toll on American families and workers, and much work remains to be done to repair the damage left after the storm.

Some might see a conflict between my earlier discussion of how useful the Recovery Act has been and the fact that economic conditions are still very tough. But there is none. The Recovery Act is doing what the Administration and other analysts

said it would do: it has increased employment greatly relative to what it otherwise would have been. It has helped to fill some of the shortfall in demand, and has played a fundamental role in the dramatic change in the trajectory of the economy. But, because the deterioration of the economy was so severe in late 2008 and early 2009, even with this essential aid, the economy remains troubled. It is surely little comfort to families that are still struggling to hear that without the Recovery Act conditions would have been far worse. But it is, nevertheless, true.

What can we expect for the economy in the months ahead? The past few weeks have seen more mixed economic reports than we saw in the spring. Following the troubles in Europe associated with the Greek debt crisis, stock prices have declined noticeably and financial markets have been subject to greater volatility than we had seen for more than a year. Perhaps related to this financial sector unease, some measures of consumer confidence have fallen somewhat. Also, housing sales and building permits took a decided drop in May, suggesting that a self-sustaining recovery has not yet taken hold in the housing sector.

Importantly, despite these troublesome developments, many areas of the economy are continuing to show strength. The fact that personal consumer expenditures grew in May suggests that consumer spending, the largest source of aggregate demand, is continuing at a solid pace. The data on shipments of capital goods in May indicate that business investment in equipment and software continues to grow rapidly. Also, industrial production has expanded strongly, particularly in the high-tech manufacturing sector, where production is up 18 percent since May of 2009. Manufacturing jobs are growing at their strongest pace since 1998.

The Headwinds We Face. As we look forward, it is clear that the economy

continues to face some strong headwinds. The dire situation of state and local budgets means that without additional Federal aid, state and local governments will continue to shed jobs and act as a contractionary force on overall economic activity. Though credit conditions have ceased tightening, both recent statistics and reports from market participants suggest that many borrowers, particularly small businesses, still find it difficult to get loans. This obviously hinders small business growth and job creation. Finally, the housing bubble and bust has left many homeowners over-indebted and the U.S. economy with a substantial oversupply of housing. As a result, the prospects of a rapid growth in residential investment, as we have seen in previous recoveries, are slim.

Because of these persistent headwinds and the recent spate of mixed indicators, most private forecasters are predicting continued growth and job creation, but at a somewhat more subdued pace than the robust growth that looked possible a few months ago. Without further aid, the economy will continue to grow, but the rate of recovery will likely continue to fall short of the rapid expansion that is needed to bring the unemployment rate down quickly.

The Need for Targeted Actions. It is for this reason that the additional targeted actions that the President recommended last winter are even more important today than when he first proposed them. Each of the actions is designed to counteract some of the headwinds that we face, and by doing so, to increase the speed of recovery.

The most fundamental of these targeted actions is an extension of emergency unemployment insurance benefits. According to the Department of Labor, 2.1 million Americans have already seen their unemployment insurance benefits stop because of the failure to extend the program. This number will rise to 3.2 million by the end of the month. It will be devastating to both the families affected and the overall economy if

this support is not renewed. Studies by the Congressional Budget Office and private analysts identify emergency unemployment benefits as one of the most cost-effective programs for supporting output and employment. At a time when the unemployment rate is 9.5 percent, there can be little question that such support is deeply needed.

Support for small business lending is another essential program to counteract the headwinds we face. This is an exceptionally low-cost measure that promises to materially increase the availability of credit to the small firms currently struggling. Such credit support, together with the small business tax cuts and bonus depreciation included in the bill, will be a much needed shot in the arm for small businesses. Such support will help them to expand and create jobs.

The third targeted measure that will help ensure more rapid recovery is additional aid to state and local governments. There has been much discussion in the past weeks of innovative ways to structure this aid so that it encourages beneficial reforms or pays for itself over time. Many variations have merit, and the Administration is anxious to work with Congress to pass a sound plan. But some form of meaningful state fiscal relief is necessary both to prevent widespread layoffs of teachers, firefighters, and police officers, and to accelerate job growth throughout the economy.

We are all keenly aware of our large budget deficit and the long-run fiscal challenges that we face. The President is committed to meeting those challenges. That is why he worked with Congress to pass health care reform that will lower the deficit by more than $1 trillion over the next two decades. It is why his budget includes a three-year freeze in nonsecurity discretionary spending, and why he established a bipartisan commission to forge the necessary consensus for sensible, serious deficit reduction. It is also why the Administration has pursued a wide range of low-cost measures to spur

growth, such as export promotion and public-private partnerships that have proven successful in leveraging private sector investment through the Recovery Act.

But not taking additional targeted actions, many of which are fully paid for over the budget window, because of concern about the deficit would be misguided. Allowing the unemployment rate to remain severely elevated for an extended period runs the risk of permanently lowering labor force participation and worker skills. Such permanent damage would not only be terrible for the workers involved, it would be terrible for our long-run budget situation.

Our report today contains the latest evidence that the Recovery Act has been highly effective at helping to turn the economy from freefall to growth. It also describes how, through its innovative investment programs, it has helped to support private investment and rebuild the public, private, and human capital stocks of the United States. What we need to do now is take some targeted, fiscally responsible additional steps to speed the recovery, and finally return the economy to health after the wrenching events of the past few years.

A Longer-Run Perspective. Much of my discussion this morning has appropriately focused on the recovery and the need to jump-start job creation. Nothing is as important as getting Americans back to work. But in closing, let me take a minute to look both further back and further into the future.

Even before the financial crisis and the recession that followed, the United States was facing economic stress. As documented in the *Economic Report of the President* from last February, health care costs were rising rapidly, squeezing both families and businesses; we were failing to invest as much as we should in education and R&D; and our financial regulatory structure had failed to keep up with the technological and

behavioral changes in the industry. These developments were leading to stagnating incomes for middle class families, less innovation, and excesses in our financial system that set the stage for the crisis.

Over the past 18 months, the President and Congress have not only taken unprecedented steps to deal with the recession, but have also made great progress in facing these longer run challenges. The Patient Protection and Affordable Care Act passed last March will slow the growth rate of health care costs by improving both the efficiency and the quality of our current system. The investments in education and basic scientific research started in the Recovery Act and continued in other legislation will build the skills and knowledge base essential for raising standards of living and competing in world markets. And, the financial regulatory reform legislation on the verge of completion will help prevent a repeat of the terrifying meltdown of the financial system that we experienced in the fall of 2008.

By working to both rescue the economy in the short run and rebuild the fundamental sources of productivity and stability in the long run, the President and Congress are charting a path not only back to normal, but to a better normal than we had before.

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS

THE ECONOMIC IMPACT OF THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

FOURTH QUARTERLY REPORT

JULY 14, 2010

THE ECONOMIC IMPACT OF THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009
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EXECUTIVE SUMMARY

As part of the unprecedented accountability and transparency provisions included in the American Recovery and Reinvestment Act of 2009 (ARRA), the Council of Economic Advisers (CEA) is charged with providing to Congress quarterly reports on the effects of the Recovery Act on overall economic activity, and on employment in particular. In this fourth report, we provide an assessment of the effects of the Act through the second quarter of 2010.

Evaluating the impact of countercyclical macroeconomic policy is inherently difficult because we do not observe what would have happened to the economy in the absence of policy. Because of the challenges in the analysis, we approach the task of estimating the impact of the Recovery Act from a number of different directions, and supplement our estimates with those of numerous outside analysts.

One section of the report looks at trends in the size and composition of Recovery Act spending and tax reductions. We find that:

- The magnitude of the fiscal stimulus increased substantially in the first quarter of 2010 and has increased further in the second quarter (from $80 billion in 2009:Q4 to $108 billion in 2010:Q1 to $116 billion in 2010:Q2).

- Government investment outlays in areas such as infrastructure, clean energy, and communications technology increased by roughly 50 percent between the first and second quarters of 2010.

Another section evaluates the economic impact of the Recovery Act from a number of different perspectives. The key findings are:

- Following implementation of the ARRA, the trajectory of the economy changed dramatically. Real GDP began to grow steadily starting in the third quarter of 2009 and private payroll employment has increased by nearly 600,000 since its low point in December 2009.

- The two CEA methods of estimating the impact of the fiscal stimulus suggest that the ARRA has raised the level of GDP as of the second quarter of 2010, relative to what it otherwise would have been, by between 2.7 and 3.2 percent. These estimates are very similar to those of a wide range of other analysts, including the Congressional Budget Office.

- The CEA estimates that as of the second quarter of 2010, the ARRA has raised employment relative to what it otherwise would have been by between 2.5 and 3.6 million. These estimates are broadly consistent with the direct recipient reporting data available for 2010:Q1.

A special section of the report focuses on the public investment provisions of the Recovery Act. This analysis shows that:

- The Recovery Act includes appropriations for $319 billion of public investment spending on projects ranging from roads and bridges to community health centers to a smarter electrical grid. To date, two-thirds of these appropriated funds have been obligated and more than one-quarter have been outlayed.

- CEA estimates this public investment spending has already saved or created more than 800,000 jobs as of the second quarter of 2010, an increase of 30 percent over the first quarter.

- A case study of the transportation infrastructure provisions of the Act shows that nearly 14,000 projects have been awarded in areas ranging from highway improvements to new airport runways and public transit. Recovery Act transportation expenditures by state are positively correlated with private employment growth in heavy construction.

A related special section analyzes the many direct Recovery Act programs that are designed to leverage private, non-profit, and state and local government spending:

- Some examples of Recovery Act programs that leverage other investment funds are tax credits for advanced energy manufacturing, loan guarantees for small businesses, and interest subsidies for state and local borrowing to finance essential infrastructure projects.

- CEA's analysis shows that roughly $100 billion of Recovery Act funds have leverage provisions, and these funds will ultimately support more than $380 billion of total investment spending. This implies that every $1 of Recovery Act funds invested in these programs is partnered with about $3 of outside investment spending.

- The majority of the leveraged funds come from the private sector.

- A case study of the Production Tax Credit and other incentive programs for wind energy suggests that the leverage provisions have an important impact on private sector investment spending and hence on job creation.

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I. Introduction

The American Recovery and Reinvestment Act of 2009 (ARRA) is the boldest countercyclical fiscal expansion in American history. It was enacted at a time when U.S. real gross domestic product (GDP) was contracting at an annual rate of more than 6 percent and employment was falling by more than 750,000 jobs per month. The Act was designed to cushion the fall in demand caused by the financial crisis and the subsequent decline in consumer and business confidence, household wealth, and access to credit. Together with policies to stabilize the financial system, increase liquidity and credit, and stem the tide of foreclosures, the ARRA was part of a comprehensive policy response to the economic turmoil that gripped the United States and the world economy in the fall of 2008 and early 2009.

As part of the unprecedented accountability and transparency provisions included in the Recovery Act, the Council of Economic Advisers (CEA) was charged with providing quarterly reports to Congress on the effects of the Recovery Act on overall economic activity, and on employment in particular. In this fourth report, we provide an assessment of the effects of the Act through the second quarter of 2010.

As discussed in our previous reports, identifying the impact of policy actions is inherently difficult, and the estimates must be understood to be subject to large margins of error. For this reason, the CEA prepares estimates of the impact of the ARRA from two approaches, and reports estimates from a wide range of private analysts and from the Congressional Budget Office (CBO). We also regularly analyze in more detail the impact of specific programs and provisions of the Act in order to more thoroughly understand and evaluate its effects.

Our multifaceted analysis indicates that the Recovery Act has played an essential role in changing the trajectory of the economy. It has raised the level of GDP substantially relative to what it otherwise would have been and has saved or created between 2.5 and 3.6 million jobs as of the second quarter of 2010.

The report begins in Section II with a summary of the spending and tax reductions that have occurred under the ARRA to date. As of the end of June 2010, more than 60 percent of the original $787 billion included in the Act has been outlayed or has gone to American households and businesses in the form of tax reductions. Importantly, the fiscal stimulus provided by the Act increased substantially in the first quarter of 2010 and rose even further in the second quarter. As in the first quarter of 2010, much of the higher level of stimulus in the second quarter was due to a surge in tax refunds and reduced final liabilities. However, public investment spending, which now totals $86 billion, also increased significantly. It is expected to continue rising through the end of the year.

Section III contains the key analysis of the overall economic impact of the Recovery Act. It shows that economic conditions have changed dramatically in the year and a half since the Recovery Act was passed. GDP began to grow in the third quarter of 2009, and has now grown for three quarters in a row. Based on the available data and a range of forecasts, GDP appears to have continued to expand solidly in the second quarter of 2010. Payroll employment grew for the first time since the recession began in November 2009, and rose modestly through the second quarter of 2010. Employment growth, excluding temporary Census workers, averaged 63,000 per month in 2010:Q1 and 123,000 per month in the second quarter. Obviously, much work remains to repair the labor market damage caused by the financial crisis and the severe recession that followed. However, the economy appears to be gradually recovering.

We estimate the role of the Recovery Act in effecting this dramatic turnaround in two ways. One uses estimates of the effects of fiscal policy from standard macroeconomic forecasting models. The second involves a comparison of the actual behavior of GDP and employment with a plausible, statistically-determined baseline. The two methods indicate that the ARRA has raised both GDP and employment substantially relative to what they otherwise would have been. A compilation of estimates from prominent private-sector and public-sector analysts shows that our estimated impacts are similar to those of economists across the ideological spectrum. We also examine the available direct job creation data provided by a fraction of ARRA fund recipients and find that the results provide further corroboration of our estimates of the overall impact of the Act.

In previous reports, the CEA has highlighted key portions of the Recovery Act, including the state fiscal relief and the tax reduction and income support components. In Section IV of this report, we focus on the public investment spending. The Recovery Act includes $319 billion of investment spending in everything from roads and bridges to schools to a smarter electrical grid and community health centers. We analyze the broad range of useful investments being made and discuss the progress in finalizing awards and getting projects underway. Our model-based analysis suggests that the investment components of the Act by themselves have already raised employment relative to what it otherwise would have been by more than 800,000 jobs as of the second quarter of 2010, 30 percent more than in the first quarter. A detailed case study of the investment in transportation infrastructure finds that higher Recovery Act transportation spending in a state is associated with higher private employment growth in heavy construction.

Much of this Recovery Act investment spending takes the form of grants that require co-investment by the recipients and tax incentives for certain types of spending. As a result, the public spending is leveraged with other funds to support even larger amounts of total investment. Section V examines these leverage provisions in more detail. The analysis shows that roughly $100 billion of Recovery Act funds have this feature and that these funds will ultimately support more than $380 billion of total investment spending. This implies that every $1 of Recovery Act

funds in these programs is partnered with about $3 of other funds, the majority from the private sector. A case study of the Production Tax Credit and other incentives for wind energy suggests that the leverage provisions have an important impact on private sector investment spending and hence job creation.

II. The Progress of Spending and Tax Reductions under the Recovery Act

The first step in evaluating the effects of the Recovery Act is to analyze the data on spending and tax reductions that have occurred under the Act. It is certainly possible that the Act could have had effects even before any tax changes or spending had occurred. For example, its passage could have affected confidence, and expectations of a tax cut in the future could affect household spending today. But it is likely that the Act's most significant impact comes as funds are spent and tax cuts reach consumers and businesses.

A. Overall Budgetary Impact

Data on the overall budgetary impact of the Recovery Act are available on the Recovery.gov website. The data are broken down into outlays, obligations, and tax reductions. The outlays and obligations by agency are available weekly and the tax reduction data are available quarterly.[1] Outlays represent payments made by the government. Those funds represent spending that has already occurred. Obligations represent funds that have been made available but not necessarily outlayed, such as for a highway project where the builder must complete the work properly to be fully reimbursed by the Federal government. In many instances, obligations can generate economic activity because recipients may begin spending as soon as they are certain funds are available.

Table 1 shows outlays, obligations, and tax reductions as of the end of each quarter since the Act's passage (March 2009, June 2009, September 2009, December 2009, March 2010, and June 2010). As of the end of the second quarter of 2010, the sum of outlays and tax cuts was $480 billion, with an additional $147 billion obligated but not yet outlayed. This is very similar to the amount projected to have been spent by this point by the Congressional Budget Office

[1] The outlays and obligations data are based on weekly reports by the relevant agencies. To ensure that our report is as up-to-date as possible, we use the agency Financial and Activity Reports provided directly by the Office of Management and Budget. These reports are posted on Recovery.gov with a short lag. The tax reduction estimates are based on the Department of the Treasury Office of Tax Analysis (OTA) tax simulation model for the effect of the ARRA tax provisions. The OTA prepares new estimates semi-annually as part of the annual budget cycle and the mid-session review. The most recent data come from the FY2011 Mid-session Review. However, the data shown on Recovery.gov do not reflect many of the revisions made by OTA for the Mid-session Review. To provide the most accurate quarterly estimates of the impact of the ARRA, we report and use the revised tax estimates for all quarters. Because of these revisions, the figures in Table 1 for 2009 differ slightly from those reported in our previous reports (CEA, 2009b, 2010a, and 2010c).

when the Recovery Act was passed.[2] Additionally, the sum of spending, obligations in excess of spending, and tax cuts is $627 billion.

Table 1. Outlays, Obligations, and Tax Reductions

	Through the end of[a]					
	2009:Q1 (March)	2009:Q2 (June)	2009:Q3 (September)	2009:Q4 (December)	2010:Q1 (March)	2010:Q2 (June)
	Billions of Dollars					
Outlays	8.6	56.3	110.7	164.2	210.9	257.3
Obligations	30.5	157.8	256.3	313.9	362.1	403.8
Tax Reductions	2.4	35.3	64.7	91.4	153.1	223.0
Sum of Outlays and Tax Reductions[b]	11.0	91.7	175.4	255.6	364.0	480.3

Sources: Agency Financial and Activity Reports to the Office of Management and Budget; simulations from the Department of the Treasury (Office of Tax Analysis) based on the FY2011 Mid-Session Review.
Notes: a. Data on outlays and obligations are for the last day of each calendar quarter.
b. Items may not add to total due to rounding.

B. Components of the Recovery Act

The categorization of stimulus into outlays versus tax reductions follows accounting conventions rather than economic function. For example, the Making Work Pay tax credit, which reduced taxes for 95 percent of working families, is treated as a tax cut, while the $250 extra payment to seniors and veterans is treated as an outlay. Yet, both are thought to affect economic activity by putting more money into the hands of consumers. For this reason, it is useful to consider a more functional decomposition. The decomposition is not only interesting in its own right, but is necessary for our later model-based analysis of the impact of the program.

We divide the total dollars of stimulus expended to date into six categories: individual tax cuts and similar payments; the tax cut associated with the adjustment of the Alternative Minimum Tax (AMT); business tax incentives; state fiscal relief; aid to those most directly hurt by the recession; and public investment spending. The first three are tax changes of some kind and are estimated to be roughly one-third of the total package; the second two represent emergency measures and are also estimated to be roughly one-third of the total; the last encompasses a range of direct spending and covers the remainder.

We divide the outlays and tax reduction data into these functional categories as follows.

[2] CBO (2009) projected that $184.9 billion would have been spent in fiscal year 2009 (that is, through the third quarter), and $399.4 billion in fiscal 2010. Assuming that the fiscal 2010 budget impact was spread evenly across the four quarters yields total projected spending of $484 billion by the end of June 2010. CBO has since published a revised estimate of the direct effect on the deficit of the ARRA of $862 billion (CBO 2010a Appendix A). This number is not comparable to the estimated cost at passage of $787 billion because it does not include adjustments for the effect of the ARRA on spending from regular appropriations or other authorizations, which CBO estimates reduced the effect on the deficit in 2009 and 2010. Most of the increase in CBO's estimate of the direct effect on the deficit comes from greater outlays on income-security programs.

Individual tax cuts include the Making Work Pay tax credit, the child tax credit, and a number of smaller individual tax reductions. We also include direct payments that were made in lieu of a tax cut to certain groups. These include payments of $250 distributed to individuals who receive Social Security and Supplemental Security Income, Railroad Retirement benefits, or veterans' benefits. The business tax incentives and AMT relief are calculated directly by the Office of Tax Analysis (OTA) as part of its simulation process.[3]

We define state fiscal relief to include just the two main programs in this category: a substantial increase in the Federal government's matching percentage for Medicaid spending (FMAP), and formula grants to state governments for education through the State Fiscal Stabilization Fund. Aid to those directly impacted by the recession includes the increase and extension of unemployment benefits, increased funds for nutritional assistance, and increases in the Temporary Assistance to Needy Families program. Similarly, the government's subsidy of continuing health insurance benefits under COBRA, which is technically a business tax cut, is treated as aid to directly impacted individuals for our functional classification.

Public investment outlays include everything else. The obvious components are spending on infrastructure, health information technology, research on renewable energy, and other forms of direct spending excluding transfers. Also included here are tax credits for particular types of private spending, such as weatherization, advanced energy manufacturing, or research and experimentation, since these credits are functionally similar to the direct government spending. Section IV of the report discusses in greater depth the types of public investment in the Act.

C. Trends and Developments

Table 2 shows our breakdown of aggregate outlays and tax relief into these functional categories. For the impact on the economy, what matters is less the cumulative level of expenditures under the Act, but rather the amount spent each quarter. For this reason, Table 2 also reports the change in the total budgetary impact from the end of the previous quarter.

The table shows important changes over time in the magnitude and composition of the fiscal stimulus. After being stable at $80 to $85 billion per quarter over the last three quarters of 2009, total outlays plus tax cuts rose to $108 billion in the first quarter of 2010 and $116 billion in the second quarter.

[3] The quarterly estimates of AMT relief are from unpublished analysis by the OTA. The direct payment data are from the agency Financial and Activity Reports, available on Recovery.gov.

Table 2. Fiscal Stimulus by Functional Category

	Through the end of[a]					
	2009:Q1 (March)	2009:Q2 (June)	2009:Q3 (September)	2009:Q4 (December)	2010:Q1 (March)	2010:Q2 (June)
	Billions of Dollars					
Individual Tax Cuts	2.3	28.4	42.1	55.0	96.7	117.0
AMT Relief	0.0	7.0	12.4	15.5	25.7	68.0
Business Tax Incentives	0.1	10.9	20.0	28.0	34.1	38.5
State Fiscal Relief	8.5	28.2	43.8	59.3	75.5	92.1
Aid to Directly Impacted Individuals	0.1	9.8	32.2	56.2	72.8	78.3
Public Investment Outlays	0.0	7.4	24.9	41.5	59.2	86.3
Total[b]	**11.0**	**91.7**	**175.4**	**255.6**	**364.0**	**480.3**
Change in Total (from End of Previous Quarter)	**11.0**	**80.7**	**83.7**	**80.2**	**108.4**	**116.3**

Sources: Agency Financial and Activity Reports to the Office of Management and Budget; simulations from the Department of the Treasury (Office of Tax Analysis) based on the FY2011 Mid-Session Review.

Notes: a. Data on outlays and obligations are for the last day of each calendar quarter.

b. Items may not add to total due to rounding.

The composition of the stimulus has evolved as well. As was anticipated at the time of passage, the individual tax cuts and the state fiscal relief were the first items that could be put into effect. For this reason, they comprised a large fraction of total spending in the second quarter of 2009. Aid to those directly impacted by the recession rose substantially in the third and fourth quarters of 2009, reflecting programs like emergency unemployment compensation that provided support to people laid off during the downturn.

Public investment outlays on items such as infrastructure and clean energy are now accounting for a growing share of the stimulus. These outlays have increased from just $7 billion through the end of the second quarter of 2009 to $86 billion through the end of the second quarter of 2010. An additional $125 billion has been obligated for government investment spending, in many cases representing projects that have already begun but not yet received full federal reimbursement. As the economy continues to recover and the ARRA turns toward "reinvestment," more than half of the spending and tax credits still to come will take the form of public investment outlays.

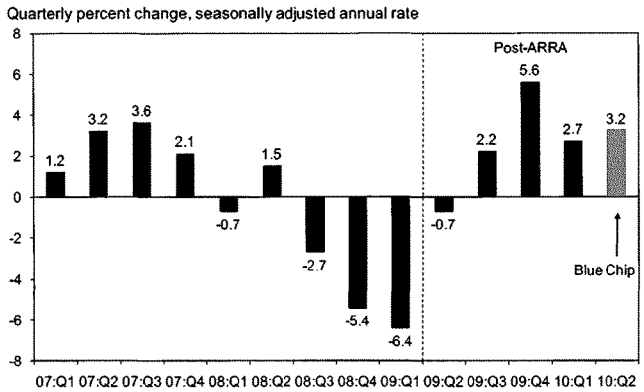
III. Evidence of the Economic Impact of the Recovery Act

In this section, we consider a range of ways of estimating the overall impact of the Recovery Act. We begin with a straightforward examination of the behavior of GDP and employment, and then move on to more sophisticated analyses using an economic model, a statistical forecasting exercise, and the direct reporting data. Although none of these approaches is definitive, together they provide considerable evidence that the Recovery Act has played a critical role in moving the economy from accelerating decline to recovery.

A. The Change in the Economy's Trajectory

The first way that we investigate the impact of the Recovery Act is to consider the behavior of real GDP and employment. Are the changes that we have observed in these two key indicators over the past year consistent with the Act having substantial effects?

Figure 1. Real GDP Growth



Sources: U.S. Department of Commerce (Bureau of Economic Analysis); Blue Chip consensus forecast.
Note: 2010:Q2 datapoint reflects Blue Chip consensus forecast from July 10, 2010.

Figure 1 shows the growth rate of real GDP. The dashed line between the first and second quarters of 2009 separates the period before the Recovery Act (which was signed February 17, 2009) could have had a significant impact on the economy from the period after. GDP fell progressively more rapidly from the third quarter of 2008 to the first quarter of 2009, but then began to reverse course quickly after the passage of the Recovery Act. After declining at an annual rate of 6.4 percent in the first quarter of 2009, GDP fell at a rate of 0.7 percent in the second quarter, and then rose at a rate of 2.2 percent in the third quarter and 5.6 percent in the fourth. The improvement in growth of 12 percentage points from the first quarter to the fourth (that is, the swing from growth at a -6.4 percent rate to growth at a 5.6 percent rate) was the largest over any three quarters since 1981, and the second largest since 1958.

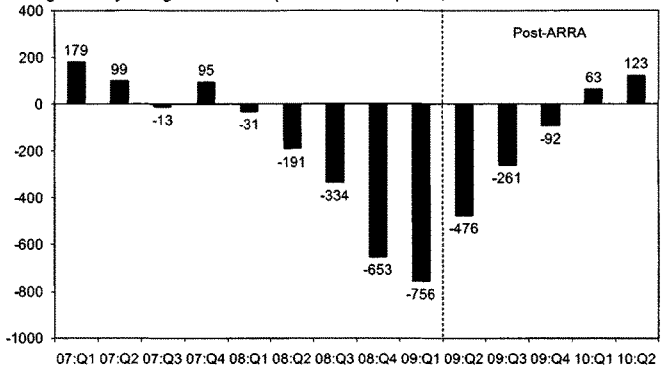
After the extremely rapid growth at the end of 2009, growth moderated to 2.7 percent in the first quarter of 2010, as the influence of changes in inventory investment moderated considerably. Figure 1 also shows the July 10 Blue Chip consensus forecast for real GDP growth in the second quarter of 2010. That forecast is 3.2 percent, indicating that forecasters believe that the solid growth in the first quarter continued in the second (Blue Chip Economic Indicators, 2010). Importantly, real GDP growth is expected to remain steady in the second half

of 2010 and throughout 2011. The first official GDP estimate for 2010:Q2 will be released on July 30.

Figure 2 presents the behavior of the change in payroll employment. Employment shows the same pattern of an accelerating decline reversing course rapidly after the Recovery Act was passed. In the first quarter of 2009, the economy lost on average an astounding 756,000 jobs per month. Job losses fell to 476,000 per month in the second quarter, 261,000 per month in the third, and 92,000 in the fourth. The economy began adding jobs in 2010, with average gains of 63,000 per month in the first quarter and 123,000 per month in the second quarter.[4] The *change* in the average monthly change in employment over the past five quarters was among the largest on record.

Figure 2. Payroll Employment Growth

Average monthly change from end of quarter to end of quarter, thousands[a]



Source: U.S. Department of Labor (Bureau of Labor Statistics).
Note: a. Excludes temporary Census workers.

The economy is obviously still far from healthy. Real GDP is substantially below its normal path, and the unemployment rate remains at 9.5 percent. While job growth has averaged 123,000 per month over the past quarter, more robust growth is needed to bring down the unemployment rate quickly. But the change in the economy over the last 18 months has been dramatic. Given what we now know about the frightening momentum of economic decline in the first quarter of 2009, the change in the trajectory is all the more remarkable.

The timing of the change in trajectory is highly suggestive of an important role for the Recovery Act. At the time the Act was passed, the economy was in freefall. Real output stabilized dramatically in the quarter after the Act was passed, and began growing again in the

[4] These figures exclude temporary workers hired for the decennial Census.

next quarter. Similarly, job losses began to moderate rapidly in the quarter after the Act was passed, continued to slow greatly in the subsequent two quarters, and turned to modest job gains early in 2010.

B. Estimates of Effects from an Economic Model

Methodology. A key way that the CEA estimates the effects of the Recovery Act on GDP and employment is to use existing estimates of the macroeconomic effects of fiscal policy. That is, one can use mainstream estimates of economic multipliers for the effects of fiscal stimulus. The version of the approach that we use here is identical to that used in the CEA's previous quarterly reports on the Recovery Act.[5]

In its recent reports on the impact of the Recovery Act, CBO uses a similar approach. CBO reports high and low estimates for the multipliers associated with different types of spending (CBO, 2010b). Table 3 shows how the CEA multipliers compare with the CBO estimates. The CEA multipliers show the impact of a change in the fiscal component on GDP after six quarters. The comparison shows that our multiplier estimates are consistently in the middle of the CBO range, and typically toward the lower end. This reflects the fact that our multipliers were chosen to reflect as much as possible the professional consensus.

Table 3. Estimated Output Multipliers for Different Types of Stimulus

	CEA[a]	CBO Low	CBO High
Public Investment Outlays[b]	1.5	1.0	2.5
State and Local Fiscal Relief	1.1	0.7	1.8
Income Support Payments[c]	1.5	0.8	2.1
One-time Payments to Retirees	0.4	0.3	1.0
Tax Cuts to Individuals	0.8	0.6	1.5
AMT Patch	0.4	0.2	0.6
Business Tax Incentives	0.1	0.0	0.4

Source: CBO (2010b).

Notes: a. The CEA multipliers show the impact of a permanent change in the component of 1% of GDP after 6 quarters, or, equivalently, the cumulative impact of a one-time change of 1% of GDP over 6 quarters. The CBO multipliers show the cumulative impact of a one-time change of 1% of GDP over several quarters.

b. Includes transfer payments to state and local governments for infrastructure and tax incentives to businesses directly tied to certain types of spending.

c. Includes such programs as unemployment compensation, COBRA, and SNAP.

The CEA model will obviously not yield exact figures for the effects of the Recovery Act. To begin with, there is uncertainty about the size of the economic effects of a "typical" increase in public investment outlays or a "typical" tax cut. There is even more uncertainty about the precise timing of those effects, and modest changes in timing have noticeable effects on the impact at a specific point in time. In addition, the current exceptional economic environment could make the effects of stimulus somewhat larger or smaller than normal, or

[5] See Council of Economic Advisers (2009b, p. 23) for more details.

could cause them to occur somewhat more or less quickly. Finally, the Recovery Act—appropriately—was not just typical stimulus. For types of stimulus that are used less frequently, there is even greater uncertainty about the size and timing of the macroeconomic effects.

As in the earlier reports, we use figures on actual outlays and tax relief under the Recovery Act. Since CEA's third quarterly report, the Office of Tax Analysis of the Department of the Treasury has prepared revised estimates of the magnitude and timing of the tax provisions of the Recovery Act incorporating actual tax return data for 2009. These revised estimates have led to minor revisions in our estimates of the impact of the Recovery Act in previous quarters.

Results. The results of this analysis are shown in Table 4. They imply that the Recovery Act is having a substantial beneficial effect on production and employment. Specifically, they indicate that the Recovery Act raised the level of real GDP in the second quarter of 2010, relative to what it otherwise would have been, by 2.7 percent. This approach also indicates that the Act increased employment relative to what it otherwise would have been by 2.5 million as of 2010:Q2.[6]

Table 4. Estimates of the Effect of the ARRA Using CEA Multiplier Model

	2009:Q2	2009:Q3	2009:Q4	2010:Q1	2010:Q2
GDP Level (Percent)	+0.8	+1.7	+2.1	+2.5	+2.7
Employment Level	+399,000	+1,120,000	+1,747,000	+2,215,000	+2,529,000

Source: CEA calculations.

C. Estimates of Effects from Comparison to a Statistical Baseline Forecast

Methodology. An entirely different approach to estimating the effects of the Recovery Act is to compare the actual paths of GDP and employment with the predictions of a sensible statistical forecast of their usual behavior. This approach has two important advantages relative to the model-based approach. The most obvious one is that because the approach is purely statistical, it does not depend on estimates of multipliers based on past history.

The approach's other key advantage is that it can capture factors that might have caused fiscal policy to have unusual effects in the exceptional economic circumstances that prevailed when the Act was passed. For example, the Act, by stabilizing the economy and restoring confidence, may have played a role in healing the financial sector and jump-starting private demand. Because fiscal policy does not usually have such effects under normal conditions, they would not be captured by conventional multiplier estimates. But they would be reflected in a

[6] The appendix of this report provides a breakdown of the estimated employment effects by state.

comparison of the path the economy followed after passage of the Act with the trajectory it was on.

The disadvantage of this approach is that the comparison will reflect not just the impact of fiscal policy, but all other unusual influences on the economy following passage of the Act. Most obviously, other policy actions, such as the Financial Stability Plan, monetary policy, and the Federal Reserve's program of buying agency debt and long-term U.S. government bonds, contributed to the economic turnaround. More generally, any other factors not captured by the past history of GDP and employment, such as unusual moves in foreign demand or asset prices, would also be captured in the difference.

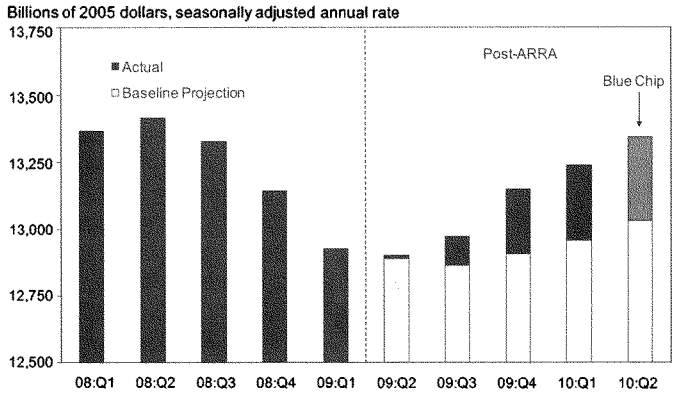
The overall effect of the policies other than the Recovery Act and non-policy factors on GDP and employment could be either positive or negative. For example, while the various actions to improve financial conditions have surely had a positive impact, the continuing stringency in credit conditions is most likely restraining GDP and employment relative to their usual cyclical patterns. Thus, the forecast residuals could either overestimate or underestimate the impact of the Recovery Act.

Equally important, the estimates from this approach have considerable margins of error. At any time, the economy is subject to many influences that are not reflected in the past behavior of GDP and employment. These influences may be particularly large in a period as turbulent as the past eighteen months. And, the longer the time that has passed, the larger the role of those disturbances is likely to be. As a result, the estimates from this approach are likely to be less reliable as more time elapses, and should be viewed only as rough guides to the effects of the Recovery Act.

There are many ways to construct a statistical baseline forecast. The particular approach that we use is identical to that in previous CEA reports on the Recovery Act. We estimate a vector autoregression (or VAR) using the logarithms of real GDP (in billions of chained 2005 dollars) and employment (in thousands, in the final month of the quarter) over the period 1990:Q1–2007:Q4. We include four lags of each variable. Because the estimation ends in 2007:Q4, the coefficient estimates used in the prediction are not influenced by developments in the current recession. Rather, they show the usual joint short-run dynamics of the two series over an extended sample. We then forecast GDP and employment beginning in the second quarter of 2009 using actual data through the first quarter of 2009. Data through the first quarter include the monetary response to the current crisis, but not the fiscal stimulus or other actions that took effect after the first quarter. We have experimented with a variety of other ways of projecting the no-stimulus path of GDP and employment. The results of those exercises are similar to those we report below.

Results. Figure 3 shows the results of this forecasting exercise for GDP, together with the actual path of GDP. Past history would have led one to expect GDP to continue to decline in the second and third quarters of 2009 before beginning to grow moderately in the fourth quarter. The figure shows that actual GDP has risen steadily above the forecast path. It was 0.7 percent above that path in 2009:Q2, 1.4 percent above in 2009:Q3, 2.5 percent above in 2009:Q4, and 2.9 percent above in 2010:Q1. The Blue Chip forecast of 3.2 percent growth in 2010:Q2 suggests that the gap between the actual (as measured by Blue Chip) and projected levels of GDP in 2010:Q2 was about 3.2 percent.[7]

Figure 3. Real GDP: Actual and Baseline Projected Levels



Sources: U.S. Department of Commerce (Bureau of Economic Analysis); CEA calculations; Blue Chip consensus forecast.
Note: The 2010:Q2 number for "actual" is the Blue Chip consensus forecast from July 10, 2010.

Table 5 summarizes the difference between the actual and forecasted paths of GDP using the statistical projection methodology.

[7] These differences in the actual and projected levels of GDP imply substantial differences in the growth rates of GDP. Specifically, they imply that GDP growth in 2009:Q2 was 2.8 percentage points higher than the baseline projected growth; in 2009:Q3 it was 2.9 percentage points higher; in 2009:Q4 it was 4.4 percentage points higher; in 2010:Q1 it was 1.4 percentage points higher; and in 2010:Q2 it was 1.4 percentage points higher.

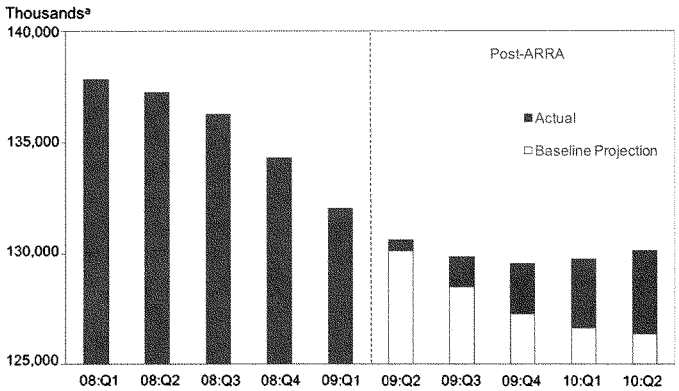
Table 5. Estimates of the Effect of the ARRA Using CEA Statistical Projection Approach

	2009:Q2	2009:Q3	2009:Q4	2010:Q1	2010:Q2
GDP Level (Percent)	+0.7	+1.4	+2.5	+2.9	+3.2
Employment Level[a]	+336,000	+1,064,000	+1,944,000	+2,840,000	+3,574,000

Source: CEA calculations.
Note: a. Estimate are for the middle month of the quarter.

Figure 4 shows the results for employment. Because employment growth normally changes relatively slowly, the usual historical patterns would have led one to expect employment losses to moderate only slowly over the course of 2009 and to continue through the middle of 2010. Actual employment losses moderated much more rapidly. As a result, employment was about 300,000 above the forecast path as of the middle of 2009:Q2, 1.1 million above as of the middle of 2009:Q3, 1.9 million above as of the middle of 2009:Q4, 2.8 million above as of the middle of 2010:Q1, and 3.6 million above as of the middle of 2010:Q2.[8] These results are also summarized in Table 5.

Figure 4. Payroll Employment: Actual and Baseline Projected Levels



Sources: U.S. Department of Labor (Bureau of Labor Statistics); CEA calculations.
Note: a. Excludes temporary Census workers.

The projection methodology used here shows that using the past history of GDP and employment and actual data through 2009:Q1, one would have predicted that GDP in the second quarter of 2010 would be about 3.2 percent lower than it actually was, and that employment would be about 3.6 million lower than it actually was.

[8] Again, these figures exclude temporary Census workers.

D. Evidence of Effects from Recipient Reporting

One hallmark of the Recovery Act has been an unprecedented commitment to providing timely, transparent, and accountable information about the Act's progress, allowing the public to "follow the dollar" as it is spent. In pursuit of this goal, the Act requires every prime recipient of Recovery Act funds subject to Section 1512 of the Act to file quarterly reports on the employment effects of the Act. The recipient reports are designed to reflect an estimate of individual, identifiable jobs and to provide a source of independent evidence of the effects of the Recovery Act.

Section 1512 of the Recovery Act requires prime recipients of Recovery Act funds for "projects and activities" to file quarterly reports. It is obviously not possible to identify specific jobs associated with the Recovery Act for the types of stimulus, such as individual tax cuts and extended unemployment insurance benefits, that support spending on a broad range of goods and services produced by a wide range of firms. Largely for that reason, there are no recipient reports associated with the components of the Recovery Act that consist of tax reductions, including the Making Work Pay tax credit, and with many categories of spending, including unemployment insurance benefits and aid to states under the temporary Medicaid FMAP increase. Altogether, funds subject to the recipient reporting requirement comprise about one-third of the total funding of the Act.

There have now been three rounds of recipient reports. The first reports were filed in October 2009 and described activity from the passage of the Act through September 30, 2009. The second reports were filed in January 2010 and covered the period between October 1 and December 31, 2009. In response to feedback from recipients and data users after the first round, the reporting requirements were changed slightly for the second round. The initial instructions asked recipients to make complex judgments about whether a job would have been filled "but for" funding under the Recovery Act. The instructions for the second reports simply asked recipients to report jobs funded by Recovery Act funds in 2009:Q4, without trying to assess whether the jobs would have existed or not in the absence of the Act. The third set of reports, covering 2010:Q1, were filed in April 2010. The fourth set of reports are being filed this month.

Table 6 shows the jobs reported by recipients for the three quarters for which there are reports. In the first quarter of 2010, recipients reported that nearly 700,000 jobs were funded by the Recovery Act.

Table 6. Recipient Reported Jobs

	2009:Q3	2009:Q4	2010:Q1
Recipient reported jobs	633,342	608,311	682,370

Source: Recipient reports downloaded from Recovery.gov on July 6, 2010.

As described in the CEA's second quarterly report, there are many reasons that the figures from the recipient reporting data do not provide a comprehensive or exact accounting of the jobs created or saved by the Recovery Act (CEA, 2010a, pp. 29-31). One key reason has already been mentioned: the reporting requirements will only apply to about one-third of the overall funding under the Act. Moreover, for the stimulus that has occurred thus far, the fraction is even smaller. The direct spending components of the Act, which are the main ones subject to the reporting requirements, are, as expected, spending out over a longer time horizon than other components and playing an important role in providing support to the economy over an extended period. As a result, spending subject to the reporting requirements has been only a relatively small fraction of the total stimulus so far.

Table 7 shows obligations, outlays, and tax reductions in each quarter for both the Recovery Act as a whole and for the subset of programs subject to recipient reporting requirements. The fraction of the stimulus—outlays and tax cuts—covered by the recipient reports has generally been around 20 percent.

Table 7. ARRA Spending Covered by Recipient Reporting

	For the Quarter (Not Cumulative)			
	2009:Q3	2009:Q4	2010:Q1	2010:Q2
	Billions of Dollars			
ARRA Total				
Outlays	54.4	53.5	46.7	46.4
Obligations	98.5	57.6	48.2	41.7
Tax Reductions	29.3	26.7	61.7	69.9
Outlays Plus Tax Reductions[a]	83.7	80.2	108.4	116.3
Subject to Recipient Reporting Requirement				
Outlays	14.9	17.8	18.8	25.1
Obligations	70.5	15.3	26.5	15.8
Tax Reductions	0.0	0.0	0.0	0.0
Outlays Subject to Reporting Requirement as Percent of Outlays Plus Tax Reductions	17.8%	22.1%	17.4%	21.6%

Sources: Agency Financial and Activity Reports to the Office of Management and Budget; simulations from the Department of the Treasury (Office of Tax Analysis) based on the FY2011 Mid-Session Review.
Note: a. Items may not add to total due to rounding.

Although the recipient reporting data cannot be used directly to determine the overall impact of the Recovery Act on employment, the data provide a useful check on the estimates

from the aggregate approaches described in Sections III.B and III.C. One simple way to perform such a check is to note that while the funds subject to the reporting requirements have been only about 20 percent of the overall stimulus under the Act, the jobs figures from the recipient reports for each quarter are substantially more than 20 percent of the corresponding estimates from the model and projection approaches. For example, for 2010:Q1 (the most recent quarter for which there are recipient reports), only 17 percent of stimulus was subject to recipient reporting requirements. Yet the 682,000 jobs reported in the recipient reports are 31 percent of the estimated overall jobs effects from the model approach and 24 percent of the overall estimate of the projection approach. Thus, this comparison suggests that the jobs estimates from the aggregate approaches are, if anything, somewhat low.

In the case of the model approach, we can improve on this simple comparison by asking what the approach implies about the jobs impact not from all of the Recovery Act, but only from an amount of government spending equal to the amount subject to the recipient reporting requirement. Further, we can adjust the multipliers used in the model to omit the estimates of jobs created by the additional spending by the workers who are employed on the projects (which are obviously not included in the recipient reports); this brings the multiplier-based estimates closer to what the recipients were asked to report. This comparison again yields a considerably smaller estimate from the model approach than from the recipient reporting data for each quarter for which there are recipient reports. For 2010:Q1, for example, the model approach implies about 500,000 jobs due directly to the spending subject to reporting requirements, as opposed to the 682,000 jobs actually reported. Thus, this comparison again suggests that the model is not overstating the jobs effects.

In short, the recipient reports support the view that the ARRA has had a large, rapid impact on employment. Indeed, the recipient reports not only reinforce the reliability of the broader estimates produced by the CEA's statistical and economic models, they suggest that these models could be understating the jobs impact of the Recovery Act.

E. Comparison with Other Estimates of the Effects of the Recovery Act

Many other economists and forecasters have estimated the likely effects of the Recovery Act. Most of those estimates are based on formal macroeconomic models. These estimates serve as a check of the reasonableness of our own estimates.

Table 8 reports estimates of the contribution of the Recovery Act to GDP since the Act was passed from an array of public and private forecasters.[9] The first row repeats the model-

[9] The sources are as follows. CBO: CBO (2010b). Goldman Sachs: described in Goldman Sachs (2009); updated figures from Alec Phillips, email communication, April 7, 2010. IHS/Global Insight: figures from Gregory Dago, email communication, July 1, 2010. James Glassman, J.P.Morgan Chase: Glassman (2010). Macroeconomic

based estimates from Section III.B, and the second row shows the estimates from Section III.C based on the comparison of actual outcomes with projections of the normal evolution of the economy. The next two rows show the low and high estimates prepared by the Congressional Budget Office. The estimates from both of our approaches are well below the top of the CBO range, and are generally in its lower part. The remaining lines of the table show the private sector estimates that we have been able to gather. These estimates are generally similar to ours.

Table 8. Estimates of the Effects of the ARRA on the Level of GDP

	2009:Q2	2009:Q3	2009:Q4	2010:Q1	2010:Q2
			Percent		
CEA: Model Approach	+0.8	+1.7	+2.1	+2.5	+2.7
CEA: Projection Approach	+0.7	+1.4	+2.5	+2.9	+3.2
CBO: Low	+0.9	+1.3	+1.5	+1.7	+1.7
CBO: High	+1.5	+2.7	+3.5	+4.2	+4.6
Goldman Sachs	+0.5	+1.4	+1.9	+2.3	+2.6
IHS/Global Insight	+0.5	+1.2	+1.7	+2.0	+2.2
James Glassman, J.P.Morgan Chase	+1.2	+1.8	+2.6	+3.3	+3.7
Macroeconomic Advisers	+0.5	+1.0	+1.4	+1.7	+2.1
Mark Zandi, Moody's Economy.com	+0.8	+1.6	+2.2	+2.5	+2.7

Sources: See text for details.

Fewer estimates of the employment effects of the Recovery Act are available. Those that we have been able to gather are reported in Table 9, together with the estimates from our two approaches.[10] The CEA model-based estimates are well within the range of the other estimates, though the figures for 2010:Q1 and 2010:Q2 are toward the high end. To the degree that the estimated employment effects from our model approach are somewhat larger than those of some other forecasters, it is useful to note that our estimate is based on the most recent spending and tax reduction data, whereas some of the private sector estimates have not been updated in many months. Also, our employment effect is derived from the GDP effect using standard estimates of the usual relationship between the two series. That our GDP estimate is squarely in the middle of the range of other GDP estimates therefore adds credence to our employment estimate.

Advisers: Macroeconomic Advisers (2009a, 2009b); exact figures from email communication, August 10, 2009. Moody's economy.com: described in Zandi (2010); exact figures from Mark Zandi, email communication, June 24, 2010. Before using estimates from sources used in our earlier reports, we checked with each forecaster to ensure that their estimates of the effects of the Act had not changed.

[10] The sources are the same as for Table 8.

Table 9. Estimates of the Effects of the ARRA on the Level of Employment

	2009:Q2	2009:Q3	2009:Q4	2010:Q1	2010:Q2
CEA: Model Approach	+399,000	+1,120,000	+1,747,000	+2,215,000	+2,529,000
CEA: Projection Approach[a]	+336,000	+1,064,000	+1,944,000	+2,840,000	+3,574,000
CBO: Low	+300,000	+700,000	+1,000,000	+1,200,000	+1,400,000
CBO: High	+500,000	+1,300,000	+2,100,000	+2,800,000	+3,400,000
IHS/Global Insight	+228,000	+689,000	+1,245,000	+1,696,000	+2,107,000
Macroeconomic Advisers	+248,000	+623,000	+1,057,000	+1,462,000	+1,847,000
Mark Zandi, Moody's Economy.com	+500,000	+1,008,000	+1,486,000	+1,893,000	+2,249,000

Sources: See text for details.
Note: a. Estimates are for the middle month of the quarter.

The CEA employment estimates based on the projection approach, in contrast, are above the range of other estimates for the past two quarters. This difference reflects two facts. First, the other estimates are largely based on economic models similar to that used in the CEA's model approach. Second, the turnaround of employment has been faster than one would have expected given the behavior of the economy before the passage of the Recovery Act and standard estimates of the effects of stimulus. Thus, an approach that takes into account the actual behavior of employment tends to yield higher estimates than ones that rely on a historical multiplier approach.

In light of the actual behavior of GDP, the estimates in Table 8 suggest that most forecasters believe that in the absence of the Act, GDP would have declined sharply in 2009:Q2 and continued to decline in 2009:Q3, and that growth would have been considerably weaker in the subsequent three quarters than it actually was. Likewise, the estimates in Table 9 imply that most forecasters believe that jobs losses would have moderated much more slowly than they actually did over the course of 2009, and that substantial job losses would have continued into 2010.

IV. The Public Investment Provisions of the Recovery Act

The ARRA included $319 billion in public investment spending and in tax incentives linked directly to specific types of investment. We count as public investment any ARRA expenditure or tax program that directly results in activity that increases the capital stock of the Federal government, state and local governments, or private firms. We also count provisions that affect the Nation's human capital and knowledge capital, areas not measured in the national income accounts but which economists have identified as crucial to generating long-run economic growth (see e.g. CEA 2010b and sources cited therein).[11] While these programs are helping the economy to recover and put Americans back to work today, they are also making

[11] These provisions also share the feature that the cost to the government corresponds directly to the occurrence of economic activity. For that reason, they all receive the same economic multiplier in the CEA model. The category does not include other business tax incentives such as bonus depreciation.

investments in areas such as clean energy, health information technology, roads, and the skills of our workers that will benefit the economy far into the future.

This section describes the types of public investment spending in the Recovery Act and the long-run benefits to the economy. It then discusses the short-run macroeconomic impact of the spending. Investment outlays increased significantly in the second quarter of 2010, corresponding to what the Vice President has called the "Summer of Recovery."[12] A final part looks in depth at one category of public investment spending—transportation projects.

One important feature of the public investment spending programs in the Recovery Act is that many of them are leveraging outside funds. This has the potential to make government spending go even further in rescuing today's economy and rebuilding tomorrow's by partnering Recovery Act spending with investments from the private sector and other levels of government. This use of leverage is the subject of Section V of the report.

A. Categories of Public Investment Spending

The Recovery Act funded a broad variety of programs. We have classified the public investment spending into 10 functional categories:

1. *Clean Energy.* A central piece of the ARRA is more than **$90 billion in government investment and tax incentives to lay the foundation for the clean energy economy of the future**. The CEA's second quarterly report grouped these clean energy investments into eight sub-categories: $29 billion for *Energy Efficiency*, including $5 billion to pay for energy efficiency retrofits in low-income homes; $21 billion for *Renewable Generation*, such as the installation of wind turbines and solar panels; $10 billion for *Grid Modernization* to develop the so-called "smart grid" that will involve sophisticated electric meters, high-tech electricity distribution and transmission grid censors, and energy storage; $6 billion to support domestic manufacturing of advanced batteries and other components of *Advanced Vehicles and Fuels Technologies*; $18 billion for *Traditional Transit and High-Speed Rail*; $3 billion to fund crucial research, development, and demonstration of *Carbon Capture and Sequestration* technologies; $3 billion for *Green Innovation and Job Training* to invest in the science, technology, and workforce needed for a clean energy economy; and about $2 billion in *Clean Energy Equipment Manufacturing* tax credits that will partner with private investment to increase our capacity to manufacture wind turbines, solar panels, electric vehicles, and other clean energy components domestically.[13]

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[12] Office of the Vice President (2010).
[13] These numbers differ slightly from those in CEA (2009b) because of updated cost estimates from OTA.

2. *Human Capital.* Investing in the knowledge and skill base of tomorrow's workers is as important as making sure they have the tools and infrastructure they need to compete in a global economy. The ARRA allocated more than **$50 billion directly to schools, students, and worker training.**[14] For example, the Act made an extra $17 billion available through Pell grants and work-study programs to help make college more affordable. It increased funding for early childhood education by $3 billion, and it sent $650 million to schools to help integrate the use of technology into 21st-century curricula. And, the Act sent $25 billion directly to elementary and secondary schools across the country that face particular educational challenges.

3. *Construction of Transportation Infrastructure.* The Recovery Act provided **$30 billion to fund much-needed infrastructure improvements** in thousands of communities across the country. Earlier this year, the Federal Highway Administration announced that it had finished obligating more than $26 billion for 12,000 road, highway, and bridge projects, and in June President Obama visited Columbus, Ohio to commemorate the breaking of ground on the 10,000th such project. Not only do these projects put Americans to work, but in many cases they will improve road safety and save hours of commuting time by easing congestion. The ARRA is also making investments in the Nation's air and sea transportation infrastructure. This includes $1.3 billion to construct new runways and improve air traffic control facilities and equipment. Finally, it is important to note that more than $18 billion in support for traditional transit and high-speed rail are classified in the clean energy category since these projects will help reduce our dependence on gas-run cars, but they can equally be thought of as improving transportation infrastructure.

4. *Health and Health IT.* The Patient Protection and Affordable Care Act signed by President Obama in March will reduce costs, improve quality and expand access to health care over the coming decade. The Recovery Act jump-started this transition with **$32 billion in investments in health care delivery and technology** that have begun to pay off already. The Act provided $2 billion to community health centers, allowing these centers to improve their facilities and hire extra staff with the potential to reach millions of new patients (see Box IV.1).

[14] This total excludes the $53 billion State Fiscal Stabilization Fund that went through state governments.

Box IV.1. Recovery Act Investments in Community Health Centers

The Recovery Act provided $2 billion in investments for community health centers. Community health centers offer access to primary care for medically underserved populations, including the homeless, seasonal workers, the uninsured, and others who have difficulty affording care. According to the Department of Health and Human Services (HHS), which provides grants to qualified community health centers, around 1,100 community health centers receiving federal support treated more than 16 million people in 2008, of whom nearly 40 percent were uninsured, and a third of whom were children. Treatments range from basic prenatal care, immunizations, and vaccines to cancer screenings and diagnostic laboratory and radiologic services, as well as referrals to specialists.

As the recession forced millions out of employment in 2008 and 2009—causing families to face the double burden of losing their employer-sponsored health coverage along with their job—community health centers provided an essential backstop of access to primary care. By avoiding costly emergency care through catching, diagnosing, and treating diseases before they become urgent, centers reduce uncompensated care costs passed on to state and federal budgets and privately insured individuals.

The Five ARRA Community Health Center Infrastructure Programs

The $2 billion in Recovery Act funding is divided among five programs aimed at improving the infrastructure and technology of community health centers, expanding their capacity to serve more patients due to the recession, and breaking ground on new centers. The ARRA investments in community health centers described individually below and shown in Box Table 1 have bolstered infrastructure and technology, created jobs, and resulted in the treatment of millions of uninsured patients.

1. *Capital Improvement* ($858 million). The Capital Improvement Program provides grants between $250,000 and $2.5 million to fund infrastructure investment in health centers, including construction, repair, renovation, and equipment purchase, as well as health information technology. The program was designed to help health centers meet immediate and pressing needs. Of 2,614 projects funded through this program, around 60 percent are for construction, alteration, and repair, with the rest for health information technology and electronic medical records. More than 41 percent of capital improvement grants had already been outlayed through June 2010.

2. *Facility Investment* ($521 million). Like the Capital Improvement Program, the Facility Investment Program provides infrastructure grants to support construction. The Facility Investment Program is targeted toward major investments in facility modernization and improvement and has a larger grant ceiling than the Capital Improvement Program, with awards between $750,000 to $12 million and an average award of $6 million. Because these grants were announced in December 2009 and scheduled for later implementation than the other investments in community health centers, less than 3 percent of the grant funds had been outlayed through June 2010.

Box IV.1 (continued)

3. *New Access Points* ($157 million). Grants for New Access Points are designed to support community health centers in building new delivery sites to provide wider access to care. Nearly 60 percent of the funds for this program have been spent to date, and recipients report that these grants funded more than 1,000 jobs in the first quarter of 2010. HHS estimates that a total of more than 750,000 patients will be served by the new sites supported by this program.

4. *Health Information Technology* ($121 million). The ARRA offered grants specific to community health centers to invest in health information technology systems such as electronic medical records and networks to enhance coordination between centers. HHS had obligated nearly the entire appropriation by the end of the second quarter of 2010.

5. *Increased Demand for Services* ($343 million). In order to help health centers maintain access and quality care for an expanding uninsured population during the recession, Increased Demand for Services grants were designed to increase health center staffing, extend hours of operation, and expand existing services. More than 59 percent of these grants had been outlayed by the end of June, funding nearly 4,000 jobs in the first quarter of the year according to recipient reports. HHS estimates that more than 2 million new patients—of which more than 1 million are uninsured—will be served by the additional capacity supported through this program.

Box Table 1. ARRA Health Centers Funding

	Appropriations	Through the end of 2010:Q2	
		Obligations	Outlays
	Millions of Dollars[a]		
Health Centers Services	500.0	499.1	298.2
Increased Demand for Services	343.3	342.7	204.3
New Access Points	156.7	156.4	93.9
Health Centers Capital	1,500.0	1,498.5	383.3
Capital Improvement Program	857.7	857.0	353.8
Facilities Investment Program	520.8	520.8	13.5
Health Information Technology	121.5	120.7	16.0
Health Centers Total[b]	**2,000.0**	**1,997.6**	**681.6**

Source: Department of Health and Human Services administrative records.
Notes: a. Includes administrative costs.
b. Items may not add to total due to rounding.

Taken together, nearly the full $2 billion in community health center grants has been obligated, with just over one third of that outlayed so far. ARRA funding for community health centers has broken ground on the construction of new sites, repaired infrastructure in urgent need of renovation, and will treat more than a million uninsured patients, all while supporting thousands of jobs.

Box IV.1 (continued)

Examples of Community Health Centers Supported by ARRA Infrastructure Investment

The aggregate data make clear the effect of the community health centers funding, but it is also useful to explore the impact in individual communities.

For example, Community Health Centers of Southeast Kansas received an Increased Demand for Services grant for $336,330, and a Capital Improvement Program grant for $809,020. The network of centers—which served 16,000 patients during 59,300 visits in 2008—used the Increased Demand for Services grant to hire two new family physicians and retain a previously overburdened doctor on the staff. The centers used the Capital Improvement Program grant to add five exam rooms to an existing building, increasing the facility's capacity by 6,000 patients per year. The augmented staff and new construction will help the center respond to rising demand for care, projected to increase by 13 percent to 17,700 patients in 2010.

Halfway across the country in Washington, DC, Unity Health Care—a nonprofit operator of health centers and other social services serving 81,000 individuals and families each year—received a $12 million Facility Investment Program grant in 2009. As described by Unity Health Care, "the $12 million award will pay for a portion of the cost associated with the construction and renovation of two of Unity's busiest health care facilities; the Anacostia Health Center serving more than 7,000 patients annually and the Upper Cardozo Health Center serving more than 20,000 patients a year." The new Anacostia facility will more than quadruple the size of the previous facility, replacing a 6,000 square foot, pre-fabricated, windowless building constructed in the 1960s.

Community Health Centers and Health Insurance Reform

Just as the Recovery Act has helped families and individuals weather unemployment and uninsurance by strengthening community health centers, the comprehensive health insurance reform legislation signed into law by the President in March continues to make investments going forward. The legislation establishes a Community Health Centers and National Health Service Corps Fund that will provide $12.3 billion in support for the infrastructure and staff of community health centers between 2010 and 2019. These investments will build on the foundation established by the Recovery Act to expand access and reduce the burden and cost of disease in a reformed health care system.

The Recovery Act also included an estimated $26 billion for Health Information Technology for Economic and Clinical Health (HITECH), to make progress on the Nation's transition to health information technology (IT) by 2014. The majority of HITECH funding will be spent on Medicare and Medicaid incentive payments for physicians and hospitals who achieve

"meaningful use" of health IT systems. In order to qualify for these payments, providers will have to meet IT standards that promote quality, efficiency and safety—for instance, by using electronic health records to automatically check for adverse drug interactions. Because payment is conditional on providers demonstrating performance, the HITECH incentive payment outlays will occur beginning in 2011 even though providers may have already begun to upgrade their networks. In addition, the Office of the National Coordinator for Health Information Technology is spending $2 billion on HITECH programs to facilitate expanded use of health IT.

The HITECH provisions of the Recovery Act are not just technology investments, but efforts to achieve the major goals of health reform: quality improvement and cost reduction. Diffusion of health IT will improve quality of care by reducing errors, allowing for new quality metrics, and enabling payment based on provider performance. Investments in health IT will also reduce the cost of care by eliminating redundant tests, promoting coordination across providers, and allowing for new payment models that reward coordination.

5. *Construction of Buildings*. The housing crisis set off a collapse in building construction that eliminated more than 2 million construction jobs from the pre-recession peak, one of the sharpest percentage contractions in any industry. To help stabilize employment in the sector, and to expand affordable housing options for families that may have lost their homes to foreclosure, the Recovery Act invested more than $10 billion in affordable housing in communities across America. One program provides grant funding for capital investment in low-income housing, and is anticipated to help underwrite 35,000 new affordable housing units. $2 billion is being channeled through the Neighborhood Stabilization Program in the Department of Housing and Urban Development (HUD) to purchase and redevelop foreclosed and abandoned homes in communities that have felt the foreclosure crisis hit particularly hard. Finally, the Act created a new tax credit bond program through which the Federal government pays 100 percent of the interest costs on up to $11 billion in new bond issues for school construction financing in both 2009 and 2010. To date, states and localities have issued more than 350 bonds through the program with a total face value of more than $3.5 billion. In all, the Act included **$31 billion for residential and commercial construction.**

6. *Environmental Cleanup and Preservation*. The Recovery Act made a **$23 billion investment in the Nation's environment**. The Act provides $6 billion to recapitalize states' clean water and drinking water revolving funds, providing financing for 3,000 projects that will lead to cleaner water and safer drinking water. For example, the town of Fairhaven, MA will install an anaerobic digestion and cogeneration system to convert waste into methane gas, which it can use for power generation. This will eliminate the need for the current costly practice of trucking sewer waste to an off-site location in Rhode Island and save the town an estimated $260,000 per year. The Environmental Protection Agency (EPA) is using another $600 million to help clean up Superfund sites. The Superfund program implements cleanup plans for abandoned hazardous

waste sites. EPA already maintains a National Priority List of sites, which allowed the agency to obligate nearly the entire $600 million within 8 months of the Act's passage. In total, Recovery Act funding will initiate or accelerate work at 51 Superfund sites, providing jobs immediately and accelerating the return of the sites to productive use. At the Department of the Interior, Recovery Act dollars are helping to restore landscapes and habitat, reduce the likelihood of wildfires and floods, and perform needed maintenance in our National Parks. Finally, the Army Corps of Engineers received more than $4 billion for a variety of upkeep and restoration projects.

7. *Scientific Research.* To ensure that America remains a world leader in innovation and technological discovery, President Obama announced in April 2009 the goal of boosting total national research and development (R&D) expenditures to 3 percent of GDP. As a down payment on that effort, the Recovery Act is providing **$18 billion for scientific research**—$10 billion for cutting-edge medical research through the National Institutes of Health, $3 billion to the National Science Foundation, and funding for research programs at NASA, the Department of Commerce, and the Department of Defense. These investments will help us better understand the world we live in—for example by funding the Ocean Observatories Initiative that will place hundreds of undersea sensors as far down as the ocean floor, giving scientists, students, and the public unprecedented new data on the physical systems of oceans—and better understand ourselves—with grants to build a new Genome Data Center at the Washington University School of Medicine and to fund cancer research. This category does not include scientific research related to the clean energy transformation, such as the $400 million Advanced Research Projects Agency-Energy (ARPA-E) program that funds creative research ideas aimed at accelerating the pace of innovation in advanced energy technologies, as this research is included in the category of Clean Energy.

8. *Economic Development.* The ARRA recognized that development of businesses and communities will play a vital role in our economic recovery. Thus the Act contains **$14 billion to help businesses obtain loans and communities rebuild**. The Act channels $900 million to community financial institutions, the Small Business Administration, and rural credit organizations to make loans to qualifying businesses. The Economic Development Administration in the Department of Commerce received another $147 million to give directly to projects that promote regional economic development. Importantly, and as described in the next section, many of these programs required private participation, so that the total amount of economic activity supported far surpasses the cost to the Federal government. This category also contains a number of tax programs designed to stimulate investment. For example, through the end of June local governments had issued more than 1,400 Build America Bonds that contain a 35 percent interest subsidy funded by the Federal government. Build America Bonds are being used to support individual projects that fall into almost all of the categories listed here, including school construction, environment, public safety, hospital construction, transportation, and housing.

9. *Public Safety and Defense.* The Recovery Act is spending **$7.6 billion to keep our borders secure and our communities safe**. More than $500 million will go to local airports and transportation authorities for aviation security infrastructure and technologies. The Department of Justice's Community Oriented Policing Services (COPS) received $1 billion to pay up to 3 years of full salary and benefits for newly hired law enforcement officers or to rehire officers who had been laid off due to budget cuts. The program received more than 7,000 applications from local law enforcement agencies within two months of the Recovery Act's passage, and made 1,046 awards that will keep an additional 4,699 police officers on the streets. The Office of Justice Programs will allocate another $2 billion to support state and local law enforcement agencies in high crime areas.

10. *Broadband.* One important goal of the Recovery Act is to increase access to and drive adoption of broadband across America. An estimated 35 percent of Americans do not have a high speed internet connection, and are thus disconnected from important educational and economic opportunities. The Recovery Act aims to address this challenge, by including **$7.2 billion to upgrade the Nation's broadband infrastructure**. As part of the appropriation, $4.7 billion was provided to the Department of Commerce's National Telecommunications and Information Administration (NTIA) to deploy broadband infrastructure, support computer centers, and encourage adoption of broadband. The remaining $2.5 billion was directed to the Department of Agriculture's Rural Utilities Service (RUS) to expand broadband access in rural areas.

The RUS's Broadband Initiatives Program and NTIA's Broadband Technology Opportunities Program together received more than 3,800 applications requesting more than $52 billion in support for potential projects in all 50 states and territories. As of July 2, 2010, NTIA had invested $1.7 billion in 165 projects impacting 54 states and territories, the vast majority of which will be spent on building and improving 50,000 miles of broadband infrastructure in underserved communities. For example, the Mid-Atlantic Broadband Cooperative won funding from NTIA to connect 120 schools to fiber networks in rural Virginia with the expectation of creating potentially 200 jobs as the project progresses.[15] Moreover, over $1.4 billion had been awarded by USDA's RUS to 105 broadband projects in 37 states and one territory.

B. Classification Methodology

To describe the breakdown of the public investment spending provisions of the ARRA among these categories, we began with the nearly 300 Treasury Account Financing Symbol (TAFS) codes shown in the Agency Financial and Activity Reports available on Recovery.gov. After removing TAFS codes for the programs in the categories other than public investment

[15] Engebretson (2010).

spending shown in Table 2, we assigned each remaining TAFS code to one of the 10 categories above, or to an eleventh "other" category containing programs that do not fit elsewhere.

Separately, we assigned tax programs (which are not tracked in the Agency reports) that function similarly to public investment spending to one of the 10 categories. The key feature of these programs is that entities claim the tax benefits only when the associated spending occurs. For example, the Advanced Energy Manufacturing Tax Credit provides a 30 percent tax credit for investments in clean energy manufacturing. Hence, the credit is functionally equivalent to the Federal government directly spending $3 million to help cover the cost of a $10 million investment. As this example shows, public investment through tax programs almost always also involves some co-investment from a non-Federal entity. The broad range of programs in the Recovery Act with this co-investment feature is discussed in Section V.

The total appropriation for each category, as well as obligations and outlays through June 2010, are shown in Table 10.[16] Through the second quarter of 2010, two-thirds of the public investment spending had been obligated and more than one-quarter had been outlayed.

Table 10. Public Investment by Category

	Appropriations[a]	Through the end of 2010:Q2	
		Obligations[b]	Outlays[b]
	Billions of Dollars		
Clean Energy	94.8	51.3	19.9
Human Capital	52.8	49.7	25.3
Construction of Transportation Infrastructure	30.0	27.7	10.9
Health and Health IT	32.0	5.5	1.4
Construction of Buildings	31.2	23.6	8.3
Environmental Cleanup and Preservation	23.4	21.0	7.4
Scientific Research	18.3	14.9	4.4
Economic Development	14.4	2.1	1.7
Public Safety and Defense	7.6	6.4	2.5
Broadband	7.2	2.1	0.1
Other	6.8	6.8	4.4
Total[c]	**318.6**	**211.2**	**86.3**

Sources: CEA analysis of appropriations estimates from the Office of Management and Budget (OMB); agency Financial and Activity Reports to OMB through June 30, 2010; simulations from the Department of the Treasury (Office of Tax Analysis) based on the FY2011 Mid-Session Review.
Notes: a. Appropriations include estimated cost of tax provisions through 2020:Q3.
b. Include estimated costs of tax provisions through June 30, 2010.
c. Items may not add to total due to rounding.

Table 11 provides a different breakdown of the public investment spending in the Recovery Act, categorizing it by agency rather than by functional category. Appropriations to six agencies plus the tax programs account for four-fifths of the total, reflecting the prioritization of health IT (Department of Health and Human Services), infrastructure rebuilding (Department

[16] For spending programs, the appropriation corresponds to the 10-year cost as estimated in CBO (2009) at the Act's passage. For revenue appropriations, we use the Office of Tax Analysis's estimated cost through 2020 as calculated for the FY2011 Mid-Session Review.

of Transportation and Department of Housing and Urban Development), support for education (Department of Education), and clean energy (mostly Department of Energy) in the Act.

The table also shows that of the money not yet obligated, more than half belongs to either HHS (almost all of which is for health IT, as described above) or to tax programs. For the tax programs, the apparent lag merely reflects how we measure "obligations" for tax provisions. In particular, the Office of Tax Analysis estimates the timing of the cost to the government of the tax provisions, which corresponds to the concept of outlays in the agency reports. Since there is no separate concept of obligations for tax programs, we also use the cost to date of tax provisions as a proxy for obligations in Tables 10 and 11. However, in many cases the tax credit beneficiary qualifies for the credit and commences the economic activity well before the government experiences the reduction in revenue or makes the tax outlay. With the Build America Bonds, for example, the cost to the government of a bond issue gets recorded as the 35 percent interest subsidy each year over the life of the bond, while the economic activity funded by the bond issue may begin immediately.

Table 11. Public Investment by Agency

	Appropriations[a]	Through the end of 2010:Q2	
		Obligations[b]	Outlays[b]
	Billions of Dollars		
Health and Human Services	49.2	19.3	7.2
Transportation	48.1	37.9	14.7
Education	44.6	42.3	21.5
Energy	42.3	29.7	5.1
Treasury[c]	21.7	10.4	6.0
Housing and Urban Development	13.6	13.4	5.0
Commerce	7.8	3.9	1.4
Agriculture	7.5	4.2	1.4
Defense	7.4	5.3	2.3
Environmental Protection Agency	7.2	7.1	2.7
Other Agencies	33.2	29.3	10.5
Tax	36.0	8.4	8.4
Total[d]	**318.6**	**211.2**	**86.3**

Sources: CEA analysis of appropriations estimates from the Office of Management and Budget (OMB); agency Financial and Activity Reports to OMB through June 30, 2010; simulations from the Department of the Treasury (Office of Tax Analysis) based on the FY2011 Mid-Session Review.

Notes: a. Appropriations include estimated cost of tax provisions through 2020:Q3.

b. Include estimated costs of tax provisions through June 30, 2010.

c. Includes the outlay portion of grants made under section 1602 and section 1603 of the ARRA.

d. Items may not add to total due to rounding.

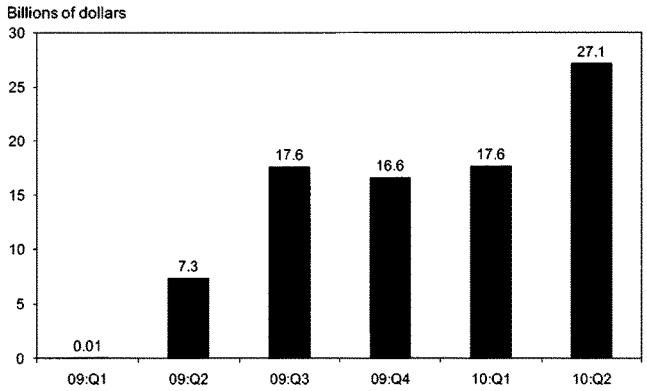
C. The Short-Run Macroeconomic Effects of Public Investment Spending

The public investment spending projects in the ARRA have already begun the clean energy, health, and human capital transformations that will benefit the economy for years to come. At the same time, the $86 billion outlayed for public investment spending projects

through the second quarter of 2010, and $211 billion obligated, has put Americans to work fixing roads, retrofitting homes, and restoring the environment.

To estimate the short-run jobs impact of the ARRA's public investment spending provisions, we use the CEA macroeconomic model described in Section III.B. We take the actual path of public investment spending outlays and tax reductions in each quarter and then use the model to simulate the impact of these expenditures on GDP and employment. Figure 5 shows that the pace of public investment spending has increased, with the total outlays in 2010:Q2 by far the largest to date. This pattern was expected, as it takes time for agencies to identify worthwhile projects and sign contracts, and in many cases the outlays are not actually recorded until after the project has been completed.

Figure 5. Public Investment Outlays by Quarter



Sources: Agency Financial and Activity Reports to OMB through June 30, 2010; simulations from the Department of the Treasury (Office of Tax Analysis) based on the FY2011 Mid-Session Review.

Table 12 provides our estimates of the jobs impact by public investment spending category. The first two columns show the estimated total impact on employment (of all types) in 2010:Q1 and 2010:Q2. We estimate that the ARRA public investment spending provisions raised aggregate employment by more than 800,000 jobs as of the second quarter of 2010. The largest impacts derive from the clean energy, human capital, and transportation infrastructure categories. Our estimates also indicate that the Recovery Act created 30 percent more jobs in the public investment spending categories in the second quarter than in the first quarter. This is consistent with the fact that the public investment component of the Act has increased substantially this summer as projects that have been in the planning stages have moved into active construction.

Table 12. Public Investment Jobs by Category

	CEA Model[a]		
	Jobs Saved or Created by Public Investment Outlays		Total Job-Years through 2012[b]
	(2010:Q1)	(2010:Q2)	
Clean Energy	141,400	190,700	827,000
Human Capital	174,600	222,300	573,400
Construction of Transportation Infrastructure	87,200	102,000	325,400
Health and Health IT	11,000	14,300	292,500
Construction of Buildings	60,600	80,200	292,800
Environmental Cleanup and Preservation	56,900	79,400	254,400
Scientific Research	33,200	52,400	194,000
Economic Development	14,400	18,600	73,200
Public Safety and Defense	17,400	17,900	83,000
Broadband	500	700	60,900
Other	30,200	41,100	73,400
Total[c]	**627,300**	**819,600**	**3,050,000**

Sources: CEA analysis of appropriations estimates from the Office of Management and Budget (OMB); agency Financial and Activity Reports to OMB through June 30, 2010; simulations from the Department of the Treasury (Office of Tax Analysis) based on the FY2011 Mid-Session Review.

Notes: a. Job numbers are rounded to the nearest 100.

b. Job-years represent all jobs supported by direct spending agency outlays and the estimated cost of tax provisions through 2012:Q4. A "job-year" is one person employed for one year.

c. Items may not add to total due to rounding.

Spending at a point in time leads gradually to increases in GDP and employment, beginning with the direct employment effects and then, later, extending to the induced effects. Hence, to get a sense of the total near- and medium-term economic impact of the public investment spending provisions, column 3 of Table 12 shows the total job-years estimated to be saved or created by public investment spending through the end of 2012. A job-year is the equivalent of one worker employed for one year. To put these numbers in perspective, the CEA estimated that the ARRA would save or create 3.5 million jobs as of 2010:Q4, and 6.8 million job-years through the end of 2012 (CEA 2009a).[17] Column 3 shows that the public investment spending provisions will create more than 3 million of these job-years.

Of course, these figures are only estimates. The margin of error for estimates for specific programs from the CEA model is relatively large, and the number of public investment spending jobs— either in 2010:Q2 or over the life of the Act—could be somewhat smaller or larger than is indicated here. Nevertheless, it is clear that the Act is successfully putting Americans to work today to make the investments needed for tomorrow's economy.

[17] CEA (2010a) estimated total job-years through 2012 resulting from spending in the clean energy sector as 719,600. The new estimate reflects the increase in total clean energy tax provisions and updated assumptions on the timing of agency outlays and tax costs.

D. A Focus on Transportation Infrastructure Spending

Infrastructure spending is one of the largest forms of public investment included in the Recovery Act. Because transportation infrastructure spending makes up a large portion of total infrastructure spending in the Act, it serves as an illustrative example of the scope and effectiveness of the infrastructure component. In this section, we examine the impact of transportation infrastructure spending. We describe the range of projects funded to give a sense of the long-term benefit of this type of spending. We use simple regression analysis and tabulations from the recipient reports to gain insight into the timeliness of expenditure and the effects on employment.

Range of Transportation Infrastructure Projects Funded by the Recovery Act. We focus on the Recovery Act spending through the Department of Transportation (DOT). We classify the Recovery Act investments of the DOT into five categories: highway, street, and bridge construction; passenger rail; public transit; air and sea projects; and TIGER grants, the DOT's competitive grant program for a wide range of transportation projects. Table 13 shows the breakdown of spending by type of transportation infrastructure.[18]

Table 13. Transportation Infrastructure Spending by Category

	Appropriations	Through the end of 2010:Q2	
		Obligations	Outlays
	Billions of dollars		
Highway, Street, and Bridge Construction[a]	27.08	26.25	10.07
Passenger Rail	9.30	1.42	0.53
Public Transit[a]	8.82	8.75	3.29
Air and Sea Projects	1.40	1.34	0.83
TIGER Grants[b]	1.50	0.10	0.00
Total[c]	**48.10**	**37.87**	**14.72**

Sources: Agency Financial and Activity Reports to the Office of Management and Budget; Recovery office.
Notes: a. Through July 1, 2010, 427 million dollars have been transferred from highway, street, and bridge construction funds to public transit funds according to Flexible Funding procedures. The appropriations reported here incorporate these transfers and do not, therefore, match the legislated appropriations.
c. Items may not add to total due to rounding.

The projects within the categories of the DOT Recovery Act funding cover a variety of infrastructure spending from highway improvement to airport runway construction to high-speed rail:

1. *Highway, Street, and Bridge Construction.* The largest component of the transportation spending portion of the ARRA is highway, street, and bridge construction. **More than $26 billion has been obligated to road, highway, and bridge projects.** One of the largest highway projects is the Sepulveda Pass widening project in Los Angeles. This project will add 10 miles

[18] This table includes all transportation infrastructure funded through the Department of Transportation. In the classification in Table 10, some transportation infrastructure funding is included in the clean energy category.

of high-occupancy-vehicle (HOV) lane to the San Diego Freeway (I-405), increasing capacity along one of the most clogged transportation arteries in America as well as supporting 18,000 jobs.

2. *Passenger Rail.* **The ARRA appropriated more than $9 billion for passenger rail projects.** $8 billion will be used for high-speed passenger rail infrastructure development. This funding is an important part of Congress and the Administration's plan to improve travel in the United States and will lay the groundwork for 13 high-speed rail corridors spanning 22 states. An additional $1.3 billion was awarded to Amtrak to invest in projects that will improve its railroad infrastructure and expand passenger rail capacity. These investments in passenger rail will meet the growing demand for inter-city passenger rail transportation while reducing national dependence on oil and creating clean, energy-efficient transportation solutions.

3. *Public Transit.* **About $9 billion has been appropriated to public transit projects in both urban and non-urban areas.** The ARRA has funded a wide variety of public transit projects such as: the construction of a new bus maintenance and operations facility in Raleigh, NC that is needed to accommodate a growing bus fleet; the rehabilitation of the ramps for the St. George Ferry in New York City, which provides a direct connection from Staten Island to Manhattan for 60,000 daily riders; and the purchase of five GILLIG 30' low-floor hybrid-electric buses—which use as much as 35 percent less fuel than standard diesel buses—in Montgomery, AL. $750 million of the public transit funds are reserved for modernizing existing fixed guideway systems (such as subways and trolley cars). Another $750 million is being used to improve rail and bus lines in several cities.

4. *Air and Sea Projects.* **The Recovery Act appropriated $1.4 billion to air and sea projects** that will provide immediate construction jobs as well as provide long-term benefits. Airports in nearly 300 municipalities across the Nation have been awarded grants. The money will be used to fund much-needed projects, including the refurbishment of 18 air traffic control centers that are more than 40 years old. The ARRA funds will also support capital investments and workforce training to expand the shipbuilding productivity of small shipyards by improving efficiency and by increasing capacity to work on larger ships.

5. *TIGER Grants.* **The final component of the transportation funds comprises $1.5 billion of discretionary grants for the Transportation Investment Generating Economic Recovery (TIGER) program**, which is intended to support major capital infrastructure investments that will provide long-term economic benefits. One recipient is the National Gateway Freight Rail Corridor, where the grant will be used to double rail capacity on a major freight rail corridor serving Ohio, Pennsylvania, West Virginia, and Maryland with no increase in noise, emissions or train length.

The Rate of Obligations and Outlays. Of the total $48.1 billion that was appropriated for the Department of Transportation, $37.9 billion (or 79 percent) has been obligated. The rate is even higher in particular categories. For example, 99 percent of the funds appropriated to public transit have been obligated to almost one thousand projects.

The recipient reports provide a way of digging deeper into the timing of the construction projects. Each individual project is an observation in the recipient reported data, which include the award date and whether economic activity had yet been generated in the reporting quarter (as measured by the production of jobs). Table 14 shows how many projects have been awarded funds in each quarter. As described above, the recipient reports are only available through the first quarter of 2010.

The timing of project awards suggests the existence of "shovel-ready" projects: almost 2,000 transportation projects had been awarded more than $8 billion by the end of March 2009, just six weeks after the Recovery Act was passed.[19] As of the end of March 2010, nearly 14,000 projects had been awarded. Of these, more than 12,000 were road, highway, and bridge projects. More than 300 were airport projects for the modernization of runways and other airport infrastructure.

Table 14. Transportation Project Award Timing

	Number of projects awarded
2009:Q1	1,835
2009:Q2	4,104
2009:Q3	3,632
2009:Q4	2,109
2010:Q1	2,272
Total	**13,952**

Source: Recipient reports downloaded from Recovery.gov on July 6, 2010.

Transportation infrastructure tends to spread economic activity over a longer period of time than other forms of stimulus. First, not all infrastructure projects are shovel-ready. Some projects, in particular those requiring large-scale coordination among civil engineers and municipalities, take time to set up and evaluate. Of the $10 billion that has not yet been obligated, $8 billion is for high-speed rail. For these projects, environmental, engineering, and design work must be done before construction can begin.

[19] Although the recipient reports allow us to observe in what month projects were awarded funds, we cannot similarly observe exactly when the outlays began to start; the recipient reported data only allow such calculations starting in 2009:Q3 when the first recipient reports were due. Through 2009:Q3, roughly $1.6 billion of ARRA funds were expended in the 1,835 transportation projects that had been awarded funds in 2009:Q1.

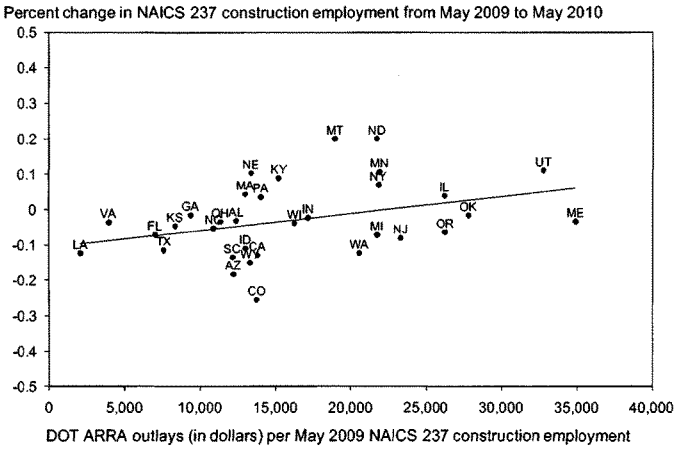
The key reason that infrastructure spending spreads economic activity over long periods is that, unlike other forms of stimulus such as tax cuts, infrastructure spending cannot be outlayed immediately and projects take substantial time to complete even after obligations are made. Although to date 79 percent of appropriations have been obligated to specific projects, only 31 percent of appropriations have been outlayed as of June 30, 2010 (see Table 13). 58 percent of projects that were awarded in the first quarter of 2009 were still not complete in the first quarter of 2010. As outlays are spent over the next few quarters to meet obligations, job creation from transportation infrastructure is likely to rise considerably.

Employment Impact of Transportation Infrastructure Projects. An important question is how effective transportation infrastructure investment has been at increasing employment. We perform a simple analysis of the direct effect of the ARRA transportation investments on employment by looking at the relationship between DOT ARRA outlays per construction worker in each state and the change in construction employment in each state. The ARRA outlay data come from the agency financial activity reports. We use employment data from the Current Employment Statistics (the standard source of timely data on payroll employment) for heavy and civil engineering construction (NAICS code 237). The employment data we use are not available seasonally-adjusted, so we use the change from May 2009 to May 2010 to avoid seasonal issues while using the most up-to-date data available. The Bureau of Labor Statistics' strict disclosure requirements and small sample limitations mean that the Bureau reports employment for this category for only 33 states.

Figure 6 shows a strong positive relationship between the DOT funds outlayed in a state and the change in heavy and civil engineering construction employment (which includes highway, street, and bridge construction) in that state. The regression line, which is drawn in, has a positive slope coefficient that is highly statistically significant.

It is important to note that this regression only measures direct jobs produced by the construction projects within a narrow sector of the economy. More direct jobs will be produced in other sectors because some of the expenses of the projects will directly employ workers outside of the NAICS 237 category. Furthermore, this simple scatter plot does not capture any of the indirect or induced jobs produced by the infrastructure spending. Construction is particularly capital intensive, which is likely to make the ratio of indirect and induced jobs to direct jobs higher than in less capital intensive sectors.

Figure 6. Change in Heavy and Civil Engineering Construction Employment Against DOT ARRA Outlays



Sources: Department of Labor (Bureau of Labor Statistics); Agency Financial Activity Reports from the Office of Management and Budget; CEA calculations.
Note: Trendline comes from regression of the percent change in NAICS construction from May 2009 to May 2010 against DOT ARRA outlays through May 28, 2010 divided by NAICS 237 construction employment in May 2009. The coefficient on outlays per construction worker is 0.0000048 with a standard error of 0.0000017.

The most recent recipient-reported data are for the first quarter of 2010. Because of a high seasonality of construction in cold states, the reported jobs from the first quarter, which includes two winter months, are a poor measure of the direct jobs created by infrastructure spending. Recipient data for the second quarter of 2010 will be released on July 30.

Overall, the relationship shown in Figure 6 is not surprising; more transportation infrastructure funds yields more direct jobs in this narrow sector of the economy. But, because the relationship is between ARRA spending and total employment in this sector, it indicates that the ARRA funds have not just crowded out investment that would have happened anyway. The Recovery Act raised employment overall in the construction sector. Furthermore, the Current Employment Statistics data for heavy construction only measures private jobs, and thus the relationship shown above suggests that the job creation from Recovery Act infrastructure spending was not limited to the government sector. Rather, it has had a significant positive effect on private employment.

V. Provisions of the Recovery Act that Leverage Other Spending

A key success of the Recovery Act has been its ability to bring in outside funds—from the private sector, non-profits, universities, and state and local governments—to complement its investments in a wide range of activities. This use of "leverage" or "co-investment" has two crucial benefits. First, it potentially increases the overall amount of support the Recovery Act is providing to the economy. This role of the Recovery Act in spurring private investment is particularly important in the current environment, when private investment is low. Second, it improves economic incentives: when the recipients of Federal funds have to put up significant funds of their own, their incentives to use the funding effectively are stronger.

The Recovery Act has literally dozens of provisions and programs that leverage outside investment. The range of the areas of co-investment is wide—from health research and clean energy manufacturing to infrastructure investment and broadband. About $100 billion of Recovery Act funds use leverage, and they will support more than $380 billion of overall investment. Thus, for every $1 the Federal government is investing in these projects, other entities are investing about another $3. And, the majority of the additional spending is coming from the private sector. As a result, the Act is playing a part in investments far beyond the Federal spending itself.

This section describes the specifics of how the Recovery Act has leveraged outside funds. It breaks down the leverage in two ways: according to the area of investment where the leveraged funds are going, and according to the design of the leverage.

Of course, as is always the case when the government encourages an activity, some of the activity would have occurred even without the government support. This section does not comprehensively address the challenging question of how much activity the use of leverage has generated that would not otherwise have taken place. Instead, it focuses on the amount of funds that are being leveraged and the amount of co-investment. However, it does look carefully at one particular area, the Production Tax Credit and other incentives for wind energy, to get a sense of the issues involved and the potential magnitude of the additional investment resulting from government support.

A. Co-investment by Area of Investment

To calculate the total amount of co-investment, we collected data from 15 different agencies with 52 programs involving outside funds, including 6 tax provisions of the Act.[20]

[20] We omit two tax programs, the Plug-in Electric Drive Vehicle Credit and the Renewable Energy Production Tax Credit, because we lack sufficient information on the dollar value of activity supported. To estimate the total amount of supported activity from projects that are still underway, we generally assume that a program's current co-

Importantly, the figures for total activity supported reflect only the direct amounts spent on projects supported by the Act. They do not include the activity that results from the additional demand for goods and services stemming from the higher incomes of those employed because of the programs (that is, the multiplier effect).

We first analyze the programs using the functional categories of public investment described in Section IV. As shown in Table 15, there are programs where Federal funds are partnered with non-Federal spending in every one of the categories.

1. *Clean Energy.* The largest amount of co-investment is in clean energy, where **a Federal contribution of $46 billion will support more than $150 billion in total investments** in energy efficiency, renewable generation, research, and other areas of the transformation to a clean energy future. For example, individuals and businesses that install certain types of renewable energy generation can receive a grant equal to 30 percent of the project's cost. This program, Energy Cash Assistance, has already disbursed $4.7 billion, supporting over $13 billion in total investment activity. These investments include more than 650 solar and 17 biomass projects.

Another example is the Department of Energy's smart grid program. The program will foster smarter, more flexible, and more efficient use of energy. Spurred by a $4.5 billion investment of Recovery Act funds, the private sector has invested an additional $6 billion in smart grid projects, bringing the total investment to over $10 billion.[21]

2. *Economic Development.* In the area of economic development, **a Recovery Act contribution of approximately $14 billion is supporting $146 billion in economic activity**. Build America Bonds, discussed in Section IV, are financing the majority of that activity.

As of the end of June, there have been 1,446 issues of Build America Bonds in 49 states, the District of Columbia, and two territories, with a total face value of $115 billion. The bonds allow states and municipalities to originate loans with 35 percent of the interest paid by the Federal government. The bonds are attractive to a variety of investors, such as pension funds, that do not benefit from the tax-free status of traditional municipal bonds. By bringing in more sources of funding, the bonds lower interest costs for the issuers. The Department of the

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investment percentage (the ratio of non-ARRA funds to ARRA funds) will be maintained for the life of the program. In a few cases where recent data are unavailable (the Community Development Block Grant, Community Development Financial Institutions, and the Tax Credit Assistance Program), we use a historical co-investment percentage. For the tax programs that provide interest subsidies on bond issues, we use the total value of issues to date as the estimate of the amount of supported activity.

[21] In these calculations of total leverage in the clean energy area of the Recovery Act, we use conservative assumptions so as not to double-count the leverage of investments that may qualify for multiple Recovery Act incentives. This suggests that our totals may understate the true level of clean energy investments supported by the Act.

Treasury recently estimated that the bonds issued during the first year of the program will save state and local governments about $12 billion.[22]

Build American Bonds currently represent 21 percent of the municipal bond market. For example, the University of Washington in Seattle has raised $150 million through two issues of the bonds. The university is using the funds to finance new and renovated housing for students who live on campus, an improved research facility, additions to buildings that house its business and medical schools, and other projects.

Of course, some of the $115 billion of economic activity that is being supported by Build America Bonds surely would have occurred without the program. One reason that the cost of the program to the Federal government is low is that the bonds are only a moderately more attractive source of financing than traditional tax-free bonds. In the absence of the program, some of the activity supported by Build America Bonds would have been supported by issues of traditional tax-free bonds instead. Estimating how much additional economic activity the bond issues have created is a difficult problem, and, as noted above, one we do not attempt to resolve in this report.

This category also contains Federal dollars that underwrite or guarantee loans to private borrowers, potentially funding a large amount of activity at little cost to the government. For example, as a part of the Recovery Act, the Small Business Administration raised the guarantee rate and eliminated fees on loans in their small business lending programs. Loan volume increased accordingly; in the ten months following the passage of the ARRA, the average SBA monthly loan volume in their largest programs increased by more than 60 percent over the level at passage. Through June 4, 2010, $552 million of ARRA funds supported $17 billion of small business lending.

3. *Building Construction.* Another category with substantial co-investment is building construction. **All together, $6 billion of Recovery Act funds are estimated to support total investment of $29 billion.** For example, under the Low Income Housing Tax Credit Assistance Program at the Department of Housing and Urban Development, $2.25 billion in Federal funds will partner with more than $7 billion in other Federal, state, local, and private funds to build low-income housing. Due to the absence of investors, hundreds of low-income housing projects across the country have been on hold. These funds are jump-starting investment in many of these projects.

4. *Other.* **An additional $29 billion of Recovery Act funds in a wide range of programs are supporting more than $50 billion of additional economic activity.** These programs range from environmental cleanup and preservation, to transportation infrastructure, to scientific

[22] See http://www.ustreas.gov/press/releases/tg692.htm.

research.

Table 15. Co-Investment by Area of Investment

	Cost to Government	Co-Investment	Total Activity Supported
	Billions of Dollars		
Clean Energy	46.0	106.7	152.7
Economic Development	13.9	132.3	146.3
Environmental Cleanup and Preservation	10.9	10.5	21.5
Broadband	7.2	2.7	9.9
Construction of Buildings	6.4	23.0	29.4
Health	3.7	1.3	5.0
Scientific Research	2.9	2.8	5.7
Human Capital	2.2	0.5	2.7
Construction of Transportation Infrastructure	1.6	6.4	8.0
Public Safety and Defense	0.6	0.1	0.6
Total[a]	**95.4**	**286.4**	**381.8**

Source: CEA calculations based on data from Office of Management and Budget and agencies.
Notes: a. Items may not add to total due to rounding.

B. Co-investment by Design of the Program

The Recovery Act uses several different approaches to putting non-Recovery Act funds to work. In fact, the Act employs six different designs to encourage other investment spending:

1. *Private Matching Grants (Businesses, Non-profits, and Universities).* Many programs in the Recovery Act require funding matches from the private sector. As a result, Recovery Act funds are drawing in private capital to help fund economic recovery, accelerate job growth, and hasten the clean energy transformation. **In total, $32 billion of Recovery Act funds are partnering with private matching funds to support $66 billion of economic activity.**

The largest use of private matches in the Recovery Act is at the Department of Energy: $23 billion of ARRA funds for clean energy projects are partnered with $21 billion of private funds. For example, Oregon and four other western states have been awarded $88 million from the Department of Energy Office of Electricity through the Recovery Act for a regional smart grid demonstration project. The grant has been matched by $90 million from utilities and technology companies. The project will test and evaluate new smart grid technologies, provide two-way communication between distributed generation and storage, and advance security.

2. *Tax Credits.* The Recovery Act contains numerous tax provisions to encourage energy efficiency and the production of renewable energy. **In all, $22 billion in energy tax credits will support $100 billion of investments in clean energy and energy efficiency.** For example, the Home Energy Efficiency Improvement Tax Credit and the Residential Renewable Energy Tax

Credit provide credits for 30 percent of the cost of energy efficient retrofits or the installation of residential renewable energy generation capacity. Other credits function almost like government grants—the Energy Cash Assistance and 48C Advanced Energy Manufacturing Credit pay for 30 percent of the cost of clean energy investments by firms. The 48C credit was awarded on a competitive basis, with the Departments of Treasury and Energy jointly reviewing applications for more than $8 billion to award the $2.3 billion in the program.

One project supported by the 48C tax credit is an investment by General Electric in their Appliance Park facility in Louisville, Kentucky, where $25 million of support from the 48C program is supporting an investment of over $600 million. Because of this investment, GE will be moving the production of energy efficient water heaters back to the United States from China.

3. *Loan Guarantees.* The Federal government guarantees certain types of loans made by banks to firms and individuals that otherwise might have difficulty getting access to credit. The most prominent loan guarantees in the Recovery Act are loans for small businesses and for commercialization of renewable energy technology. For example, Abengoa Solar, Inc. recently received a conditional commitment for a $1.5 billion loan guarantee under the Recovery Act Title 17 Loan Guarantee Program through the Department of Energy to build one of the world's largest solar generation plants near Gila Bend, Arizona. The plant will be the first large-scale solar plant in the United States capable of storing the energy it generates. Because many of the loan guarantees for clean energy accompany other Recovery Act programs with leverage provisions, we conservatively exclude all of the loan guarantees through the Department of Energy in our totals. **There are roughly $1 billion of non-energy loan guarantees that support $32 billion of total investment activity associated with small businesses, rural families, and Indian-owned businesses.**

4. *Direct Loans.* The government also lends directly to borrowers. **$4 billion in public expenditures under the Recovery Act will support a total of $15.6 billion in activity.** For example, the Broadband Initiatives Program at the Department of Agriculture is providing a combination of loans and grants for installing broadband in rural communities. Over 68 projects are already underway. In total, $90 million in government funds is expected to underwrite more than $1 billion in loans, with recipients contributing another $200 million in equity capital. The Broadband Initiatives Program will also award more than $2.3 billion in grants to partner with the loans. To give another example, the Bonneville and Western Area Power Administrations, which have excellent repayment records, each received $3.25 billion in additional borrowing authority under the Recovery Act.

5. *Public Matching Grants (Federal, State, and Local Governments, and Airports).* Many Federal agencies have Recovery Act programs that require funding matches from other parts of government. **In total, $23 billion in Recovery funds will partner with $22 billion in spending**

from other areas and levels of government to support $45 billion of total activity. For example, the Community Development Block Grant program at the Department of Housing and Urban Development has provided an additional $980 million to local governments for improving housing and services. These funds are matched by $1.9 billion from other public sources and about $600 million in private funds.

6. *Interest subsidies.* To help cash-strapped states and localities maintain crucial infrastructure investments during the downturn, the Recovery Act introduced new financing tools for the Federal government to help pay the interest cost of local borrowing. **In total, these programs are estimated to cost the Federal government $13 billion, and to date $123 billion qualifying bonds have been issued.** The Build America Bonds are the largest program of this type. Under another program, the Qualified School Construction Bonds, the Federal government pays 100 percent of the interest cost of bonds used to finance school construction.[23]

Some of the types of leverage design—the private matching grants, tax credits, and loan guarantees—are aimed at bringing in private capital. Others—the public matching grants and interest subsidies—are designed to bring in co-investment by state and local governments. The direct loans bring in a mix a private and public co-investment. Table 16 shows the overall breakdown of co-investment in the Recovery Act according to whether the co-investment funds are private or public and according to the design of the leverage.[24] The majority of the co-investment comes from the private sector: roughly $153 billion of the total co-investment of $286 billion, or 54 percent, come from private and non-profit entities.

Table 16 also shows that while all of these designs support co-investment, the degree of leverage varies substantially. On average, $1 of Recovery Act spending in these programs is partnered with about $3 of other spending. The loan guarantees have some of the highest degrees of co-investment, while the private and public matches have some of the lowest.

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[23] Issuance of Qualified School Construction Bonds has accelerated recently, with more issued so far in 2010 than were issued in all of 2009. Accordingly, the expected 10-year cost of the program exceeds the value of issues to date, as volume is expected to rise through the rest of the year. To account for this, we conservatively set both the cost to the government and total activity supported equal to the value of issues to date.

[24] Some programs involve more than one type of leverage design. We categorize these according to the most prevalent type of leverage. For example, the Department of Agriculture Broadband Initiatives Program described above is put into the direct loan category because most of the leverage occurs through the loan portion. However, many of the loan agreements also include a government grant.

Table 16. Co-Investment by Leverage Design Type

	Cost to Government	Co-Investment	Total Activity Supported
	Billions of Dollars[a]		
Private Co-Investment (businesses, non-profits, and universities)	**56.6**	**153.2**	**209.8**
Matching Grants	32.2	33.5	65.7
Tax Credits	22.0	78.9	100.9
Loan Guarantees	0.9	30.7	31.6
Direct Loans	1.5	10.1	11.6
Public Co-Investment (Federal, state, and local governments)	**38.7**	**133.2**	**171.9**
Matching Grants	23.4	22.0	45.4
Direct Loans	2.5	1.5	4.0
Interest Subsidies	12.8	109.7	122.5
Total[b]	**95.4**	**286.4**	**381.8**

Source: See Table 15.
Notes: a. Programs are categorized according to the primary type of leverage.
b. Items may not add to total due to rounding.

C. Assessing Leverage

The previous sections sketch a broad outline of the role outside funds have played in the Recovery Act, but they do not address how much outside activity was *caused* by the Act. Here, using the extensions of the Production Tax Credit and Investment Tax Credit for wind energy and the enactment of the Section 1603 Energy Cash Assistance program in the Recovery Act, we analyze one example of Federal support pulling private capital off the sidelines to sustain the Nation's transition to clean energy.

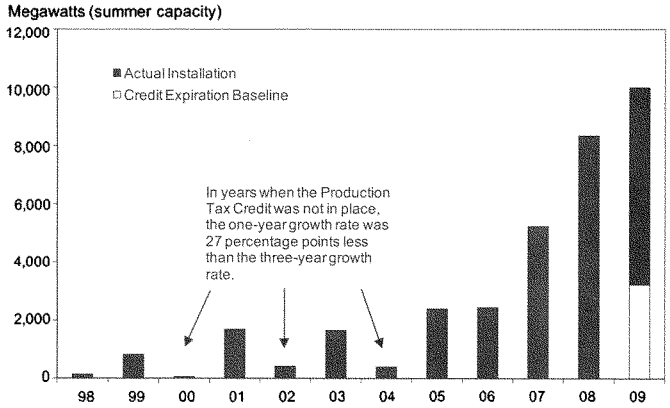
In the Energy Policy Act of 1992, Congress passed a Production Tax Credit of 1.5 cents per kilowatt-hour for energy generated by wind power for any facilities placed in service before July 1999. Firms could claim the credit for any wind energy generated for up to ten years after the place-in-service date. Since then, Congress has renewed the credit several times and the credit amount has increased (the credit is currently 2.1 cents per kilowatt-hour and indexed to inflation). Three times, however, in June 1999, December 2001, and December 2003, the credit expired, and each time, it took a number of months for it to be renewed. These short-term credit expirations have two important effects: they increase uncertainty about long-run profitability, and they delay planned investments as producers wait for the credit to be renewed.

We can look at what happened to installed wind capacity in the episodes where the credit expired to build a counterfactual for what would have happened if the credit had not been extended. The difference between the counterfactual and the actual installed capacity then represents the activity caused by the credit. As shown in Figure 7, one difficulty in using historical analysis is that the amount of annual installed capacity has grown substantially since the credit expiration episodes. Hence large changes relative to the level of installed capacity in earlier years may be small relative to the much higher level of investment in 2008 and 2009. To

account for this, we analyze the effect of credit expirations on the growth rate rather than the level of investment. Using data from the American Wind Energy Association on installed wind capacity, Figure 7 shows that the one year growth rate in installed capacity in years when expiration occurs is 6.3 percent, but the medium-run growth rate in capacity including the years before and after the expiration is 33.3 percent (at an annual rate). The difference between these growth rates—which is the amount of growth temporarily delayed each time the tax credit expired in the early 2000s—is 27.0 percentage points.

Metcalf (2009) performs a related analysis of investment in wind capacity at the state level. His estimate of the elasticity of investment with respect to the user cost of capital implies that removing the production credit would typically reduce investment by 40 to 50 percent.[25] While not directly comparable to the calculation above, this estimate also suggests a substantial impact of the credit on private investment.

Figure 7. Annual Wind Energy Capacity Additions



Source: American Wind Energy Association (2010).
Notes: Legislation extending the Production Tax Credit for wind passed in 2008 and again in the Recovery Act.

The Energy Improvement and Extension Act of 2008 extended the Production Tax Credit for wind, which was scheduled to expire at the end of 2008, through 2009. The Recovery Act further extended the credit through 2012. The Act also introduced the 1603 Energy Cash

[25] This figure depends on the assumption that the elasticity of investment with respect to the user cost is constant over time. Metcalf emphasizes specifications where the level of investment is a linear function of the user cost (subject to a non-negativity constraint). The results from the linear-level specifications imply that the impact of removing the credit would be large relative to average investment over his sample period, but small relative to the very high level of investment in 2009.

Assistance grants, which allow businesses to apply for a grant equal to 30 percent of the cost of the investment instead of claiming the production tax credit.[26] In the tight credit conditions that prevailed during much of 2009, the 1603 grants allowed firms to receive up-front financing for projects. To date, firms have received more than $4 billion through the 1603 grant program, about 90 percent of which has gone to wind producers.

With these programs in place, more than 10,000 megawatts of summer wind capacity were installed in 2009, for an annual growth rate of 40 percent. Assuming that a January 2009 production tax credit expiration would have had the same 27 percentage point growth impact as in the early 2000's, the growth rate would have been 13 percent, and the level of wind energy capacity in 2009 would have been nearly 20 percent lower.[27] Thus, it appears that government support was responsible for about 6,000 megawatts of wind capacity installation that might not otherwise have occurred. Moreover, the challenging credit conditions during 2009 and the introduction of the 1603 grant program in the Recovery Act suggest that the overall effect on wind capacity installation may have been even larger.

The Lawrence Berkeley National Laboratory (LBNL) conducted an independent analysis of the 1603 grant program.[28] This study found that the program caused an increase in wind installation in 2009 of between 2,000 and 2,400 megawatts. The LBNL analysis was based on the difference between actual and forecasted installations and on estimates of whether each project would have been built given the owner and time of construction. Importantly, more than one-third of firms installing wind capacity in 2009 claimed the production tax credit instead of applying for a 1603 grant, so the LBNL study provides a lower bound for the impact of the incentive programs on wind energy installation. Even so, the LBNL study suggests a substantial impact of tax incentives on private investment.

Every program is different, and determining how much of the spending associated with the co-investment provisions of the Recovery Act would not have occurred without the Act is beyond the scope of this report. But the evidence from the analysis of the Production Tax Credit and related incentives for wind energy suggests that the additional private sector investment that is generated by these provisions may be substantial.

This fact has potentially important implications for measuring the employment effects of the Recovery Act. In our model-based analysis, we only estimate the jobs created by the direct public investment spending in the Act; we make no attempt to include any of the employment impact of the leveraged spending beyond the cost to the Federal government. As a result, the model-based estimates almost surely miss some of the employment generated by the Recovery

[26] The Act also extended the Investment Tax Credit, which provides a tax credit equal to 30 percent of the cost of the investment. Historically wind producers have opted for the production credit over the investment credit.
[27] The assumption of proportional growth could overstate the impact of the ARRA on wind energy installation.
[28] Bolinger, Wiser, and Darghouth (2010).

Act. Our projection-based estimates, which simply compare actual employment to a sensible, statistically-determined baseline forecast, inherently do include any impact of the leveraged spending. This is potentially one reason why the projection-based estimates of the employment impact of the Recovery Act are larger than the model-based estimates.

VI. Conclusion

This report continues the Council of Economic Advisers' assessment of the economic impact of the American Recovery and Reinvestment Act of 2009. It reflects our attempt to monitor the progress of the Act and the response of the economy as of the second quarter of 2010.

Our analysis indicates that the Recovery Act has played a key role in the turnaround of the economy that has been occurring over the past year. Real GDP reached its low point in the second quarter of 2009 and has been growing solidly since then, in large part because of the tax cuts and spending increases included in the Act. Employment, after falling dramatically, has begun to grow again. Indeed, payroll employment (neglecting temporary Census workers) has risen for six consecutive months. As of the second quarter of 2010, we estimate that the Recovery Act has raised employment by 2.5 to 3.6 million relative to what it otherwise would have been.

We also find that the public investment programs in the Recovery Act are funding critical investments in a wide range of areas. The employment effects of these programs increased substantially in the second quarter of 2010 as many projects moved from planning to implementation; we estimate that the programs now account for almost one-third of the employment effects of the Act. This pattern fits the Vice-President's description of the summer of 2010 as the "Summer of Recovery."

One innovative feature of the Recovery Act is its leveraging of outside funds to make Federal dollars go further and to strengthen incentives for the effective use of those funds. The Act uses about $100 billion of matching grants, tax credits, and various types of lending assistance to partner with almost three times that amount of non-Federal funds, and to thereby support over $380 billion of economic activity. The leverage involves activities from advanced energy manufacturing, where 48C tax credits are partnering public and private funds, to essential infrastructure investments, where Build America Bonds are making new sources of funding available to state and local governments.

As we have emphasized, measuring what a policy action has contributed to growth and employment is inherently difficult because we do not observe what would have occurred without

the policy. Therefore, it must be understood that our estimates are subject to substantial margins of error. The results, however, are strong enough and clear enough that we are confident that the basic conclusions are solid. That a wide range of private and government analysts concur with our estimates adds a reassuring check on our analysis.

APPENDIX

ESTIMATED EMPLOYMENT EFFECTS BY STATE

This report finds that the Recovery Act raised employment as of the second quarter of 2010 by between 2.5 million and 3.6 million jobs over what it would otherwise have been. There is obviously much interest in how these employment effects have been distributed across states. In this appendix, we attempt to provide a rough state-by-state breakdown for the effects of the entire ARRA. However, it is important to emphasize that these disaggregate estimates are inherently more speculative and uncertain.

The state estimates are calibrated to add up to 3.05 million jobs. This is the midpoint between the estimated employment impact of the ARRA in 2010:Q2 according to the CEA model approach and the CEA statistical projection approach (see Table 9).

Because there is no perfect way to measure state-level effects, we pursue three approaches to decomposing employment impacts across states. Our first method allocates jobs according to states' shares of national non-farm employment as of March 2009.[29] Georgia, for example, had 3.0 percent of all employment in the country in March 2009, so is allocated 3.0 percent of total job creation.

Our second method allocates jobs according to the distribution of Recovery Act outlays through June 30, 2010. Georgia has received 2.9 percent of total outlays, so is estimated to receive 2.9 percent of total job creation. This method provides a more direct measure of where ARRA impacts are likely to be felt than does the first approach, but it has an important drawback. Only a portion of the overall Recovery Act stimulus is included in the outlays data. The most important stimulus not included in this approach is tax relief, which comprises almost one-half of total spending plus tax cuts to date. Tax cuts are likely more evenly distributed across states than are outlays, so our use of outlays likely overstates the unevenness of employment effects. Similarly, this method assumes that all of the employment effects of spending in a state are felt within the state. In fact, however, there are important spillovers across states. Thus again, this approach is likely to exaggerate the differences among states.

Our third method relies on the sectoral composition of employment in each state. We estimate the number of jobs created or saved in different industries using a methodology developed in our first quarterly report.[30] Specifically, we decompose the response of employment in each sector into two components. First, a rising overall level of employment tends to increase employment in each industry in proportion to its share of the overall economy. We refer to this as the "rising tide" effect. Second, some sectors are more sensitive to the state

[29] U.S. Department of Labor (2010b). We use seasonally adjusted estimates of total nonfarm employment.
[30] See CEA (2009b) for details.

of the business cycle than are others. The additional employment due to the Recovery Act has therefore almost certainly produced relative expansion of such procyclical sectors, while countercyclical sectors, such as utilities, health care, and government, have seen their shares of total employment shrink relative to what would have been seen in the absence of stimulus. We refer to the resulting changes in sectoral employment as the "cyclicality effect."

We then assume that any jobs saved or created in a particular industrial sector (for example, mining and logging) are distributed across states in the same way as are existing jobs in that sector.[31] Georgia has only 1.4 percent of national employment in mining and logging, so is assumed to receive only 1.4 percent of employment effects in that industry. By contrast, Georgia has nearly one-quarter of national textile product mill employment, so any employment impacts in that industry are assigned disproportionately to Georgia. Summing across 42 industries, we obtain the total impact on Georgia employment.[32] The procedure is repeated for each state to obtain the distribution across states.

None of these three approaches does a perfect job of measuring the geographic distribution of employment effects, and each has advantages and disadvantages relative to the others. Thus, to obtain a reasonable estimate of state-level job impacts, we average the three approaches. This average indicates that the ARRA has saved or created roughly 91,000 jobs in Georgia, 3.0 percent of the national total. Estimates for all fifty states, plus the District of Columbia, are reported in Appendix Table 1.

Of course, simply because their populations are larger, we estimate that larger states have seen larger jobs impacts. Similarly, because their employment is more cyclically sensitive, industrial states are estimated to have had larger employment effects relative to their populations. Finally, both because of their industrial composition and because state fiscal relief and aid to individuals directly impacted have been larger in states hit harder by the recession, we estimate that states with higher unemployment rates at the time of passage have seen larger employment effects of the ARRA relative to their populations.

---

[31] Employment by state and industry is drawn from data published by the U.S. Department of Labor (2009, 2010b). We use data from the March 2009 Current Employment Statistics to determine state employment shares and data from the 2008 Quarterly Census of Employment and Wages to determine state-by-industry employment. Because of limitations in the available data, some of the analysis here uses data beginning in 1990:Q2.

[32] For this analysis, we use a relatively detailed industry breakdown. Manufacturing is divided into 21 sectors (for example, fabricated metal products). Trade, transportation, and utilities are divided into four sectors (wholesale trade, retail trade, utilities, and transportation/warehousing); financial activities into two (finance/insurance, and real estate/rental/leasing); professional and business services into five (professional/technical services, management of companies, employment services, other administrative/support services, and waste management/remediation); education and health into two (educational services and health care/social assistance); leisure and hospitality into two (arts/entertainment/recreation and accommodation/food services). For data sources and methods used in the sectoral decomposition, see CEA (2009b).

Appendix Table 1. Estimated Impact of the ARRA on Employment by State

State	Jobs Impact in 2010:Q2	State	Jobs Impact in 2010:Q2
	Thousands		Thousands
Alabama	42	Montana	10
Alaska	7	Nebraska	17
Arizona	64	Nevada	29
Arkansas	26	New Hampshire	13
California	357	New Jersey	94
Colorado	50	New Mexico	19
Connecticut	38	New York	206
Delaware	9	North Carolina	90
District of Columbia	16	North Dakota	8
Florida	167	Ohio	117
Georgia	91	Oklahoma	35
Hawaii	13	Oregon	41
Idaho	15	Pennsylvania	130
Illinois	140	Rhode Island	11
Indiana	68	South Carolina	41
Iowa	34	South Dakota	8
Kansas	28	Tennessee	60
Kentucky	41	Texas	225
Louisiana	39	Utah	27
Maine	14	Vermont	7
Maryland	53	Virginia	73
Massachusetts	79	Washington	67
Michigan	102	West Virginia	16
Minnesota	60	Wisconsin	63
Mississippi	26	Wyoming	6
Missouri	59		

Sources: CEA estimates based on data from the Current Employment Statistics and the Quarterly Census of Employment and Wages.

Note: Entries sum to the midpoint of the estimated cumulative impact of policy on employment level of CEA's model approach and projection approach (3,050,000 jobs impacted).

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1717 Rhode Island Avenue, NW
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June 21, 2010

The Honorable Peter R. Orszag
Director
The Office of Management and Budget
725 17th Street, NW
Washington, DC 20503

Dear Director Orszag:

As a follow-up to your request to both Business Roundtable and The Business Council for examples of pending legislation and regulations that have a dampening effect on economic growth and job creation, we surveyed our membership to get their views. Attached are an Executive Summary and detailed description of what they see as government initiatives that will cause slower rather than faster growth.

Obviously the list is long, but we believe the cumulative effect of these proposals will help defeat the objectives we all share – reducing unemployment, improving the competitiveness of U.S. companies, and creating an environment that fosters long-term economic growth.

As business leaders we are increasingly concerned that the political expediencies of the short-term harm our ability to partner with government to create policies that foster growth. Now more than ever we need to work as businesses and as government to make the United States a place where we can attract the investment that is needed if we are to remain the strongest economy in the world.

We would be pleased to meet with you to discuss any and all of these issues.

Sincerely,

Ivan G. Seidenberg
Chairman & CEO
Verizon Communications
Chairman, Business Roundtable

James W. Owens
Chairman & CEO
Caterpillar Inc.
Chairman, The Business Council

Attachments

POLICY BURDENS INHIBITING ECONOMIC GROWTH

a report by

June 21, 2010

EXECUTIVE SUMMARY

Many regulations and legislation – both existing and proposed – exacerbate the uncertainty created by today's volatile economic environment.

Virtually every new regulation has an impact on recovery, competitiveness and job creation. Often that impact is negative. On an individual basis, most businesses can cope with each new regulation. But the collective impact on the economy is enormous, and often harmful.

With a massive new health care law and financial reform legislation looming, companies are more worried than ever about the impact new regulations and legislation will have on their operations and their bottom line. Not knowing what to expect from these pending regulations, businesses are acting cautiously to forestall any negative impact. These actions are squelching economic growth and job creation, as companies are forced to freeze investments and hiring until they understand how they will be affected by these new mandates.

Key Regulatory and Legislative Issues

Below is an overview of the key regulatory issues that are impeding economic growth and job recovery:

- **Taxes.** When American companies expand abroad they also help the economy at home. As an American company expands operations in its foreign affiliates, it has been estimated that for each dollar of additional wages paid in the foreign affiliate, U.S. wages increase by $1.84. Globally, American companies directly employ 22 million American workers and support an additional 41 million U.S. workers through their supply chains and spending by their employees.

  The Administration and Congress have proposed a number of policies relating to the taxation of foreign earnings that will harm the ability of global American companies to create and retain U.S. jobs. As it stands, the U.S. has the second-highest corporate income tax rate in the Organisation for Economic Co-operation and Development (OECD) and is one of the few countries that taxes U.S. companies on their foreign earnings. The international tax increases proposed by the Administration – as well as those contained in the current tax extenders bill (H.R. 4213) – would make sweeping

changes to U.S. tax law that would make U.S. companies even less competitive in foreign markets and reduce the potential for job growth at home. The Administration should instead encourage U.S. competitiveness by reducing the U.S. corporate tax rate and adopting tax rules on foreign earnings that allow global American companies to compete on a more level playing field with their foreign-headquartered competitors.

Finally, we must continue to promote innovation in the United States by making permanent the R&D tax credit; this will increase U.S. jobs and enhance the global competitiveness of U.S. corporations.

- **Financial Regulatory Reform.** Financial regulatory reform proposals will impose numerous new burdens on American businesses. For example, the proposed legislation and concurrent regulation on proxy access at the SEC (File No. S7-10-09) that creates a new federal right for shareholders to nominate directors will reduce efficiency, stifle competition and deter capital formation.

  Moreover, this proposed legislation would impose a series of new regulations on transactions executed in the over-the-counter (OTC) derivatives market. Business Roundtable recently conducted a survey to gauge the potential effects of proposed legislation -- including a margin requirement – on OTC derivatives. According to the results, on a cumulative basis, non-financial, publicly traded BRT companies would likely respond to the imposition of margin requirements on OTC derivatives by reducing capital spending by 0.9% to 1.1%, or about $2.0 to $2.5 billion, assuming no exemptions. Extending this analysis to S&P 500 companies, a 3% margin requirement on OTC derivatives could be expected to reduce capital spending by $5 billion to $6 billion per year, leading to a loss of 100,000 to 120,000 jobs.

- **Trade.** The Administration's failure to move forward on pending free trade agreements and a more expansive presidential trade negotiating authority has emboldened foreign competitors while hurting our economy, global competitiveness and job creation. The Administration should swiftly resolve any outstanding issues and move forward with the implementation of free trade agreements with Colombia, Panama and South Korea, and must also seek a new presidential trade negotiation authority.

- **Labor.** Foremost among our companies' labor concerns is the Employee Free Choice Act (Card Check bill); if enacted, this legislation would have a devastating impact on business, by eliminating secret ballots in union organizing elections and empowering the government to intervene in labor disputes through compulsory arbitration.

  In addition to EFCA, Congress is expanding damages for pay discrimination. The Paycheck Fairness Act, passed by the House last year and currently supported by the Administration as the successor to the Lilly Ledbetter Fair Pay Act, would open companies to potentially crippling employment litigation without adding significant benefit to workers, since current law already addresses the discrimination issue.

The Vice President's Middle Class Task Force is reportedly considering regulations on federal procurement policy that would call for awarding federal contracts to companies that provide living wage, health care, retirement and paid sick leave; have fewer violations in labor and employment, tax, environment and antitrust; and take a neutral position in union organizing campaigns. If adopted, these regulations would base decisions about awards on factors that could significantly increase the cost to the government and American taxpayers.

The Middle Class Task Force is also reportedly considering mandating Davis-Bacon wage requirements and union labor agreements for all federal construction projects, even those involving non-union companies. These provisions will drive up costs and undermine new initiatives for green jobs and the construction of nuclear power plants.

- **Energy and Environment.** Legislative and regulatory efforts to address climate change, if done properly, provide real opportunities to develop cleaner and more efficient technologies to reduce greenhouse gas emissions in a way that benefits the environment and U.S. industry. A collaborative approach with government and industry is necessary to develop measurable and sustainable goals.

  Mitigating greenhouse gases is a policy goal best left to Congress. However, in the absence of legislative action, the EPA has recently proposed a number of policies that regulate greenhouse gas emissions under the Clean Air Act. As the U.S. manufacturing sector continues to struggle and is shedding jobs overall, the EPA's actions will impose additional expenses, create uncertainty and place U.S. companies at a competitive disadvantage compared with foreign firms.

  Energy independence ultimately entails a combination of all viable resources, including oil and natural gas exploration. But recently, the Administration has issued sweeping restrictions on drilling in response to the Deepwater Horizon tragedy. The breadth of the Administration's response should be promptly reconsidered as the Administration obtains definitive information. If proper procedures are followed, tragic events such as the Deepwater Horizon situation should not and do not occur. Delayed exploration and production of oil and gas and reduced access will diminish domestic supplies available to help meet U.S. needs. Moreover, each aspect of the moratorium will have an immediate negative impact on economic activity and thousands of jobs, both directly in the oil and gas industry and indirectly in numerous support industries and services. Much of this impact will be felt in the Gulf of Mexico region, where the economy and employment are already gravely suffering from the spill itself.

- **Health Care.** By significantly restructuring the country's health insurance marketplace, the new health care reform law is likely to have a substantial impact on the nation's economic recovery. Intended to build on the employer-sponsored system, health care reform must be implemented in a way that ensures the stability of this employer-

sponsored framework. During the regulatory process, clarifications to the law must be made in a manner consistent with this intent. Businesses are working to comprehend the complexities of the law. Although many of the more significant changes are not imminent, uncertainty is contributing to some overall anxiety as to increased business costs and requirements. Regulatory clarifications to many of the critical employer-related provisions will be vital in assessing the overall economic impact of the law. Exploring ramifications, consequences and nuances to these legislative clarifications may require even more vigilance than the drafting and passage of the reform law itself.

- **Education.** In general, we support the Administration's efforts to strengthen the U.S. educational system. A quality early childhood education program is critically important to an individual's lifelong success. The "Educate to Innovate" program seems promising to bolster STEM (science, technology, engineering and math) education at all levels.

- **Immigration.** Our immigration system is broken and must be fixed. Immigration reform must address the need of American businesses to access qualified, highly skilled professionals around the globe to remain competitive. Reforms must also address the current green card backlog for our Chinese and Indian employees and include an H1-B cap that is flexible based on market needs.

In addition to the above, there are a number of sector-specific regulations of which our companies have expressed strong concern because of their potential domino effect on the economy. These are highlighted in the comprehensive report.

Conclusion

We believe that a new, comprehensive assessment of federal policies and regulations is fundamental to the U.S. economy regaining its competitive strength. Regulators should assess the financial impact of individual and collective mandates, remove existing mandates that have become redundant and increase efficiency through market competition. They should also establish a system for creating new regulations that do not impede private-sector investment and job creation.

At the same time, the government must reduce spending to manage down deficit and debt. The current levels of U.S. debt, as well as those required to finance the forecast deficits, will crowd out private capital. If less capital is available for corporate borrowers, it will retard future growth and investment, erode the value of the U.S. dollar, accelerate inflation and, eventually, reduce consumer spending power.

Economic recovery must be lead by the private sector, both large and small, if we are going to create jobs and reduce the unemployment rate. In assessing all regulations, the goal should be to reduce uncertainty, fear and overall cost impact while creating a regulatory system that is business-friendly, cost-effective, and encourages efficiency.

POLICY BURDENS INHIBITING ECONOMIC GROWTH

a report by

June 21, 2010

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BROAD ECONOMIC ISSUES

Energy

Reliable sources of energy are essential to the long-term health of the American economy. While the U.S. leads in energy investment, efficiency and new energy sources, we know that America must expand access to our domestic energy supply in order to meet current and future demand for affordable energy. A comprehensive energy strategy is critical. This strategy must embrace all forms of domestic energy production while expanding the conservation and efficiency efforts already in place. Oil, natural gas and clean coal remain essential contributors to America's energy security, while alternative fuels and renewable energy sources will also gain increasing importance in the future. Developing and expanding all our domestic energy resources is key to energy independence, economic growth and job creation.

Key areas of concern include:

- **Renewable Fuels Standard/Biofuels:**
  In order to deal with the significant concerns related to RFS2 implementation, the EPA needs to use the authority it has to adjust, freeze, or waive the RFS mandated volumes if the required amount of renewable fuel exceeds the legal amount of ethanol allowed in gasoline products. Otherwise, the E10 blendwall could adversely affect fuels, prices and biofuel industry investments. EPA should not try to solve the problem by putting vehicles and engines at risk. Cellulosic or other bio-hydrocarbon fuel technology is essential to meeting the goals of the RFS; thus, government should continue to encourage the needed R&D and at the same time remove artificial regulatory barriers. No additional labels should be required for renewable diesel or renewable diesel blends with petroleum fuels because renewable diesel has the same characteristics as conventional diesel fuel. Finally, the EISA Section 201 definition of biomass-based diesel fuel needs to be revised to include fuels produced by co-processing biomass with a petroleum feedstock.

- **Ethanol:**
  The E-15 waiver, if issued this summer, would likely take place without vehicle and retailing infrastructure testing that needs to be completed and thoroughly evaluated in order to permit the delivery of these fuels in a manner that avoids potential harm to vehicles and possible environmental risks if retail infrastructure are not certified to hold and dispense the higher ethanol blends that such a waiver would allow. Additionally, the potential exists for considerable confusion in the implementation of the higher ethanol blends. Automakers may not be able to warranty their (non-Flex Fuel) vehicles for the higher ethanol blends leading to customer confusion about which fuel products they can use in their vehicles without causing damage. Similarly, suppliers and retailers may not be able to sell the higher ethanol-gasoline blends. Considerable planning and implementation issues need to be considered before a waiver is issued and made effective by EPA.

- **Nuclear Energy:**
  In March 2010, DOE withdrew the license application for a high-level nuclear waste repository at Yucca Mountain. Delay in identifying a nuclear waste repository is preventing the government from meetings its long-term storage obligations for nuclear waste. America needs a safe, long-term solution to managing used nuclear fuel. This is an important part of restarting America's

nuclear industry to help meet our energy and climate challenges and create thousands of new jobs.

- **Green Jobs:**
  Pursuing economic and environmental goals is a legitimate governmental function, but such goals should be advanced through a "level playing field" policy construct. It is critical to look at the whole economic picture, including costs to consumers and the impact on jobs in other industries. The objective should be to support policies that grow net jobs and create sustainable economic growth, not growth in one sector at the expense of others (or one fuel source at the expense of others). For example, legislative proposals to implement Renewable Electricity Standards (RES) would mandate that renewables generate an arbitrary percentage of electricity supply regardless of their cost being far higher than more economical alternatives for power generation. Diverting labor and financial resources to less economic forms of energy is counterproductive to net job creation and economic growth, and will simply lead to elements of the domestic economy being less competitive.

- **Electricity:**
  The major constraint to the development of new electricity supply is uncertainty over whether or not there will be a price placed on carbon. Utilities and independent merchants are reluctant to invest in traditional sources of generation because of the uncertainty of what carbon policies would be over the life of the project. In the interim, neither "green" projects nor "traditional" projects are being built in sufficient number to keep up with the demand for power. It's also important to avoid differing state rules, which makes for inefficient markets

- **Electric Grid:**
  The major constraint to moving power from region to region is the antiquated transmission grid – more pressure is being placed upon the existing transmission grid to move existing sources of power plus integrate new sources of "green" power. The problems with improving the grid can be summed as follows: "Who will pay for it and who will own it?" Additionally, citing issues associated with new transmission must be resolved. Congress acted to create "National Transmission Corridors" almost two years ago but nothing has been finalized or started to be built in this regard.

- **Power Market Rules:**
  The Federal Energy Regulatory Commission and Independent Service Organizations (ISO) need more transparency so the market knows what the rules are. Each region has its own rules and requirements and interprets and implements its rules differently--not an efficient or clear market environment. The power market's rules are not standardized. For example, the Midwest ISO routinely makes retroactive rule changes. Some of these changes have resulted in some companies receiving bills for millions of dollars for power they bought or sold several years ago. No company or market can operate long term with this level of ambiguity and retroactive rule changes. The electrical transmission line sighting process requires approval of several agencies, which causes utilities to delay projects that create jobs and improve grid reliability.

- **Energy Star:**
  Two recent proposals from DOE and EPA suggest that manufacturer-operated test labs that are NVLAP certified by NIST would not qualify as being independent third-party, and the EPA has recently proposed more extensive testing requirements that would add considerable – even prohibitive – costs for manufacturers and retailers to comply with the Energy Star designation.

- **Oil Exploration:**
  The Administration recently announced a series of actions in response to the Gulf of Mexico oil spill. The sweeping scope of these policies relative to the actual issues that reportedly caused the incident should be promptly reconsidered as the Administration obtains definitive information. If proper procedures are followed, tragic events such as the Deepwater Horizon should not and do not occur. Delayed exploration, production and reduced access will diminish domestic supplies available to help meet U.S. needs. Moreover, each aspect of the moratorium will have an immediate negative impact on economic activity and thousands of jobs, both directly in the oil and gas industry and indirectly in numerous support industries and services. Many of these impacts will be felt in the Gulf region, where the economy and employment are already gravely suffering from the spill itself, and an extended moratorium will likely result in deepwater rigs leaving the Gulf.

- **Mining:**
  Since avoidance of streams in surface mining is not possible, the proposed OSM stream protection rule contains certain concepts that could significantly affect surface mining, such as:

  - *Stream Sequencing:*
    Given the size and scale required to mine and reclaim effectively and economically, affecting and reclaiming only one stream segment at a time is impossible.

  - *Bonding:*
    Long-term bonding for potential future material damage issues would create no certain end to liability, making Asset Retirement Accounting difficult and tying up surety and/or self bond. It would also make Surety Companies reluctant to write reclamation bonds.

  - *Coordination of SMCRA and CWA permitting:*
    Attempts to coordinate CWA 404 permitting between EPA and the Army Corp of Engineers have not worked, as evidenced by the hundreds of permits held in limbo. Additionally, SMCRA currently has set standards and timeframes for permit requirements and approvals, while CWA has few of these.

  - *Backfilling, Grading, Excess Spoil and Approx. Original Contour restoration requirements:*
    Requiring a blueprint for final land forms and not use standards and guidelines that allow the operator to efficiently and economically restore the pre-mine capability of the land is an unworkable and overly prescriptive approach.

- **Coal Ash:**
  If coal ash is classified as a "special waste," it would subject generators and other operators of ash storage facilities to far more stringent regulation and trigger violations of local zoning requirements, limit the willingness of communities to permit new coal-fired plants and curtail the beneficial use of coal ash. Currently, more than 50 million tons (nearly 45 percent) of CCBs are beneficially used each year in a variety of applications—many of which support sustainable construction practices. In fact, coal ash has been used for more than 80 years as a substitute for cement in concrete. Today, the beneficial use of coal ash has an annual impact of approximately $9 billion on the U.S. economy. Additionally, if the EPA sets performance standards that will require physical, chemical and biological treatment of ash waste water and low volume effluents, the estimated cost of such waste water treatment facilities could run between $120 and $150 million.

Environment

Investments in U.S. energy projects of all kinds rely on government policies that are efficient, predictable and transparent. Regulatory and permitting requirements are often in place to advance and protect the environment and these goals should be supported. The regulatory process that underpins the goals must be robust and thorough. However, all types of energy projects—from renewables to nuclear to clean coal to natural gas—are subject to an inefficient regulatory process. By its action and inaction, the government often discourages or blocks investment and limits opportunities. Endless regulatory delays and inefficiencies are a waste of effort and money for all concerned, including the government and the taxpayer. Failure to address the faults in the regulatory system will have, and arguable is having, serious consequences for the future of our country.

Key areas of concern include:

Air Quality

- ***National Ambient Air Quality Standards (NAAQS):*** EPA NAAQS rules are the basis for an array of costly requirements on the manufacturing industries. The economic impacts on areas that do not meet EPA air standards are significant, and include constraints on current economic activity, plant expansions, disincentives for locating new plants, and more stringent permitting. This affects job growth and can push new plants offshore. EPA's proposed ozone standard, for example, is very close to background levels and EPA estimates compliance costs will range from $19 billion to $90 billion.

- ***New Source Performance Standards (NSPS):*** In 2008 EPA published a final rule that revised the current New Source Performance Standards (NSPS) Subpart J for petroleum refineries. The final Subpart Ja imposes a number of potentially costly new requirements related to refinery flare systems. EPA is also considering whether GHG provisions should be added to the rule. Additional flare gas controls will be required to comply with the new NSPS as well. Industry estimates compliance costs to be in the range of $1 to $2 billion.

- ***Boiler and Process Heater Air Toxics Controls ("Maximum Achievable Control Technology") under the Clean Air Act:*** In April 2010, the EPA proposed a hazardous air pollutant rule affecting approximately 13,500 boilers and process heaters at major stationary sources in the United States. Application of EPA's stringent approach will establish limits that are technically infeasible for many. The emission limits are especially challenging for gas-fired units (common in refineries and chemical plants). Cost estimates for new required controls range from $9 billion (EPA estimate) to over $20 billion – and facilities may still not be able to achieve the standards. Facilities in other countries do not have analogous control requirements, putting U.S. plants at competitive risk, and potentially driving new facilities off shore.

- ***Clean Air Interstate Rule:*** The Clean Air Interstate Rule (CAIR) has been vacated and remanded to the US Environmental Protection Agency. Although the Agency has proposed a new rule, uncertainty remains as to the final form the rule will take as well as potential legal challenges to the new rule. In the meantime, uncertainty has affected the market for trading for emissions credits as well as the market for equipment and technology to reduce sulfur dioxide and nitrous oxide emissions.

- ***Diesel Engine Standards:*** In order to meet U.S. environmental product standards companies are required to invest billions of dollars in reducing diesel engine emissions to a level barely measurable. The vast and growing opportunity for companies' products lies outside the developed world. It lies in countries that have priorities more basic than the environmental concerns of the U.S. So, when companies compete in the Third World countries we are most often competing against companies who do not carry the billions of dollars in environmental costs that are inherent in a U.S. manufactured product. It's often a competitiveness hurdle that companies cannot surmount. And in the end U.S. jobs are risked.

- ***Tier IV Diesel Engine Emissions:*** The Administration's piecemeal development of stringent emissions regulations significantly impacts U.S. global competitiveness. In addition to setting stringent standards, regulations may be internally inconsistent (e.g. criteria pollutant reduction vs. GHG emissions reduction), inconsistent between different levels of U.S. governments (e.g. state-to-state variance of in-use restrictions), and inconsistent globally (e.g. U.S./E.U./Japan vs. ROW).

- ***New Source Review (NSR)/ Texas SIP Gap/ Texas Title V Permitting:*** On March 31, 2010, EPA formally disapproved of revisions to the Texas Qualified Facilities exemption rule that allowed facilities that used certain types of control equipment to make changes to their operations without going through permit review, as long as the changes did not result in a net increase in emissions. In addition, EPA has objected to approximately 40 TCEQ proposed Title V operating permits and indicated that it would require these facilities to apply for an EPA-approved permit as well. Continued EPA objections and/or TCEQ inaction to resolve the matter could delay startup of certain projects already under construction or extend the permitting process for new major projects. In general, a flexible permit can provide a single emissions cap for a part of or an entire facility in lieu of permitting each individual unit within the facility. Similar rules exist in other states and have not been challenged by EPA.

- ***Review of Standards for Nitrogen Dioxide (NO2):*** Preliminary evidence suggests that existing air modeling tools significantly over-predict the impacts of mining operations based on this new standard. If modeling is required – most surface operations will not be able to demonstrate compliance with this standard.

Climate Change

- ***Carbon Capture and Storage:*** The Administration's focus on CCS to date has been almost exclusively on coal-fired power generation. The natural gas industry has pioneered CCS technology associated with gas processing facilities, with functioning operations that can provide great opportunities today, and at full scale. Broadening the scope of CCS projects considered in the Administration's efforts to include facilities such as natural gas processing plants can help drive forward the Administration's policy goals.

- ***Renewable Energy Standards:*** The lack of a comprehensive federal energy policy that supports renewable energy standards is resulting in an estimated 50% decrease within the wind market segment in 2010 and is creating volatility across the renewable sector. This uncertainty is delaying investment and job creation.

- ***Greenhouse Gas Regulation (GHG) under the Clean Air Act (CAA):*** Broad consensus exists that the CAA is ill-suited for GHG regulation, and that the nation's GHG policy should be

decided by Congress. The U.S. manufacturing sector continues to struggle and is shedding jobs overall, and the domestic refining industry is faring worse than the manufacturing sector as a whole. With Congress deciding not to act, EPA's moving forward on its proposed GHG approach will not only have immediate detrimental effects domestically, but also "lock in" a competitive disadvantage compared to other parts of the world.

- ***U.S. Fish and Wildlife Service Strategic Plan for Climate Change/Five-Year Action Plan:*** Secretary Salazar has signed Executive Order which incorporates "climate change" into all decision making at the Department of Interior. The USFWS immediately followed the Order with a "strategic plan for climate change and five-year action plan." USFS has followed this lead.

  Specific concerns with these plans include:
  - Lack of Congressional authority and guidance
  - Plans are built on ambiguity and scientific uncertainty
  - Regulatory uncertainty for mineral and energy development
  - Overreaches of authority that may be applied beyond public lands to broad landscape-scale land use (including water) planning

  This direction to address climate change with no legislative or regulatory backing invites endless lawsuits with subsequent delays for permitting & project development.

- ***Council on Environmental Quality Draft NEPA Guidance on the Effects of Climate Change an Greenhouse Gases:*** CEQ indicates it "does not propose to make this guidance applicable to federal land and resource management actions, but seeks public comment on the appropriate means of assessing the GHG emissions and sequestration that are affected by Federal land and resource management decisions." There is no clear explanation of this possible exemption; one interpretation is that the guidance would not apply to general planning processes undertaken for purposes of management of federal lands (i.e., would not be applicable to preparation, revision, amendment or maintenance of land use or resource management plans) but would apply on a project level for approvals of specific projects on federal lands. Several environmental groups, however, have expressed concern that the exemption could be much broader and exempt most actions relating to public lands. Specific concerns expressed by these groups are directed at the federal coal leasing process in the PRB.

- ***Permitting for Greenhouse Gas Emissions:*** On May 12, 2010, the EPA issued its final "Prevention of Significant Deterioration (PSD) and Title V Greenhouse Gas Tailoring Rule" (Tailoring Rule). The Rule modifies the statutory thresholds for when stationary sources are subject to permitting, for greenhouse gas (GHG) emissions, under the PSD and Title V programs of the Clean Air Act. Sources subject to PSD permitting must determine and implement "best available control technology" (BACT) for GHGs. BACT determinations can be time-consuming and burdensome, as BACT is determined on a case-by-case basis, during which the permitting authority evaluates the energy, environmental, economic and other costs associated with alternative technologies, and the benefits of reduced emissions from the technology. EPA has no definitive policy on what constitutes BACT for GHGs, and the final Tailoring Rule offered no relevant guidance; it seems likely, therefore, that those sources subject to BACT will undergo a particularly time-consuming and burdensome process with an unknown outcome, to the commercial detriment of those sources.

- ***GHG Best Available Control Technology (BACT):*** Arguments are being advanced that natural gas should be considered to be BACT for coal-fueled EGUs. Apart from the fact that such arguments cannot be supported legally, attempts to utilize the PSD permit process to fuel-switch coal plants to natural gas plants represent fundamentally unsound public policy. Specifically, the notion that coal plants can be fuel-switched to natural gas as a GHG reduction strategy ignores the problems associated with increasing our dependence on natural gas for power generation. With conventional natural gas production projected to decline more than 33 percent in the next decade, shale gas is the only significant viable source of new domestic gas production in the United States. These proposals put reliability of the electric supply system at risk since a shortfall of shale gas will inevitably lead to increased LNG imports in a world where 45 percent of the resource is controlled by Russia, Iran and Venezuela.

Chemicals

- ***EPA's Chemical Action Plans:*** Some of the proposed "Chemical Action Plans" (CAPs) could result in additional compliance costs for the manufacturers and the users of these materials. They could result in market disruptions due to "blacklisting", costs to manufacturers and users due to formulation changes and new equipment costs, and the potential substitution of alternatives that may not be any "safer."

- ***PCB Use Authorizations and EPA:*** Under EPA's proposal, substantial time-intensive and prohibitively costly facility replacements would be required impacting landowners, permitting agencies, the availability of natural gas to customers, public safety, disposal facility capabilities and other unintended consequences. As natural gas is domestically abundant, the cleanest conventional fuel and widely considered a critical component of our low-carbon future, the impact of this proposed rule would seem to run counter to our nation's broader environmental policy objectives.

- ***TSCA Modernization:*** Compliance with the proposed safety standard appears to be nearly impossible and will result in a flood of litigation. It will gridlock American industry, ultimately stifling investment and costing valuable American jobs. Under the complex regulatory framework being proposed, EPA will be unable to meet required deadlines which will effectively bar new products from the market. Under these proposals, foreign manufacturers will have a distinct competitive advantage to produce new chemical solutions.

Clean Water

- ***Cooling Water Intake Structures:*** Industry estimates that the capital and operating costs of modifying cooling structures to comply with EPA's proposal will equal nearly $10 million each. According to EPA, over 1500 facilities could be affected by this regulation.

- ***404 Permit Process (Stream & Wetland Permits):*** There is an unpredictable and ever increasing escalation in assessment and mitigation requirements. The system lacks the regulatory certainty needed to determine the viability and economics of a project in advance. The 404 process is now so cumbersome and broken down that hundreds of permits are being held up and substantial business loss is occurring which could lead to eventual coal shortages.

- ***Jurisdictional Waters:*** Ditches and erosional features are being deemed jurisdictional. There is not time or resources to fight these determinations through the legal system. The overzealous nature of these determinations not only cause delays and wasted resources but also, in many cases, result in inferior reclamation and loss of mineable reserves.

Environmental Health and Safety

- ***Mandated "Inherently Safer" Technology:*** Proposed chemical security legislation would also attempt to address process safety management, with a focus on the mandated use of "Inherently Safer Technology" (IST). IST in this context would require substitution of chemicals in various processes. Mandated IST would allow the Department of Homeland Security to make process decisions for facilities. A subsequent change in catalyst type will require construction of a new unit at a cost of at least $100 million, and may include construction of regeneration facilities at an added cost of $20 million as well.

- ***Lithium Ion Batteries:*** The Department of Transportation's proposed rules to treat lithium ion batteries as hazardous waste, will not only needlessly drive up costs in the wireless industry, threatening needed investment in other areas, but could also have a detrimental effect on the airline industry.

Federal Land

- ***Interior Board of Land Appeals – PRB - West Antelope II Lease-By-Application (LBA):*** The Montana Settlement to suspend 61 oil and gas leases may foreshadow how DOI will handle similar claims about the impact of coal leasing on climate change. If a similar approach to what was taken on Montana Federal resources is used on Wyoming Federal leasing, many of the current time-critical LBA's would be pushed back. These delays could immediately affect up to half the producing coal mines that operate on Federal lands and eventually all companies that lease Federal property.

- ***WildEarth Guardian's Petition for Recertification of Powder River Basin:*** Recertification of the PRB Federal properties would preclude operators from adding reserves adjacent to existing mines in a logical and progressive fashion as is done under the Lease-By-Application (LBA) process. Not using the LBA method would also affect the competitive bidding process and likely lower the overall value of the Federal resources. Coal would have to be leased on a Regional basis thus reducing the number of potential bidders.

Endangered Species

- ***Sage Grouse Listing Decision:*** Listing sage grouse on the endangered species list would significantly affect all types of development in the Powder River Basin. At present, two lawsuits have been filed (Western Watersheds Project and Center for Biological Diversity protesting the "precluded" determination).

Financial Regulatory Reform

We support the efforts of Congress to strengthen the nation's financial system. However, we believe many provisions of the House and Senate bills will do nothing to address the core problems of the financial system, but will impose additional costs and constraints.

Much of the language is vague and will need to be implemented through regulation; uncertainty surrounding the specifics of those regulations is inhibiting growth right now. How the regulations are written will have as much or more of an impact on economic recovery, global competitiveness and job creation as the legislation itself will have; and such regulations will, in the end, either mute or amplify the potentially negative legislative impacts on those entities that will be covered by this legislation.

All rulemaking should be taken carefully to avoid serious unintended consequences that would create market price dislocations and increased costs for end users. Taking a measured approach to rulemaking will help avoid almost certain unintended negative consequences.

Key areas of concern in the reform bill include (in descending order of importance):

- **Corporate Governance and Proxy Access:** Existing regulations and outstanding proposals related to corporate governance will inhibit growth while offering little compensating benefit. We are concerned that proxy access would promote a short-term focus at the expense of long-term, sustainable growth—one of the causes of the financial crisis. For example, proxy access will increase the influence of hedge funds, which may use director nominations as leverage in pressuring a company to make decisions to advance their own short-term interests and investment strategies, thereby driving decisions that damage the long-term health of the company and sacrifice American jobs.

  Proxy access also would turn every director election into a proxy contest, thereby politicizing the director election process. This would be tremendously disruptive, require expenditure of significant corporate resources and discourage board service. It will also fundamentally change the ownership of corporations in favor of certain special interest groups seeking to make a quick profit rather than promote sustainable and steady growth of the corporation.

  The question of whether proxy access should be required should be left to the shareholders to decide not through a one-size-fits-all federal mandate.

- **Derivatives:** Many non-financial companies use OTC derivatives to manage risk by locking in prices to eliminate volatility due to fluctuations in foreign currency exchange rates, interest rates, and commodity prices. The bills could limit the products available to companies for use in our hedging programs, which, in turn, could increase our financial risk and earnings / cash flow volatility. We are encouraged by efforts to include an exemption for corporate end users, but we remain concerned that the exemption may be too narrow and may be further restricted through regulations.

  Companies could also be required to post margin on derivative transactions, reducing available liquidity; this will divert capital away from investment in growth that would drive job creation.

Specific concerns around the derivative legislation include:

- If the banks are required to spin-off their derivative franchises, we could see an increase in counterparty credit risk exposure. Also, this could increase the pricing of our liquidity facilities indirectly as banks try to ensure they are still achieving an adequate return on committed capital.

- Companies could also face cost pressures due to implementation of some form of the "Volcker rule", which would restrict banks' proprietary trading activities (analysts at Morgan Stanley estimate this could collectively cut large banks' profits by up to 20%) and if increases to bank capital ratios are included in the final product.

- Section 731 would probably prevent a company's pension plan from employing swaps.

- The definition of "Swap Dealer" in the Bill, which is a trigger for heightened requirements, is overly broad and captures the commercial participant that "regularly purchases and sells swaps in the ordinary course of business."

- The Lincoln Dodd Bill language no longer contains an exclusion from the definition of Futures Commission Merchant (FCM) for any person that only does swaps with eligible contract participants (which include energy companies doing bilateral swaps).

- The definition of a Floor Trader is overly broad and could be interpreted to include swaps that are traded on platforms such as ICE.

- Mandating separate OTC trading subsidiaries will likely lead to near-term uncertainty in and reduced access to OTC markets. Long-term, possible implications would be fewer trading counter-parties and higher cost for commercial end users looking hedge commodity, FX, and interest rate risk.

- **Captive Finance:** Any regulation that increases cost of funds or places restrictions on capital deployment for U.S.-based captive finance companies will impede companies' ability to provide integrated financial services and compete globally. The Administration's policy to subject captive finance companies to myriad state regulations instead of federal uniform rules unnecessarily increases costs and decreases financial service choices.

- **FASB:** The US accounting standards board (FASB), in a convergence effort with the International accounting standards board (IASB), is scheduled to release 10+ proposed accounting exposure drafts over the next 18 months. Historically, the FASB has not had more than 3 or 4 exposure drafts out for public comment and many of these were not proposing fundamental changes to accounting as are now being proposed.

  Each one of these proposals will need careful consideration and deliberation to understand:

  - the impact to both preparers and users of financial statements, both public and private

  - the preparation needed for implementation of the standards through identification of changes needed to systems and procedures, and

  - the education and training that will be needed for employees and investors

The Administration should consider whether US multinational companies, FASB and IASB have sufficient technical resources to respond effectively to such a large quantity of complex proposals issued over a very short period of time and subsequently absorb and resolve all of the issues that would be posed by all of these proposed standards in such a compressed time period.

- **Consumer Credit:** The legislation would create a new consumer protection agency in the Federal Reserve with broad powers, including the ability to regulate entities that facilitate consumer credit. The unintended consequences of this initiative, however, might include automobile dealers and directly impact retail car sales.

- **Price Test for Short Sales:** The SEC's recently adopted price test for short sales is likely to have a negative impact on economic recovery, global competitiveness and job creation. Adopted as Rule 201 of Regulation SHO, the price test requires securities exchanges to prohibit short selling in an equity security on any day during which the price declines by 10% or more, and during the following day as well. This rule imposes burdens and costs on market participants to build systems to measure and respond to market declines, despite significant empirical evidence challenging the rule's efficacy. As Dr. Erik Sirri, the former SEC Director of Market Regulation recently observed, this rule runs counter to years of study of short sales and price tests by the SEC. It inevitably will impair the efficiency of markets, impose unjustifiable costs on investors large and small, and curb the global competitiveness of U.S. equity markets.

Taxes

We encourage the Administration to balance the need to raise revenue against the danger of discouraging growth and jobs with costly and burdensome tax provisions. The Administration has proposed a number of regulations that threaten to dramatically undermine the ability of U.S. global companies to compete in the global marketplace – and this is worrisome.

The Administration's approach to domestic and international tax policy needs to pivot and recognize that U.S.-based multinational companies must compete in a global economy to ensure domestic jobs and economic growth. Instead of increasing this burden or revising the system in a piecemeal fashion, we believe a fundamental reform of the tax system is necessary to keep U.S. companies competitive in the international economy. Working together, we can make this a "win-win" for government, taxpayers, small and large U.S. businesses across our nation.

Key areas of concern include (in descending order of importance):

- **Corporate Tax Rate:** The United States has the second highest corporate rate of all 30 OECD countries, placing our nation at a significant competitive disadvantage. We are also losing ground to foreign nations, which have been modernizing their tax systems to attract investment. As it currently stands, U.S.-based multinational corporations pay the difference between the U.S. corporate tax rate and the tax rate paid in foreign countries when we bring revenues from overseas back home. This liability on foreign earnings is substantial and can hamper our ability to reinvest those earnings in domestic R&D efforts, which leads to growth and U.S. job creation.

- **International Taxation System:** The U.S. is one of the few developed economies in the world which taxes businesses on their worldwide income. U.S. multinational companies are taxed in the United States on their U.S. profits, taxed abroad on their foreign profits, and then taxed again when those foreign profits are brought back home. By contrast, our competitor's foreign operations typically don't incur incremental home country taxes, giving them a built-in advantage when competing with U.S.-based businesses.

- **Deferral/Repatriation:** When the elimination of deferral was proposed in 2009 companies were deluged with calls and saw a swift decline in stock value, impacting our employees, shareholders and the U.S. economy. Far from tax avoidance, deferral simply allows American multinational companies to at least delay paying tax on foreign earnings until that income is repatriated. Limiting deferral would jeopardize U.S. competitiveness in an increasingly challenging global economy.

- **R&D Credit/Tax Extenders:** The R&D tax credit is vital to increasing U.S. job creation and enhancing the global competitiveness of American corporations, and should be made permanent. While the tax extenders bill contains this much-needed credit, it also includes harmful international revenue raisers. Some of these proposals would apply retroactively, introducing uncertainty that makes it difficult for businesses to plan. Additionally, continuous expiration and extension of provisions is disruptive and creates uncertainty for business operations and planning.

- **Foreign Tax Credit/Dual Capacity:** The Administration's proposal to reduce the U.S. Foreign Tax Credit for repatriated foreign profits could cause the total foreign and U.S. tax on repatriated profits to be even higher than the already high U.S. tax rates. This could lead to the

same double taxation that the Foreign Tax Credit system was meant to avoid, and may actually encourage companies to keep foreign earnings overseas instead of remitting the funds back to the U.S.

- **LIFO:** Repeal of LIFO would constitute a massive tax increase on hundreds of thousands of American businesses, and could force smaller ones to close. Even larger companies might need to borrow large amounts in order to meet the tax liability. Problems caused by repealing LIFO would include higher taxes, decreases in working capital, inaccurate inventory valuation, cash flow problems and reduced global competitiveness.

- **Dividend Taxes:** Any dividend tax increase could have negative economy-wide implications. Long term, it may discourage dividends as a means to return capital to shareholders. Also, international tax disparity would incent capital (in times of relative stability) to migrate to stocks in lower tax jurisdictions. Now is not the time to discourage long-term investment in essential sectors.

- **Taxes on Oil and Natural Gas Industry:** The multi-billion dollar tax increase on the oil and natural gas industry could mean less U.S. energy production, fewer American jobs and less revenue at a time when all three are desperately needed. Additionally, the change in the long-standing deduction for Intangible Drilling Costs will result in the reduction of development in the U.S. costing our economy much needed jobs and increase our dependence on foreign oil. Finally, repeal of the Section 199 deduction would threaten high-skilled, high-paying jobs held by refinery workers, chemical engineers, environmental technicians, accountants and many others.

- **Worldwide Interest Allocation:** The policy to disallow until 2018 the American Jobs Creation Act of 2004 provision which would have allowed companies to make an irrevocable election to allocate interest on a worldwide basis keeps U.S. companies at a competitive disadvantage with foreign competitors.

- **3-percent Withholding:** Businesses – the vast majority of which do not have tax delinquencies –are expending significant resources in preparation for implementation of this provision due to major system and process changes needed for withholding, reporting, and reconciling the millions of affected payments annually. The economic burden of this provision is far more than any expected revenue gains from increased tax compliance.

- Other areas of concern include possible expiration of the "Bush" tax cuts, re-imposition of the Superfund tax, expanded 1099 reporting rules included in health care reform, an overly aggressive timetable for convergence of U.S. and international accounting standards, elimination of IRS Section 911 and expiration of accelerated depreciation on agriculture equipment.

Trade

The United States represents five percent of the world population and produces 20 percent of the goods and services. We must be able to trade globally to grow or even survive. The lack of a free and fair trade policy is essentially allowing our foreign competitors to take full advantage of growing markets at the expense of American businesses. A real-time example is China's investment in Africa. While the U.S. is taking its time-out on trade, China is building, growing and establishing a commanding presence in Africa. This will undeniably put American companies at a disadvantage in Africa for many years to come.

Additionally, U.S. companies with foreign investments export more, and pay their workers almost 19% more, than purely domestic firms. It's critical that we help companies grow and thrive in the international economy in order to expand jobs and growth back here at home.

Key areas of concern include (in descending order of importance):

- **Free Trade Agreements:** It's vital that Congress approve the pending free trade agreements with Colombia, Panama and South Korea as soon as possible – a critical step towards the goal of doubling U.S. exports over the next five years. While we wait, other countries are moving ahead with their own agreements, causing the U.S. to slides backward from potential "first mover" in these markets to a lagging copycat. For instance, the EU has closed with South Korea, and will shortly conclude negotiations with Colombia. Additionally, the Administration should look to negotiate new agreements, extend fast track authority and make a priority of completing a comprehensive WTO Doha Round.

- **Buy American:** Regulations implementing the Buy America provisions of the stimulus bill are overly restrictive and extend procurement discrimination to unprecedented levels. This prevents states and municipalities from choosing the most cost-effective products for projects receiving stimulus funds. It also runs counter to U.S. international obligations and, importantly, is demonstrably impeding efforts to open foreign procurement markets to U.S. goods and services. China, for example, now cites these provisions to justify its own discriminatory procurement restrictions.

- **Mexican Trucking:** The Mexican trucking dispute and resulting tariffs on products sold to Mexico are placing U.S. businesses at a competitive disadvantage, directly impacting jobs, competitiveness and economic recovery. As an example, shipments of frozen potato products to Mexico are experiencing increased tariffs, placing the U.S. industry at a competitive disadvantage to Canadian firms who are taking sales from American businesses.

- **Chinese Currency Issues:** By holding down the value of its currency, China effectively subsidizes its exports by 25 to 40 percent and taxes its imports by the same amount. The result is large global trade imbalances which won't be corrected unless exchange rates are realigned. The U.S. needs to formulate a comprehensive program to reverse the situation.

Other areas of concern include inefficient customs processing, Country of Origin Labeling, the absence of industrial user standing in US anti-dumping and countervailing duty laws, Iran sanctions legislation that limits presidential discretion, difficult and costly implementation of the Conflict Minerals Trade Act, the Administration's failure to comply with WTO rules on cotton, "deemed export" restrictions, the recently proposed export control reform initiative , the Commerce Department's proposal to adopt an Intra-Company Transfer License Exemption and the need for harmonized environmental and safety standards for products distributed worldwide.

Health Care and Benefits

The recently enacted health care reform legislation includes many positive policy changes such as increased transparency and strengthened focus on wellness and prevention. However, the law does little to change the underlying problems of our delivery system, which are the primary drivers of the unsustainable cost trends of employer provided care. Therefore, the ongoing cost increases in the system will continue to shift to the private market, putting additional cost burden on employers and other healthcare consumers.

There were several key cost-curve –bending changes that would help reduce this burden, including:

- Incentivizing the elimination of waste,
- Focusing on choices for care during the last year of life,
- Wiring healthcare,
- Payment reform and
- Tort reform.

In addition, uncertainties associated with the law's implications have already likely delayed business decisions regarding expansions and dampened new hiring. The Administration and Congress must remain cognizant of the need for clarity and certainty; without a highly disciplined focus on economic impacts when crafting implementing regulations, the potential for detrimental unintended consequences on the nation's economy and workers is very high.

As implementation proceeds it will also be critical to restore investor confidence via a transparent process. Among the issues that should be addressed:

- **Cost shifting:** There are numerous instances of cost shifting to the employer community resulting from:
    - Auto enrollment of new hires
    - Medicare tax increase for high earners
    - Comparative effectiveness fee
    - Dependent coverage up to age 26 - there is an inequitable treatment between employers as employees can be covered by a the more generous parent's plan thereby changing the competitive position of the employers
    - The cost of compliance of ERISA employers subject to State and Municipal health coverage mandates
    - The mandated payment of 5 sick days under the Emergency Influenza Containment Act (H.R. 3991)
    - 1099 Reporting for all expenses greater than $600
    - Prohibition on lifetime benefit limits
    - No pre-existing condition exclusions for dependents
    - Employer play or pay mandate
    - First dollar wellness coverage
    - Mandates to offer coverage to employees working 30 plus hours for 90 days or more
    - Cost increases for employees who are over 65 where company coverage takes effect before Medicare
    - Payments for certain employees not covered under the group medical plan

- **ERISA:**
  - *Preemption*: It is critically important that ERISA preemption be preserved in health care reform regulations. One of the key features of ERISA is the ability of an employer to design a plan to fit the profile/needs of its workforce. The imposition of employer mandates inhibits our ability to specifically structure our plans to our workforce and will likely result in cost increases for large, self-funded plans.
  - *Modification of the Definition of "Welfare Benefit Plan"*: The proposed redefinition of a "welfare benefit plan" could obligate employers, whose plans are currently governed by nationally uniform rules under ERISA, to comply with myriad state or local rules. If adopted, this change would undermine the clear intent of Congress and the President that the health care act maintain the uniform framework provided by ERISA.

- **"Cadillac Plan" Tax:** This new tax will divert resources away from investment in new technology, processes and jobs, and will significantly raise costs, harming global competitiveness. The tax may have unintended consequences as a result of efforts to avoid the tax – one of the revenue sources that supports health reform will be significantly reduced.

- **Mental Health Parity:** Compliance with the rules as written will require diversion of resources away from core business to administrative activity and will drive up costs and hinder global competitiveness. The rules, as drafted, will require employers to go beyond parity, and provide mental health benefits that are more generous than medical benefits, contrary to the spirit of the law.

- **Health IT:** There is widespread concern that the CMS Notice of Proposed Rulemaking (NPRM) and the Interim Final Rule (IFR) are creating uncertainty and confusion, jeopardizes the goal of the rapid adoption of electronic health records. Without policy changes, innovation will be marginalized and job creation threatened.

- **RDS:** Due to the elimination of tax-free aspect of Retiree Drug Subsidy (RDS), employers may be more likely to drop retirees into the open market, where costs to the Federal government (i.e., under Part D), could exceed those to the Federal government under RDS.

- **Limited Plans:** PPACA provides the Secretary transitional authority to allow benefit limits up until 2014. We encourage the Secretary to allow employers to continue to offer limited benefit plans – to current categories of employees – until 2014 to ensure continued affordable coverage of part-time, seasonal, temporary and full-time employees in a waiting period; and vital services such as maternity coverage – a benefit that is generally not available in the individual market.

- **Medical Loss Ratio (MLR) Requirements:** Careful consideration should be given to these requirements. The potential negative consequences include:
  - Hurt quality and patient safety,
  - Increased premiums,
  - Reduced competition in the marketplace, and
  - Narrowed provider choice for consumers.

- **Premium Increase Reporting:** A new federal rate review regime would:
  - Threaten carrier solvency leaving consumers and providers with unpaid claims,
  - Decrease competition,
  - Decrease choice of providers, and
  - Add unnecessary administrative burden.

- **Dependant Coverage to Age 26:** Without clarifications regarding grandchildren variable costs based on dependent age, family premiums would increase and employers could drop dependent coverage.

- **Family and Medical Leave Act:** FMLA is subject to abuse because there is no limit on the number of times an employee can take leave. The loss in productivity is very costly to businesses and significantly limits new hiring.

- **Prescription Drug Coverage:**
  - Current brand discounts in the Part D coverage gap program may encourage members to remain on high-cost brands, leading to increased costs for members, plan sponsors, and the government. It runs counter to the entire strategy of promoting generics.
  - As MA-PD reimbursement rates decline, smaller players will exit the market, and the remainder will consolidate under a few, large companies, reducing competition, driving up costs and limiting innovation.
  - The tax treatment of Medicare Part D employer subsidy for prescription benefits is more valuable than standard Medicare Part D Rx benefits. As a result, employers will either incur higher tax costs or reduce or eliminate prescription benefits to Medicare eligible retirees. The resulting higher private sector costs, and greater public expenditure on Medicare retirees, will tend to dampen economic recovery as resources are diverted away from productive investment.

- **FSAs:** Reduction in tax-advantage products (FSA) impacts employees, hampering economic recovery.

- **Administration and Reporting:**
  - Administrative cost increases on items, such as the Cadillac tax, and additional filings to confirm appropriate coverage make it even more costly to offer healthcare benefits – both a global competition and job creation issue.
  - The bill included a provision that requires more companies to file 1099 tax forms; the cost to modify systems to collect the data and send the additional 1099s will not be insignificant.
  - Recent legislation unwound the reporting improvements contained in 2006 legislation for defined benefit plans with unfunded value in excess of $75 million.
  - HIPAA compliance, which requires a number of new requirements for health plans and may actually prohibit plans from continuing programs to drive down costs, will serve to increase premiums and drive up the cost of coverage for employers.
  - The time in which plans are required to comply with new ICD10 and 5010 coding requirements is an incredible administrative burden that increases administrative costs significantly.
  - The Administrations' policy to support legislation that requires "swap" dealers to accept fiduciary duty to a pension plan when entering into an arrangement with that plan creates conflicting fiduciary duties in which the dealer would have one fiduciary duty to its own shareholders and a second fiduciary duty to act in favor of the plan and against its own shareholders in negotiating the price and terms of a swap. This policy impacts stable value funds which are common investment vehicles for 401(k) plans.
  - The Administration's policies to support "The Defined Contribution Plan Fee Disclosure Act of 2010" provisions which impose new defined contribution plan fee disclosure requirements are costly and unnecessary.
  - Significant technology enhancements will be required to manage the health mandates and employee communications.

Labor/OSHA

From the outset, the Administration has sent clear signals that it has fully embraced organized labor's agenda. The Lilly Ledbetter Fair Pay Act was the first bill signed into law by the president, and the Administration is currently promoting the Paycheck Fairness Act as its successor.

More troublingly, the Administration has endorsed organized labor's top priority, the Employee Free Choice Act (Card Check), which would significantly and negatively impact global competitiveness, job creation and economic recovery.

On the regulatory front, the Administration's enforcement of OSHA policies is increasing costs without enhancing workplace safety.

The Department of Labor has proposed regulations requiring companies to provide their employees with written explanations regarding their exempt or nonexempt status under the Fair Labor Standards Act. The effectiveness of these proposals is unproven, while the potential harm to business is great.

Finally, the Vice President's Middle Class Task Force is reportedly considering regulations on federal procurement policy that would base decisions about awards on factors that could significantly increase the cost to the government and American taxpayers.

Key areas of concern include:

- **Employee Free Choice Act:** The key provisions in the Employee Free Choice Act (EFCA), the Card Check bill, represent egregious attempts to limit the rights of employees and employers and will severely diminish the ability of companies to succeed in our globally competitive market. They include the effective elimination of secret ballot voting replaced by a mandate that a union be recognized by a simple majority of signed authorization cards, exposing employees to intimidation and coercion. Along with that, EFCA could impose on the employer and the bargaining unit a two-year, binding contract wherein economic terms such as wages, benefits and work rules are unilaterally determined by a federal arbitrator for first contracts. Neither of the above provisions, alone, or in combination, will bring about positive change for American workers or employers.

  A so-called EFCA "compromise" would involve the issues of workplace access and "quickie" elections. Both access and quickie elections deceptively purport to expedite the organizing process when in reality they sacrifice the rights of employees for the wants of professional union organizers; much like EFCA does. Union access provisions would give non-employee, professional union organizers the right to enter a workplace during work hours to solicit support during a union organizing campaign. Union access provisions will significantly disrupt the working environment of a business, severely hampering day-to-day operations as employees could be approached regularly by professional union organizers while they are performing their job. And a legislative mandate for "quickie elections" would impose a limited timeframe to complete a secret ballot union recognition election.

  A short time table, as little as seven days in some proposals, can virtually eliminate an employers' ability to provide employees with adequate information about the union, respond to the union's comments or unionization generally. Such a scheme allows professional union

organizers to "campaign" for months, while providing employees with limited - if any - time to hear from their employer about potential downsides to unionization.

Current Law provides protection and adequate remedies ensuring the process remains fair and equitable for both the employer and the union. For example, the NLRB has the authority to order the employer to recognize and bargain with the union even where there has been no secret ballot election, and even if the union lost the election. This level of protection oversees the entire process.

- **Paycheck Fairness Act:** Existing protection against pay discrimination is already in place and strong (Title VII of Civil Rights Act and the Equal Pay Act). Unfortunately, the Paycheck Fairness Act (PFA) will increase costly employment litigation, which is already out of control.

  PFA creates a three step process for plaintiff's lawyers that will significantly increase the prospects for successful lawsuits against employers. First, the Act invites more discrimination suits by authorizing EEOC to make the pay data of every private sector employee in America a matter of public record. Second, the Act makes it easier for plaintiffs' lawyers to prevail because it eliminates key employer defenses, such as the experience level of the person in the job or occupation. Third, the Act makes victory far more lucrative by authorizing unlimited compensatory and punitive damages.

  Employers already find it more cost effective to settle a claim, even a frivolous one, rather than spend years in litigation with no chance of recovering legal expenses—providing uncapped compensatory and punitive damages strengthens the hand of plaintiffs' lawyers to use the potential for huge damage awards to extort those settlements.

- **Protecting America's Workers Act:** The Administration's policy to increase penalties for OSHA citations, expand criminal liability for certain violations and require immediate abatement for serious hazards is increasing costs without enhancing workplace safety.

  Instead, promoting a collaborative engagement between employers and the agency enhances economic competitiveness. Granting compliance officers the ability to require employers to immediately abate certain hazards may result in expensive redesigns of workplaces and production systems. If an employer is successful in overturning a citation through the review process they still may be found to bear the costs of the abatement which was immediately required.

- **Recordkeeping of Musculoskeletal Disorders (MSDs):** The Administration's policy regarding OSHA's proposed regulation to add a column to OSHA form 300s to record MSDs includes a very broad definition of such disorders. OSHA has inaccurately assessed the impact and cost of compliance. This proposal will require extensive compliance efforts because the overly broad definition of MSD will demand a new and subjective recordkeeping of highly complicated physical conditions. If implemented in the form proposed, this new requirement will put employers in the position of making medical determinations regarding the "work relatedness" of potential MSDs.

- **Per Employee Citations of Personal Protective Equipment Violations:** The Administration's policy with OSHA's December 2008 rule to allow a multiplication of the penalty charged by the number of employees affected represents yet another burdensome regulation with potentially high compliance costs.

- **Fair Labor Standards:** The Department of Labor proposes to issue regulations requiring companies to provide their employees with written explanations regarding their exempt or nonexempt status under the Fair Labor Standards Act. The proposal could also require companies to provide written determinations to independent contractors regarding their status. The effectiveness of this measure is unproven, while the impact on business from both a financial and productivity perspective is potentially very large.

  Our employees are currently notified of their status, but this additional explanation requirement would be costly, burdensome, of limited value, and distracting. For example, this proposal covers exempt status and employee status under federal law. Many states, however, including California, have their own laws, regulations and enforcement schemes with respect to entitlement to overtime and independent contractor status. In the case of California, the state laws are stricter than their federal counterparts, making compliance with the proposed federal regulations irrelevant. The government's attempt at transparency would result in confusion for employees and employers alike.

- **Federal Procurement / Vice President's Middle Class Task Force:** Finally, the Vice President's Middle Class Task Force is reportedly considering regulations on federal procurement policy that would call for awarding federal contracts to companies that: provide living wage, health care, retirement and paid sick leave; have fewer violations in labor and employment, tax, environment and antitrust; and take a neutral position in union organizing campaigns. The Middle Class Task Force is also reportedly considering mandating Davis Bacon wage requirements and union labor agreements for all federal construction projects, even those involving non-union companies. If adopted, these regulations would base decisions about awards on factors that could significantly increase the cost to the government and American taxpayers.

Immigration

The current immigration system is broken and in dire need of reform. Immigration reform can and should have a profound and direct impact on the U.S. economy.

Reform must provide companies with access to the best professional talent available – both American and foreign – in order to innovate, fuel the economic recovery, and create American jobs. Reforms must also address the current green card backlog for our Chinese and Indian employees and include a H1-B cap that is flexible based on market needs.

The negative impact of existing law is particularly apparent in restrictions barring employment for spouses of several categories of foreign professional workers, and in the narrowing of eligibility standards when deciding petitions for professional workers.

We fully endorse the need for the agencies to make decisions according to law, and in a way that both fosters economic growth and protects the American worker. But where the agencies are carrying out broad policy shifts in this process – especially where those shifts have a negative impact on economic recovery, global competitiveness and job creation – they should be required to work through the critical process of gathering stakeholder input, performing economic assessments, and obtaining policy inputs from the agencies responsible for promoting innovation and economic growth.

Key areas of concern include:

- **Spousal Employment:** The ability of the spouse of a foreign professional to work in this country is often a key factor in whether that foreign professional will join the American workforce, or remain in it. Our immigration system has recognized this key point in some professional visa categories. Thus, for example, U.S. immigration law allows the spouses of L visa holders – executives, managers, and specialists who transfer into the U.S. operations of multinational corporations – to work. Yet this opportunity is denied to spouses of other key professional visa holders, such as H-1B "specialty occupation" professionals.

  A number of negative consequences flow from this anomaly, with challenges to recruitment and retention being foremost among them. Spouses of H-1B visa holders are often highly educated professionals. If they must surrender or compromise their professional objectives, often the primary recruit either will not accept the position with the U.S. employer in the first place, or faces strong incentives to seek longer-term employment in an economic competitor country with friendlier spousal employment policies.

  The prohibition on employment for spouses of H-1B visa holders means that the U.S. economy loses the contributions of a highly educated, highly skilled pool of professionals; the additional income tax contributions that would accrue if those professionals were working; and the economic benefits that would accrue if those households had the increased purchasing power.

  The anomalous treatment among professional visa categories could be corrected by regulation. While Congress mandated spousal employer authorization in certain visa categories (such as the L), and has not done so for others (such as the H), DHS has clear and broad discretionary authority to permit employment without explicit Congressional authorization, and has done so in many other instances (as with practical training for students).

- **Narrowing Policy Through Individual Visa Adjudications:** Agency adjudications have become increasingly strict in many key professional visa areas. DHS, for example, has made it very difficult to qualify for an L-1 visa as a professional with "specialized knowledge." Cases of the type that have been approved for years are now being denied, and companies are being asked in individual cases to provide evidence to fulfill standards that are essentially impossible to meet.

  This is occurring even with respect to workers who have already been found by the U.S. government to have "specialized knowledge," who have been working in that capacity for three years, and are simply seeking to extend their status. And this is happening despite written agency policy not to second-guess initial determinations when deciding extension requests, unless there is some material change.

  The same patterns can be seen in the "labor certification" process, in which DOL makes determinations about the availability of U.S. workers when employers are seeking to sponsor a foreign professional for permanent residence. Recruitment methods that have been approved for years are suddenly being rejected in individual cases, without notice or stakeholder input, through novel agency approaches that appear to be designed simply to refuse labor certification in greater numbers of cases.

- **Proposed H-1B and L-1 Enforcement Legislation:** The so-called "REPAIR" concept draft for comprehensive immigration reform released last April suggests that the bill language will include additional enforcement measures for H-1B and L-1 visas. Although this draft did not contain actual bill language, the proposals suggested in REPAIR go beyond enforcement, such as arbitrary caps on the number of nonimmigrant visas an employer can sponsor, and prohibitions on employment of specialized professionals as third-party consultants. These and other restrictions are likely to have serious and unintended consequences for the U.S. economy, including higher costs of doing business in the U.S., the movement of existing and/or planned investment and high-paying, high-skilled jobs out of the U.S., and the risk of retaliatory action by foreign governments against U.S.-based companies.

  Strong and targeted enforcement mechanisms can be developed that do not unintentionally harm critical segments of the U.S. economy, compromise U.S. competitiveness, potentially put U.S. companies at a disadvantage with their global competitors, and risk the loss of investment and American jobs. Analysis of the potential economic, job and investment impacts of proposed immigration enforcement measures for skilled temporary visas is needed. For example, it was reported that new enforcement requirements imposed on TARP recipients in 2009 prompted several impacted companies to move planned investment and jobs for the U.S. to other countries. The proposals in the REPAIR draft suggest an even more significant level of enforcement restrictions on H-1B and L-1 visas than what was imposed on TARP recipients, and for that reason, a thorough economic impact analysis is needed.

- **Immigration Caps and Conditions for Skilled Workers:** Companies in need of highly skilled workers rely upon the H-1B visa program, a critical tool for hiring foreign nationals, especially those with advanced degrees from U.S. universities. Many years, the annual cap for these visas is hit the very first day the visas are available, limiting the ability of companies to attract the talent needed to remain competitive. Likewise, there has been a backlog of employment based (EB) green cards. Backlogs extending over years necessitate the costly and time consuming filing of visa extensions, while the inflexibility of the card limits the ability of employees to change positions within a company. Current policy drives skilled workers to

America's competitors and, indeed, may force U.S. employers to take projects abroad to where the workers with the necessary skills reside. Reform would promote domestic job creation and America's global competitiveness.

Deficit

We are extremely concerned about the government's recent rate of growth, the impact it will have on the country's status as an investment safe-haven and the cascading effects on private investment.

As the government's debt load increases, a greater and greater portion of government spending will be needed to service that debt, in turn crowding out private capital. Increased debt also brings an increased risk of having that debt downgraded. Because the United States Treasury's lending rates are considered "risk-free" they serve as the floor for corporate borrowing rates: if Treasury's lending rates go up, everyone's lending rates go up. We believe that unless the government takes action to manage its spending the consequences will include:

- Less capital available for corporate borrowers, which will retard future growth and investment.
- Rising interest rates for all borrowers.
- Potential loss of the United States' "safe haven" status.
- Erosion of the value of the U.S. dollar.
- Potential for accelerating inflation and resulting loss of consumer spending power.

Research and Innovation

The United States continues to lead the world in nurturing groundbreaking ideas which fuel new businesses and create jobs. In order to solidify our position as global leaders in innovation, companies have two areas of specific concern (in descending order of importance):

- **Intellectual Property:** The United States remains the global destination for investment capital in R&D and the leading generator of biopharmaceutical innovation, but the inability to protect these American innovations in emerging markets limits our ability to increase international product sales. Enhanced international IP protections would lead to a strong expansion in sales of innovative U.S. medicines in emerging markets and act as a major incentive for the creation of high quality R&D jobs in the United States.

- **Personalized Medicine:** Academic and commercial institutions need clarity about the appropriate regulatory protocols for the application and development of new molecular tests. In fact, the question of appropriate agency oversight is itself unclear - while some laboratory-developed tests are regulated by CLIA, others, designated "in vitro diagnostics," are regulated by the FDA, which has substantially different regulatory requirements. We would like to eliminate ambiguity and ensure that new regulations promote safety and effectiveness without creating unrealistic cost burdens that stifle innovation.

Consumers

Regulations impact consumers and companies alike.

New policies should boost consumer confidence and reentry into the marketplace, while freeing up credit. However, some rules intended to help consumers will have the opposite effect, by driving up costs to business that are ultimately passed on to consumers.

Key areas of concern include (in descending order of importance):

- **Gift Cards:** A few months ago, the Federal Reserve Board issued the final rules under Regulation E to implement the gift card provisions in the Credit Card Accountability Responsibility and Disclosure (CARD) Act of 2009. Although these rules contain worthwhile provisions, because of the timing of the regulations and the approaching holiday season, millions of gift cards currently in the stream of commerce (in store, shipped, or in production) will be out of compliance. Replacement of that volume of product in that short of a time period is wasteful and costly for issuers and sellers of gift cards. The final rules do not allow for any transitional period, and nearly all of the estimated 100 million gift cards currently in the stream of commerce must be recalled and replaced by the August deadline. For one company surveyed, this means an additional expense of more than $7 million, which could have been invested to lower prices for consumers. The Administration should consider a transition period, where retailers could sell down the remaining cards while at the same time ensuring the cards comply with the new fee and expiration date provisions.

- **Fair Credit Laws:** Federal law dictates the manner in which a business can check a consumer's creditworthiness. States also enact credit-check laws which vary from the federal requirements. This multi-layer regulation creates a needlessly complex patchwork of laws making compliance difficult and very costly for businesses that operate on a national scale with little or no benefit to consumers. Congress should adopt a single federal fair credit law exempting businesses which operate in multiple states from state credit-check laws.

- **Cash-for-Clunkers:** The Administration advocated different bailout incentives for the automobile manufacturers, including the Cash-for-Clunker program. However, the Administration rejected including "nearly-new" used cars in the program, even though this could have ultimately led to more new car sales. Similar programs in the future would benefit from the inclusion of nearly-new cars.

Real Estate and Mortgages

The residential and commercial real estate sectors continue to face many challenges as they return to stability and contribute toward economic recovery.

Unfortunately, federal programs intended to help at-risk homeowners have proven to be a dismal failure. Instead of offering short-sighted and misguided relief, the government should expedite the process in which real estate owned properties (REOs) move into the marketplace. The longer it takes to work REOs through the system, the more protracted the housing correction becomes.

The Administration has also failed to adequately consider how its impending income tax increases will disincentivize home buying. With less disposable income, consumers will delay their buying decisions, perhaps indefinitely.

Finally, the Administration has failed to provide adequate relief to commercial real estate markets.

Key areas of concern include (in descending order of importance):

- **Home Affordable Modification Program (HAMP):** The HAMP program has been and will continue to be a dismal failure. There are reasons for the failure that cannot be mitigated and the continuation of the program cannot be financially or economically justified. A high percentage of the loans are high loan-to-value (LTV) loans and should not be eligible for assistance. At the minimum, 100% LTV loans do not deserve taxpayer assistance, and these loans are a substantially high percentage of the modified term loans that re-default within 6 months. The fundamental reason this program has failed is that it cannot and should not address the balance of the consumer debt held by a mortgagee in default. A person in default of their mortgage obligation is also in default of their high consumer debt (including credit cards, unsecured signature loans and car loans). Curing the mortgage obligation is temporary relief as they continue to be in default of their consumer debt. The savings on the mortgage obligation goes to satisfy the credit card obligations which they must keep current to maintain a credit lifeline. The banks and servicers will best serve an economic recovery by quickly moving their real estate owned properties (REOs) into the market place. REOs are selling at the fastest pace in history, and the accelerated REO correction process will mend the housing market faster than the current pace which unless curtailed could force a three to four year housing correction.

- **Income Tax Increases and Home Buying:** The impending income tax increases will dampen an economic recovery. Prospective home buyers facing materially significant income tax increases will delay their buying decisions, perhaps indefinitely.

- **Commercial Real Estate:** The commercial real estate markets have not been addressed by the Administration. A form of assistance intended to reduce the impact on the commercial markets will bolster a faster economic recovery. One particularly worthwhile step is accelerating depreciation on certain capital improvement projects and the underlying first liens.

Tort Reform

A major area of concern is the lack of meaningful discussion about tort reform. Pending legislation will affect many different industries, significantly add to costs, reduce personal incomes and increase regulations. Yet, in no case has the government included tort reform in the mix. This inaction will worsen a challenging environment for businesses as they try to comply with a large body of new law under the overhanging threat of litigation.

Key areas of concern include (in descending order of importance):

- **Medical Liability Reform:** The new health care law failed to adequately address medical liability reform. Comprehensive reform must include ensuring appropriate remedies for negligence while limiting damages where there is no negligence; developing alternative mechanisms to resolve claims to so that those harmed by negligence can obtain appropriate relief; and encouraging providers to follow quality standards by supporting the adoption of medical practice guidelines by professional associations, that if followed by a physician, would serve as a complete defense to a malpractice action.

- **HR 4115 ("Open Access to Courts Act"):** This legislation would resurrect meritless complaints federal district courts could otherwise dismiss under U.S. Supreme Court standards expressed in the *Twombly* and *Lqbal* decisions. Those decisions allow the courts to dismiss complaints that allege no support for conclusory allegations and whose allegations are not credible. This bill, by prohibiting courts from dismissing a suit unless a defendant can prove beyond a reasonable doubt that there is no set of facts that would ever entitle the plaintiff to relief, will extend the life of meritless suits and will cost corporations (and therefore consumers) millions of dollars in litigation and discovery costs, diverting resources which could be productively used for investment, job creation and retention and economic growth. This bill should be rejected.

Education

President Obama has announced that one of his administration's primary domestic goals will be to make the United States number one in the world in the percentage of adults who have graduated from college. If this goal is to be achieved, private-sector colleges and universities, now accounting for seven percent of the students in the United States, must play a role.

Unfortunately, proposed regulations purporting to define "gainful employment" under the reauthorized Higher Education Act of 1965 place onerous new restrictions on the private-sector education industry.

The sector is already extensively regulated, and it should be. For-profit higher education has given rise to more than one fraud in its history.

But private sector education is rising rapidly in availability and quality. In its rush to keep a few students from enrolling in inappropriate programs, the United States Department of Education (ED) risks keeping tens of thousands more from the best chance of their life for a higher education.

The ED gainful employment (GE) proposal would impede economic recovery by (a) reducing millions of students' access to higher education and better jobs; and (b) causing significant job losses.

There are several key areas of concern regarding General Education (GE) reform:

- **Effect on Students:** The GE proposal effectively functions as a tuition cap, forcing proprietary (for-profit) schools to either discontinue teaching capital-intensive and longer length programs, or risk regulatory noncompliance. Ironically, Bachelor's and Associate's degree programs - the very programs which provide graduates with the greatest earnings increases - would be most negatively affected. Because of their higher borrowing needs, low-income, minority, female and working adult students would be most affected. These are the very students Congress was attempting to help through the Stafford and Pell programs, and for whom there are few other educational opportunities today. During 2006-2008, proprietary schools invested $2.4 billion in capital expenditures, primarily to drive innovation and increase capacity. Traditional schools will not be able to cover the gap created by the closure of proprietary post-secondary programs - leaving millions of students without the tools to acquire skills and credentials needed for employment.

- **Effect on Current Employees:** Proprietary schools employ approximately 300,000 people. With enrollments at proprietary schools slashed by up to 33 percent, the GE proposal could result in the loss of up to 100,000 current jobs. Worse, each faculty or school administration job lost represents the loss of an individual who helps students build their professional skills. These job losses have a negative multiplier effect as the students left untaught will never have the opportunity to use their new skills to improve their lives and strengthen the economy.

- **Economic Impact:** Not only has ED failed to publish any quantitative analysis in support of its GE proposal, it failed to label its draft regulations (including the GE proposal) as "economically significant regulatory action" when they were submitted to OMB on April 12, 2010. Under Executive Order 12866, Section 3(f)(1), a regulation is considered significant, and requires a higher level of economic scrutiny, if it is likely to result in a regulation that may: "Have an annual effect on the economy of $100 million or more or adversely affect in a material way the economy, a sector of the economy, productivity, competition, jobs, ... or communities." The GE

proposal will affect millions of students, employees, and future employees. Even if one were to ignore the job losses at proprietary schools and simply multiply the number of affected students by the average wage-increase lost, it becomes abundantly clear that the GE proposal's annual effect on the U.S. economy could easily run in the billions of dollars. Clearly, ED has failed to grasp the grave negative economic impact of its GE proposal.

SECTOR-SPECIFIC

Pharmaceuticals and Biotech

- Repeated cuts to Medicare rates for diagnostic imaging, despite sizable payment cuts under the Deficit Reduction Act, have resulted in a depressed US market and resultant reductions in force. When combined with the new medical device tax from the healthcare reform statute, as well as prior policy changes reducing overall physician practice expenses, physician ownership and related self-referral prohibitions, the new regulations are stifling a highly innovative U.S. industry.

- Applying fees to the molecular imaging/radiopharmaceutical tracer/personalized medicine market identical to big pharmaceutical manufacturing and new product applications will kill innovation in this emerging field.

- Healthcare Reform legislation included substantial new cuts to the Medicare clinical laboratory fee schedule--cuts in this fee schedule have been included in most of the annual Medicare and reconciliation measures over the last couple decades. These cuts exacerbate the comparatively low reimbursement for advanced lab tests that are integral to personalized medicine and make it a less attractive market for manufacturers and venture capitalists to invest in these advanced tests. In addition, these cuts in Medicare payments will harm the viability of small and mid-sized laboratories.

- Recently passed health reform legislation includes provisions for the formation of an Independent Payment Advisory Board (IPAB) with significant authority over Medicare payment rates. Since branded pharmaceuticals only account for around 10% of healthcare spending in the US, a narrow focus by IPAB on drug pricing would not achieve spending reform goals and would have a detrimental effect on the incentives for investment in biopharmaceutical R&D and patient health. The IPAB should be as broad as possible in its perspective and aim to maintain a balance between government cost and the incentives for innovation.

- The taxes on commodity type medical devices such as exam gloves and surgical drapes could require companies to pass along these costs to providers, who are already under pressure, or to consider exiting the industry.

Transportation/Infrastructure

Infrastructure

Our nation's infrastructure has physically deteriorated and is significantly undercapitalized. But we can't merely focus on spending more. Worthy and efficiently built infrastructure projects can do much more than stimulate the economy. If done right, these projects will have a positive and lasting impact on U.S. competitiveness. What's needed is a multi-year authorization of a robust Surface Transportation Act that provides contractors with the confidence to invest in equipment and hire workers.

- ***Surface Transportation Program:*** Not having a well-funded, multi-year national infrastructure policy hinders development and investment economy-wide. Failing infrastructure and transportation needs are dire.

Railroads

- ***Positive Train Control:*** There is no more expensive legislative/regulatory matter affecting railroads today than Positive Train Control (PTC). The Federal Railroad Administration estimates the cost to the industry of ten billion dollars, with a cost/benefit ratio of greater than 20:1. According to the FRA (Federal Railroad Administration), railroads will have to spend approximately $5 billion just to install PTC systems. After installation, railroads will also have to spend hundreds of millions of dollars each year thereafter to maintain their PTC systems.

  Because railroads have limited funds to devote to infrastructure projects, expenditures on PTC will mean reduced expenditures on other projects that would increase capacity for freight and passenger trains, promote economic recovery and job creation, improve service, provide environmental benefits, and enhance safety in more effective ways.

- ***Rail Safety Improvement Act of 2008:*** We have several concerns regarding provisions of the RSIA legislation.
  - Railroads are required to provide emergency escape breathing apparatus for train crews. While the FRA has not yet published a notice of proposed rulemaking, the initial cost of this mandate could be$100 million or more.
  - The FRA is required to promulgate training standards for "safety-related" employees. The initial draft regulation circulated by FRA is burdensome and counterproductive, encompassing ticket takers and actually requiring railroads to train employees on Code of Federal Regulation sections.
  - Railroads are required to formulate and get DOT approval of risk reduction programs. FRA has not yet issued a notice of proposed rulemaking. This has the potential to be very burdensome and the railroads are specifically concerned that FRA will try to use the risk-reduction program to expand the PTC mandate.
  - The draft regulation circulated by FRA regarding changes to the hours-of-service requirements for freight railroads relies on modeling that railroad companies believe is not scientifically valid.
  - DOT is required to issue regulations governing the use of technology in non-signal territory. Some of the technology identified in the Act can be very costly, with no corresponding safety benefit.
  - Additional concerns include:
    - Conductor certification

- Track standards
- Personal electronic devices
- Critical incident stress plans
- Alcohol and drug testing of maintenance-of-way employees and contractors
- Tunnel records
- Bridge standards
- Sleeping quarters

- ***Medical standards:*** This is not an RSIA mandate, but it is a proceeding that could be very costly to the railroad industry. FRA, through RSAC, is proposing to expand its medical standards for railroad employees. FRA is proposing standards that go beyond what is required for other modes. The standards potentially could be problematic from an operational perspective and not provide benefits commensurate with the costs.

- ***Accident/Incident reporting requirements:*** On September 9, 2008, FRA proposed changes to the reporting requirements for accidents, injuries, and illnesses. FRA proposed an expansive approach to determining if an illness or injury is work related and thus reportable to FRA. The proposal would also expand the railroads' recordkeeping burden significantly by requiring railroads to record illnesses and injuries that manifest themselves in the workplace regardless of whether they are work related.

- ***Requirement contained in the 9/11 Commissions Act of 2007:***
  - Railroads are required to transport TIH materials. The potential liability from such transportation, from both a security and safety perspective, is huge. Rail companies also incur significant additional costs associated with TIH transportation.
  - The 9/11 Commission Act required DOT to issue a regulation requiring railroads to analyze the routes used for TIH transportation. DOT issued a rule requiring railroads to choose routes posing the least overall safety and security risk. The Act provides that DHS is to issue regulations requiring railroads to conduct vulnerability assessments and approve industry security plans. DHS has not yet issued a notice of proposed rulemaking. However, the railroads took the initiative right after 9/11 to examine their vulnerabilities and implement security plans. Furthermore, DOT has requirements in place for railroad security plans. Companies are concerned that at best the DHS requirements will be duplicative and a waste of resources and at worst conflict with the existing security plans.
  - DHS is required to issue regulations addressing the training of railroad employees. DHS has not yet issued a notice of proposed rulemaking. Companies already have training programs in place and DOT has issued regulations addressing security training. This creates an opportunity for duplicative or inconsistent regulatory requirements.
  - The Act made amendments to the employee protection provisions of the Rail Safety Act allowing filing of complaints with OSHA rather than through the grievance process. This has led to a proliferation of cases filed by personal injury lawyers on behalf of employees alleging harassment for filing a personal injury claim.

Airlines

- ***Additional Department of Transportation consumer rule making:***
  - Not only does operational nature of contingency plans for lengthy tarmac make them ill-suited as contract terms, but also this particular proposal will have the perverse effect of

leading to more cancellations, increased passenger inconvenience and, ultimately, make flying more expensive.
  - Requirements on airlines to publish delay data on their web sites, if more information than what is currently reported to the government is needed, would be costly. In some cases, significant reprogramming of internal software, rebuilding portions of web sites and the delay of critical technology projects and of other government-mandated programming would be required.

- ***Lack of prioritization of NextGen For national airspace system infrastructure***

- ***Excessive burden of direct and indirect security costs on U.S. airlines*** and lack of transparency and accountability in government fee setting and expenditures:
  - 9/11 passenger security fee
  - Aviation Security Infrastructure Fee (ASIF)c. Federal inspection service fees
  - Cargo restrictions for passenger carriers
  - Proposed lithium battery shipping restriction (DOT/PHMSA proposed)
  - U.S. visa and passport fees
  - Lack of integration of domestic and international passenger prescreening programs
  - Passenger Facility Charge approval and management process

- ***Additional taxation and fee schemes on the airline industry:***
  - Potential taxation of ancillary revenues
  - Potential DOT/airport congestion management schemes (e.g. FAA's threatened congestion management schemes, involving forced or "voluntary" schedule changes, taxes, fees and/or other government inducements on airlines to modify service and schedules)

Auto Industry

- ***Auto Safety Legislation:*** In response to the Toyota recall, Congress is considering legislation to further regulate automobile safety, including new requirements for the automobile manufacturers and new powers for the National Highway Traffic Safety Administration (NHTSA). Companies are concerned that the legislation could become overly broad and create unnecessarily burdensome federal regulations for used car sales and dealers, especially in the area of recalls which are not safety-driven.

  A more significant concern is an amendment proposed in the House Energy & Commerce Committee to the House auto safety/NHTSA reform legislation. The amendment would have overturned a 2005 law, commonly known as the Graves Amendment, that reversed antiquated state laws of vicarious liability for automobile rental and leasing companies. Prior to 2005, a number of states held renting and leasing companies 100 percent liable for actions of their renters or lessors, even when the companies were not negligent. While the amendment was not offered in a subcommittee mark-up, allegations persist that injured parties are not compensated under certain circumstances involving rented or leased vehicles. In fact, because state insurance laws typically require a certain minimum level of insurance on every vehicle, insurance is normally available in every situation.

Food

The food manufacturing industry provides jobs to 1.6 million Americans, representing 10 percent of all manufacturing jobs. Its advertising generates sales that support jobs for millions more. Overall, the industry supports 14 million jobs and adds $1.1 trillion to the GDP of the United States. From a global competitiveness standpoint, the U.S. food industry has led the world in innovation which directly benefits the U.S. economy and jobs creation.

Increasingly, food companies have to address the likelihood of regulatory changes that are outside of the traditional rulemaking process and based on limited scientific justification. With respect to companies, the costs associated with uninformed regulations can hinder investments such as hiring, employee training, capital improvements and plant expansions

Key areas of concern include (in descending order of importance):

- **FDA Food Labeling Policies:** FDA food labeling policies impede the commercial success of healthful food and beverage products and the development of markets for products that support healthy dietary practices such as adequate intakes of essential nutrients.
    - FDA's policy concerning "Dietary Guidance Claims" is unduly restrictive. The policy fails to authorize marketing claims for conventional food and beverage products that characterize the well established disease prevention benefits of dietary practices that are recommended by the Dietary Guidelines for Americans.
    - FDA policies concerning "Structure Function Claims" for conventional food and beverage products are unduly restrictive. These policies hinder the effective communication of basic nutritional benefits of conventional food and beverage products and the ways they contribute to achieving Dietary Guidelines recommendations and help prevent obesity.
    - FDA's policy interpreting the FDCA "drug" definition to include conventional food and beverage products that are consumed as part of an ordinary diet impedes the effective communication of the disease prevention benefits associated with a healthy diet and the ways in which specific foods, beverages, and components can help consumers maintain healthy dietary practices and prevent obesity.
    - FDA's "fortification policy" and related policies concerning nutrient content claims discourage companies from developing and marketing conventional food and beverage products formulated with essential nutrients that have well established benefits in preventing inadequate intakes of essential nutrients.
    - Economic studies published by the FTC and other authoritative bodies have shown that FDA food labeling policies like these mentioned above impede innovation. FDA policy reforms are needed to strengthen incentives to encourage the development of markets for such food and beverage products and to address these impediments to healthy food marketing.
- **Beverage Taxes:** According to a 2009 study "The Potential Economic Impact of a U.S. Excise Tax on Select Beverages," by Robert Hahn, a 3-cent tax per 12 ounces of beverage sold applied to all beverages would result in a $22 billion in lost economic output and 110,000 lost jobs.

- A tax of that level would reduce government tax revenues by $2.5 billion per year. Additionally, lost wages paid to the 110,000 workers would total approximately $5 billion per year.

- A beverage tax is regressive. A CRS (Congressional Research Service) Report in 2009 showed that 70.6% of the cost of a beverage tax would be paid by those earning less than $91,000. Middle and lower class families should not carry any more burdens, especially during an economic turndown.

- A beverage tax will not help address the problem of childhood obesity – sugar sweetened beverages are not a unique contributor to obesity. It is a complex issue which needs a comprehensive solution.

- **U.S. Competiveness:** Some companies are concerned the Administration will propose regulatory or legislative changes that will limit the ability to organize and operate supply chains that enable companies to provide the particular products that domestic and international buyers wish to procure at a price they are willing to pay.

  - The US should lead the way on creating a modernized food safety system that is consistent with international standards and based on a risk based system to protect public health. The Administration should then be aggressively committed to international harmonization.

  - The passage of FDA reform legislation could impede American competitiveness if new food safety requirements create barriers to trade or impose substantial new costs on business.

  - In regard to food safety legislation, OMB should take an active role in ensuring that legislation, and regulations required to implement food safety legislation, provide for coordination between USDA, FDA and ICE-CBP so that companies are not forced to comply with a costly collection of overlapping or contradictory rules. Trade and investment will be hindered if the legislation and regulations allow the agencies to move forward in a disconnected way.

- **Nutrition Standards and Marketing:** In a report due to Congress this summer, the FTC, in collaboration with the FDA, USDA, and CDC, has developed nutrition standards for food marketed to children under the age of 18. The proposed criteria are so stringent that hundreds of otherwise nutritious food products, including peanut butter, vegetable soup, yogurt, and most cereals, would not qualify. If companies were required to follow these standards, virtually *all* advertising of food products to this age group – 18 and under – would cease. As a result, this proposal would substantially impact the media, the availability of children's programming, and the jobs associated with those industries.

- **Centers for Disease Control (CDC) Grants:** The CDC is supporting recipients' use of tax dollars to specifically target sugar-sweetened beverages and is singling them out for discriminatory treatment by reducing their availability in public areas, making the beverages more expensive (presumably through taxation) and running counter-advertising to discourage consumption. These efforts will not advance the goal to improve American's health and will undoubtedly hurt the beverage industry which would in turn affect jobs and revenue.

- **Product Safety:** The Consumer Product Safety Improvement Act (CPSIA) and the Consumer Product Safety Commission's (CPSC) implementing regulations are more expansive than necessary to protect consumers and impose unjustifiable regulatory and economic burdens on the regulated industry.

- **FDA Warning Letters and Administrative Enforcement Procedures:** FDA enforcement policies provide inadequate protection of the rights of those accused of violating the Federal Food Drug & Cosmetic Act and amplify the legal liability and economic risks associated with regulatory compliance. Often the only course left to a company is to comply with the demand of the letter, which can cost many millions of dollars in lost sales (with associated job losses) and can inhibit innovation and introduction of similar products across the food and beverage sector.

- **Menu Labeling:** Legislation requires that the Secretary of Health and Human Services issue regulations concerning the labeling requirements. Companies are concerned that the scope of the regulations will extend to in-store bakeries, salad bars, cheese stands and deli counters which often contain tens of thousands of items. Menu labeling would be difficult and costly for those locations and seemingly goes beyond the intent of the legislation.

- **Anti-Trust:** The policy to disregard established anti-trust laws for the agriculture and food sector industry is not sustainable. U.S. business expansion plans are being put on hold, because the preponderance of evidence does not reveal concentrations producing adverse or illegal effects.

- **Agriculture Commodity Programs:** The Administration's policy fails to reform commodity programs constrains innovation and flexibility. With reformed programs, productivity and competitiveness would be enhanced.

- **Food Recalls:** Type II and Type III recalls of food products that are not related to human health issues should be evaluated from a scientific and reasonableness standpoint.

Agriculture

Many companies remain concerned about a potential shift in the U.S. Department of Agriculture's (USDA) biotechnology regulatory policy or practice, which would require Environmental Impact Statements (EIS) on most or potentially all product deregulations for genetically engineered plants. Any such shift in policy or practice would greatly hamper the trait approval process, and would unnecessarily lengthen the potential timeline for trait approvals by at least an additional three to five years (or longer). This shift in policy or practice also would have a detrimental impact on economic recovery and job creation, would negatively affect new product innovation on a global scale, and would be inconsistent with the sustainable policies and principles established under National Environmental Policy Act (NEPA). Moreover, such a shift in regulatory policy or practice would have additional negative impacts, including, but not limited to:

- Both U.S. and international farmers would suffer economic harm because they would not have timely access to the latest seed technologies to support improved crop yields, to produce more nutritional crops, and to combat geographical stresses such as drought, disease, salinity, and nitrogen deprivation.

- U.S. seed manufacturers would experience significant economic losses because preparation of EISs are very costly and seed manufacturers would not be able to commercialize their products for years, while waiting for deregulation from USDA. These economic losses necessarily would drive up food prices, thereby also harming the end consumer.

- Such a policy shift would undermine the claims that the U.S. has made internationally in support of a global science-based regulatory regime for biotechnology crops. A U.S. policy that requires an EIS for each deregulation decision strongly suggests to international regulators that these genetically engineered products do in fact impact the environment differently than their conventional counterparts. A critical step towards global food security is to achieve a more efficient global market that is based on established international rules that eliminate barriers, reduce costs, and increase the reliability of trading systems. A potential policy shift towards EISs would undercut these important objectives.

Communications

While regulation is not intrinsically bad, its benefits must be very real to justify its costs. In contrast, several FCC proposals would generate huge costs and damage severely the vitality of an industry that brought tangible value to consumers during the economic downturn.

It is clear from the reaction of financial analysts and investors that just the announcement of an FCC initiative can create a high degree of uncertainty and fear of protracted litigation that could further chill economic investment. In light of this, we urge the FCC to carefully consider the importance of telecommunications in the modern economy; FCC regulations will have ripple effects far beyond companies they directly impact.

Companies' concerns can be broken into 6 key areas of concern (in descending order of importance):

- **Net Neutrality and Title II Classification:** The FCC has proposed "net neutrality" regulations that would place significant ex ante restrictions on highly technical network management practices employed by broadband companies and on the commercial arrangements that would be permitted among companies contracting for broadband Internet services. The proposed neutrality limitations on permitted network management would severely hamper the ability of networks to handle Internet traffic efficiently or assure reliability and security. Further, because the FCC has been unable to articulate clearly the particular network managements it would allow or prohibit, fear of violating these vague specifications will chill networks' further development of broadband capabilities.

  These proposed regulations would impose an unprecedented strict nondiscrimination standard that would prohibit even *voluntary* commercial agreements between networks and Internet content or application providers for the receipt of differentiated or guaranteed broadband transmission quality-of-service.

  Net neutrality regulations would apply to wireless broadband as well as fixed line broadband – even though wireless technology and spectrum scarcity makes the need for flexible and innovative network management even more acute. The uncertainty surrounding net neutrality's potential impact on wireless broadband is evidenced by the FCC's recent 700 MHz C Block auction which demonstrates that net neutrality rules would devalue new licenses at auction and could impact the long-term health and vitality of the market.

  Closely associated with the net neutrality issue is the FCC's attempt to reclassify wireless and wireless broadband under Title II of the Communications Act.

  The move to classify broadband Internet access as a common carrier service could have broad implications for the regulatory treatment of all online services and applications that are delivered over the Internet, and subject these services to the same common carrier regulation that it proposes to impose on broadband access

  While the FCC chairman has indicated he does not intend to impose pricing or other burdensome regulations on networks or online services, it is unclear whether the 1934 law permits selective or credible forbearance from its requirements. Uncertainty could reign for years as the substance, scope and legal basis for this proposed regulatory framework is made clear and before its validity or invalidity is confirmed by the courts.

- **Frequency Spectrum:** We are concerned about the delays and uncertainty surrounding wireless spectrum auctions, our specific concerns are that:

    - Almost two years have passed since the FCC issued a final order in its white spaces proceeding, and it has been six years since the FCC began the proceeding in May of 2004. Nonetheless, there are a number of outstanding issues remain unresolved. Concluding these issues will increase broadband connectivity and drive new products in the marketplace.

    - The FCC's National Broadband Plan called for 500 MHz of spectrum to be brought to market; this is a positive development for both investment and innovation. Unfortunately, both NTIA and the FCC continue to consider plans to require an auction winner to provide a free broadband service in one block of that spectrum. Not only would this impact investment in broadband networks, but this model has failed numerous times in municipal Wi-Fi plans throughout the country, and will deprive the Treasury needed resources per the 700 MHz auction experience.

    - The FCC's decision to limit the ability of larger carriers to lease spectrum from current holders or to purchase new spectrum in future auctions distorts competition by creating a cost discount or price umbrella to smaller or less successful carriers. We are also concerned that proposed FCC rules would withhold spectrum and degrade incentives to develop innovative devices from the larger or more successful wireless carriers.

- **Regulations and Regulatory Structure:** The FCC has proposed or is considering a number of regulations that will limit innovation or investment incentives. Examples include mandating wireless carriers provide data roaming services to any requesting carrier – even in areas where those carriers possess their own spectrum but have chosen not to invest in the capital infrastructure necessary to use it; and prohibiting commercial partnerships between carriers and handset manufacturers to develop and market innovative devices.

  The FCC also recently issued a press release finding that consumers are routinely "shocked" by the amount on their wireless bills and contemplating that carriers undertake large scale overhauls of their billing systems and infrastructure to provide the tools the FCC deems appropriate. Initiatives to mandate onerous network outage requirements – designed and implemented for the legacy circuit-switched world – and to require mandatory levels of backup power at every cell site similarly threaten to take wireless investment dollars away from meeting consumer needs and toward meeting regulatory mandates.

  While we fully support the mission of the Federal Trade Commission (FTC) to prevent and punish unfair and deceptive acts or practices, we are concerned that provisions in Section 4901 of H.R. 4173, the financial services regulatory reform legislation, which would remove existing procedural safeguards on the rulemaking and enforcement capabilities of the FTC and would unduly burden the communications companies.

  H.R. 4173 would couple unrestrained regulatory authority with new enforcement authority giving the FTC the power to seek immediate civil penalties for unfair or deceptive acts even if it had not issued rules or orders on the conduct in advance. Under current law, the FTC typically must conclude an investigation of acts or practices that may be deemed unfair or deceptive and then issue an administrative order to bring the party into compliance. If the party then violates

the administrative order or rules, the FTC may impose civil penalties. This system has worked extremely well and it allows those acting in good faith to come into compliance without being put out of business by excessive penalties for behavior that was not a known violation.

The bill also would allow the FTC to seek such penalties without coordinating with the Department of Justice (DOJ). Independent litigating authority would eliminate the checks and balances that DOJ currently provides for FTC actions, removing an important part of the enforcement decision-making process.

Further, it would allow the FTC to pursue companies that allegedly provide "substantial assistance" in an FTC Act violation, even without actual knowledge of the violation. Adding this new grounds for liability would make third party service providers such as broadcasters, advertising firms, and broadband access providers, and others responsible for a company's marketing claims.

Taken together, these provisions grant the FTC sweeping powers. Given the extremely broad scope of the FTC's jurisdiction the existing procedural protections remain necessary and appropriate in those cases when the FTC seeks to outlaw business acts or practices.

- **The Prepaid Mobile Device Identification Act:** The legislation would increase the cost of pre-paid service to law-abiding citizens during a challenging economic period; indeed, half of customers who terminate prepaid service forgo wireless services entirely- for economic reasons. Prepaid service may mean the call for a job and an end to unemployment; prepaid provides access to emergency services; prepaid means a simple purchase method. A key market driver is the ease of use in obtaining prepaid wireless phones and service. While intended to combat criminal activity, for many reasons, it would not, in fact have that practical effect.

- **Universal Service High Cost Fund:** The federal Universal Service High Cost Fund currently costs telecom consumers and businesses approximately $4.5B per year. The fund rewards inefficiency, discourages competition and broadband deployment, and unduly benefits specific companies rather than consumers. The majority of high cost funding is distributed to incumbent wireline local exchange carriers without any serious demonstration of need and with little or no accountability as to how the money is used. The cost of this subsidy system is borne by consumers and businesses through steadily increasing USF surcharges which effectively inflate their cost of acquiring telecom services.

- **Inter-carrier Compensation:** There is widespread industry agreement that the rules governing compensation are broken. In early 2005, FCC Commissioner Copps characterized the multi-billion dollar system as "Byzantine and broken" and a "hodgepodge of rates that looks more like a historical curiosity than a rational system of compensation." Yet, in 2010, despite the well-chronicled inefficiencies, distortions to competition, and harm to consumers caused by the "system," reform remains elusive. As a result, the industry is embroiled in costly litigation which diverts scarce resources from innovation, economic growth, and job creation, to hearing rooms and courts.

Insurance

The current state by state regulation of insurance has created a patchwork system that lacks uniformity across state boundaries, and results in inefficiencies. We support the efforts of the administration and Congress to create a system within which we could streamline our compliance efforts.

Government Contracts

Many companies rely on the government for a large portion of their overall revenue and have an active interest in streamlining the procurement process as well as reducing waste, fraud and abuse.

Two key areas of concern are:

- **The Definition of an Inherently Governmental Function:** The continued uncertainty surrounding activities deemed inherently governmental leaves companies in doubt when determining whether key support services contract areas and performance based contracting are within the qualifying definition or subject to insourcing initiatives.
- **Defense Federal Acquisition Regulation System (DFARS) Proposed Rule Case 2009-D038:** Arbitrary withholding on contract payments will reduce the cash flow necessary for contract operations and investment.