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STATE OF THE AMERICAN WORKFORCE

HEARING

BEFORE THE

COMMITTEE ON EDUCATION
AND THE WORKFORCE
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

FIRST SESSION

HEARING HELD IN WASHINGTON, DC, JANUARY 26, 2011

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STATE OF THE AMERICAN WORKFORCE

Wednesday, January 26, 2011
U.S. House of Representatives
Committee on Education and the Workforce
Washington, DC

The committee met, pursuant to call, at 2:10 p.m., in room 2175, Rayburn House Office Building, Hon. John Kline [chairman of the committee] presiding.

Present: Representatives Kline, Petri, Biggert, Platts, Wilson, Foxx, Hunter, Roe, Thompson, Walberg, DesJarlais, Hanna, Rokita, Bucshon, Gowdy, Barletta, Noem, Roby, Heck, Kelly, Miller, Payne, Andrews, Scott, Woolsey, McCarthy, Kucinich, Davis, and Hirono.

Staff Present: James Bergeron, Director of Education and Human Services Policy; Kirk Boyle, General Counsel; Casey Buboltz, Coalitions and Member Services Coordinator; Ed Gilroy, Director of Workforce Policy, Marvin Kaplan, Professional Staff Member; Barrett Karr, Staff Director; Ryan Kearney, Legislative Assistant; Brian Melnyk, Staff Assistant; Brian Newell, Press Secretary; Molly McLaughlin Salmi, Deputy Director of Workforce Policy; Mandy Schaumburg, Education Policy Counsel; Ken Serafin, Workforce Policy Counsel; Linda Stevens, Chief Clerk/Assistant to the General Counsel; Joseph Wheeler, Professional Staff Member; Aaron Albright, Minority Press Secretary; Tylease Alli, Minority Hearing Clerk; Jody Calemine, Minority General Counsel; Jose Garza, Minority Deputy General Counsel; Brian Levin, Minority New Media Press Assistant; Jerrica Mathis, Minority Legislative Fellow, Labor; Celine McNicholas, Minority Associate Labor Counsel; Richard Miller, Minority Senior Labor Policy Advisor; Megan O'Reilly, Minority Labor Counsel; Julie Peller, Minority Deputy Director of Policy and Planning; Meredith Regine, Minority Policy Associate, Labor; Melissa Salmanowitz, Minority Press Secretary; Michele Varnhagen, Minority Labor Policy Director; and Mark Zuckerman, Minority Staff Director.

Chairman KLINE. A quorum being present, the committee will come to order. I want to make a couple of administrative announcements to our guests and to our panel and to my colleagues here on the committee. The weather, as all here know, has turned a little tough out there. Planes are being canceled, flights are being canceled and rescheduled and moved, and the roads are slippery, and I am advised that the Office of Personnel Management is encouraging Federal employees to leave at 4:00. While that doesn't directly apply to us, the conditions that will create out there does.

So I am going to announce to all that we will have a hard stop at 4:00 out of respect to all.

I think, I want to, I am going to make an opening statement briefly and turn to Mr. Miller in a minute. But I want to thank members for coming and I know that Members of Congress will be leaving as the flight schedules direct. So when you need to go, when the plane is ready to roll, we understand you will be departing. All right.

Well, good afternoon and welcome to our first hearing of the 112th Congress. I appreciate the time our witnesses have spared to be with us today. Whether you are a Governor, a small manufacturer, an economist, your time is valuable and we are grateful for your participation today, all of us.

It is no secret the American workforce faces significant challenges. Over 20 consecutive months' unemployment has remained at 9 percent or higher. During that same period of time, more than 14 million Americans have been unemployed and searching for work. Roughly 1.3 million unemployed workers have become so discouraged by searching and coming up empty that they have given up hope and abandoned the labor force entirely.

Despite some unprecedented attempts, perhaps best reflected in the failed $814 billion stimulus bill passed in the early hours of the last Congress, the Federal Government cannot legislate or regulate its way to job creation in our country. It can, however, provide some sense of certainty that will give the young entrepreneur and small business owner the confidence he or she needs to go forward and invest in their new idea or company.

Unfortunately, over the last 2 years we have seen the Federal Government move in a disturbingly different direction, one that creates economic uncertainty felt by businesses both large and small. A number of policies and proposals have caused many business owners to think twice before expanding their operations or hiring additional workers.

At the center of this uncertainty is the recent health care law. We have all heard the story of a small business owner already struggling to make payroll, who now faces a penalty for failing to provide government-approved health care. Despite promises health care reform would lower costs, the chief actuary at the Centers for Medicare and Medicaid Services reports national health care spending will increase by some $311 billion over the next 10 years. This health care law has forced business owners to choose between higher health care costs or government penalties. To suggest this doesn't discourage job creation in this country is to ignore, I believe, reality.

The President has suggested a willingness to fix what is broken in the law. I would suggest the employer mandate is the place to start. While one arm of the Federal bureaucracy transforms our health care economy, another is considering sweeping changes to the law governing the relationship between employers and labor unions.

The National Labor Relations Board is supposed to safeguard the rights of workers against the illegal actions of both employers and unions. Today there are conversations taking place at the NLRB that will have profound consequences for America's workers. Many

of the discussions going on behind closed doors should be debated here in this committee, on the floor of this Congress and in the public, in full view of the American people. No Federal agency or board should rewrite the rules of the game to favor any special interest over the interest of all Americans.

Despite these challenges, I am happy to see the administration reconsider various proposals that would have made it more difficult for businesses to plan and invest in the future. Recently the administration withdrew its proposal to re-interpret the noise feasibility standards, a proposal that would have imposed significant costs on businesses without any real justification. And yesterday the administration announced it is reconsidering proposed changes to employer injury and illness laws that would have created a significant paperwork burden for employers. While I welcome these actions by the President, more needs to be done.

Well, that is why we are here today. We want to learn about the policies that may be standing in the way of job creation and find better solutions to protect the rights, safety and prosperity of the country's workers.

And I am now pleased to yield to our senior Democratic member, the ranking member, Mr. Miller, for an opening statement.

[The statement of Chairman Kline follows:]

Prepared Statement of Hon. John Kline, Chairman, Committee on Education and the Workforce

Good afternoon and welcome to our first hearing of the 112th Congress. I appreciate the time our witnesses have spared to be with us today. Whether you are a governor, a small manufacturer, or an economist, your time is valuable and we are grateful for your participation today.

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As we look to these recent decisions by the administration, we will be guided by President Reagan's aged wisdom—trust but verify. We will trust the president when he says he wants to review the regulatory structure's affect on jobs, but we will verify that promise against the actions his administration takes over the next two years.

That is why we are here today. We want to learn about the policies that may be standing in the way of job creation, and find better solutions to protect the rights, safety, and prosperity of the country's workers.

I am pleased to yield now to our senior Democratic member,

Mr. Miller, for an opening statement.

Mr. MILLER. Thank you very much, Mr. Chairman. And I want to also thank our witnesses for joining us this afternoon.

Today's hearing on where our Nation's workers stand is a timely and an important topic to explore. For most of the 20th century, America's working families and middle class made our democracy strong. The promise was that if you worked hard, played by the rules, you could save something for your kids' education, have enough left over to save for a comfortable retirement.

Unfortunately this promise is being broken for working families. For 30 years workers have been hit by stagnant pay, skyrocketing health costs, rising tuition and a loss of retirement security. In lieu of fair pay increases, Americans turned to credit to maintain their middle-class standards. With certain Federal policies making income inequality worse, wealth chased after the next bubble, leading to the Wall Street scandals. The economy became over-leveraged, and debt exploded to levels not seen since just before the Great Depression.

The bill came due in the fall of 2007. Since then more than 8 million Americans lost their jobs, further fueling the foreclosure and the debt crisis. Swift and decisive action was needed to avoid the total economic catastrophe. Congress and the Obama administration came together and made immediate investments to save the economy. The Recovery Act was the first step, and we see the result today: Over 4.7 million jobs have been created or saved, according to the CBO, as a direct result of the Recovery Act.

The broad range of experts disagree, including private economists across the political spectrum and the nonprofit Congressional Budget Office. In official government statistics, our actions saved the economy from slipping into deeper crisis.

While there is much more work to be done to dig our country out of this mess, the private sector job growth has increased by 1.34 million jobs last year. That means that the Obama policies created more jobs in less than 2 years, than the entire 8 years under the Bush administration.

Even the manufacturing sector is seeing growth for the first time since 1997. Private economists are predicting a gain this year of

330,000 manufacturing jobs, a dramatic change from every year in recent memory. Ford announced its plan to add 7,000 jobs over the next 2 years. Whirlpool, Dow Chemical and Caterpillar have all cannoned that they are going to keep jobs in America and even expand operations.

Also, corporate profits are back to their highest point since before the recession began, and the stock market is also up.

The non-farm, non-financial business sector is holding more than $1.9 trillion in cash, the highest level since 1959.

Policies to stimulate the economy are not, by themselves, enough. We must also begin to rebuild the foundations of a strong middle class. By doing, so we ensure that the recovery is fair and that it is sustainable.

On that front, Democrats in Congress, working with the Obama administration, took critical action to grow and strengthen our Nation's middle class. Today, all Americans will have access to quality, affordable health coverage, no matter if their employer provides it or if they change jobs or they lose their job.

Today, college students have access to critical financial assistance they need to go to college and to stay in college and to earn the critical skills to keep America competitive. Today, businesses have powerful new tax incentives for businesses to hire the unemployed Americans and expand their businesses. Today, workers have the Department of Labor that puts worker safety first, all of which has helped reduce workplace injuries and makes businesses more efficient. Today, workers have a fair minimum wage, a rate that was increased by Democrats after Republicans blocked an increase for a decade, shamefully allowing the value of the rate to drop to a 50-year low. Today, small businesses have more access to credit necessary to start and continue or expand their businesses. And today, we have a revitalized supervision of our Nation's financial institutions to avoid another meltdown in our financial system.

There is more to be done to heal our economy. We need to move forward on key investments to help unleash our Nation's competitiveness and innovation. One area that this committee can work on is the rewrite of the Elementary Secondary Education Act so that our Nation's school children can be successful in the classroom and beyond.

Every initiative that goes through this committee must be judged by whether or not it will grow and strengthen the middle class. We cannot double down on go-go bubble economics and trickle-down tax policy. All across the Nation, communities are confronting the lack of high-skilled workers, even as unemployment is high. In my own communities, business, labor, and community colleges have come together with a new urgency to tackle this problem.

We must support these local efforts to create jobs, to stay competitive, to act decisively, nationally, to build and to maintain a higher skilled workforce. Falling behind is not in America's DNA. It never has been and it never will be. We have the hardest-working people in the world, and as the President pointed out last night, the most productive workers in the world, and I hope that we can look forward to solutions that help grow and strengthen America's middle class.

And I thank you very much for having this most timely hearing. And I just want to apologize to the witnesses. I am one of those who is trying to catch the last flight tonight out of Dulles. So I love your testimony. I am not flying with you.

[The statement of Mr. Miller follows:]

Prepared Statement of Hon. George Miller, Senior Democratic Member, Committee on Education and the Workforce

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We have the hardest working people in the world and I hope we can look forward to solutions to help grow and strengthen America's middle class.

I yield back.

Chairman KLINE. I thank the gentleman. And we all understand. There will be a Le Mans start for the airport here pretty quick, I am sure. I thank the gentleman for his statement and for the cooperation that he has shown over the years when he was the chair of this committee.

Pursuant to committee rule 7(c), all members will be permitted to submit written statements to be included in the permanent hearing record.

[The statement of Mrs. Roby follows:]

Prepared Statement of Hon. Martha Roby, a Representative in Congress From the State of Alabama

Thank you Mr. Chairman. This being my first hearing of the Education and Workforce, I want to take a moment to express know how much I look forward to working with you over the next two years. I look forward to an open debate on reforming health care, ensuring our children have the resources to reach their full potential, and innovative ways for job creation. The hearing today is the first step toward this in regards to the state of our workforce. I want to thank the witnesses for appearing today at our first full committee hearing.

The Administration administered an $814 billion "stimulus" package in 2009 that has done nothing to stimulate the economy—instead—resulting in a loss of 2.1 million jobs. During the Great Depression of the 1930s, the New Deal was designed to address the "3 Rs"—relief, recovery and reform. Out of the New Deal, this country became stronger with improved infrastructures like the Hoover Dam, improved national transportation system and a more secured financial system. Unfortunately, the Obama's Stimulus Package did not provide similar results. This nation is still left with an aging infrastructure, high unemployment, high levels of uncertainty in business, and an out-of-control federal debt.

During my travels around the district, I hear from so many constituents on about the negative impact that the recent efforts by the federal government are having on their businesses and jobs. I specifically hear about the opposition to the Patient Protection and Affordable Care Act signed into law last year. Last week, the House voted to repeal the law that created significant uncertainty for businesses-particularly for small business where job growth is so critical in turning around this recession. I recently spoke with one of my constituents from Headland, Alabama, who owns a Pizza Hut. He told me that he will most likely have to shut down his business due to the added cost from Obama Health Care. I heard from another constituent, who owns several pharmacies in the southeast, that he had the ability to create four new jobs bust has not due to the uncertainty of what the federal government will place on him next.

I look forward to the testimony today from our witnesses on their observations of these and other factors that have been roadblocks to America's recovery. Only last month it was reported that December was the 20th month that unemployment was still above 9 percent nationally. In my home state of Alabama, unemployment rose

slightly to 9.1 percent, which represents 195,000 unemployed workers in the state. This Committee must move forward in legislation that will take away the obstacles to growth for small businesses to help turn around this recession. The answer to economic growth is not a national answer, but one on every Main Street and farm of this nation-for small business to operate and build upon innovation. Once again thank you Mr. Chairman for holding this hearing.

Chairman KLINE. It is now my pleasure to introduce our distinguished panel of witnesses. Governor Bob McDonnell is the 71st Governor of Virginia. Prior to assuming office, the Governor served as the 44th Attorney General of Virginia from 2005 to 2009, and was a member of the Virginia House of Delegates from 1992 to 2006. Governor McDonnell also served in the U.S. Army, both Active Duty and Reserve, retiring as a lieutenant colonel in 1997. In addition to his long and distinguished public and military service, the Governor also has experience in the private sector, having worked for American Hospital Supply Corporation, a Fortune 500 company, for a number of years. He holds master's degrees in business administration and public policy, as well as a law degree. Welcome, Governor.

Our next witness, Mr. Dyke Messinger, is the President and CEO of Power Curbers, Incorporated in Salisbury, North Carolina. Power Curbers is a 55-year old family-owned company in Salisbury, North Carolina, that manufacturers paving equipment to form concrete curbs and gutters, highway safety barriers and other special applications. In 2007 Mr. Messinger was awarded the Manufacturing Champion Award by the Charlotte Chamber of Commerce, as well as the Sam Walton Business Leader Award by the Salisbury, Rowan County Chamber of Commerce. In addition to his service with Power Curbers, Mr. Messinger serves on the Board of Directors of the National Association of Manufacturers.

Dr. Heather Boushey is a senior economist at the Center for American Progress. Her research focuses on employment, social policy, and family economic well-being. Prior to her work at the Center for American Progress. Dr. Boushey was an economist with the Joint Economic Committee of the U.S. Congress, the Center for Economic and Policy Research, and the Economic Policy Institute. Welcome.

And Dr. Douglas Holtz-Eakin is currently the President of the American Action Forum. Since 2001 he has served in a variety of policy positions which include his service as the chief economist of the President's Council of Economic Advisors and as the Director of the Congressional Budget Office from 2003 to 2005.

Welcome to you all. There are little boxes in fronts of you. Those lights will illuminate. The system here is you get a green light at the start of your remarks and some 4 minutes or so into it, you get a little yellow light, and at the end of 5 minutes you get a red light. We would ask you somewhere in there to try to wrap up. I am not prepared at this, my first hearing, to gavel anybody down when the light turns red. But please try to wrap up your comments. And we would like to hear from all of you. And then as time allows, we would move into questions. So, at this time, we will start here and go that way, Governor.

STATEMENT OF HON. ROBERT F. McDONNELL, GOVERNOR, COMMONWEALTH OF VIRGINIA

Governor MCDONNELL. Mr. Chairman. Thank you very much for your kind invitation to come and talk to you about this critically important topic of job creation and economic development. I am delighted to come from across the Potomac to your south to be with you. It is good to be with my friend, Congressman Scott, as well. I don't think there is any more important issue facing the American public than that issue, as well as spending control, and so it is very timely that you make this your first topic.

I was particularly gratified with the President's speech last night and his focus on job creation and workforce development and access to the American dream. I think that is something that crosses all party lines, and the question is how do we best get there; what actually works at the state and Federal level to promote that?

I will share just a couple of thoughts with you in three or four categories about some experiences I have from Virginia that are working and then some things we would like to ask you to consider up here.

I would say that over the last year we have taken a very strong set of steps in Virginia to cut spending and focus on economic development. As a result of that, we have turned a deficit into a $400 million surplus and we have been ranked this year either number one or number two as far as the most business-friendly State in the country. We are ranked fourth in total job creation, ninth lowest unemployment rate. So we have learned a little bit about some of the things that work that I wanted to share with you.

First is what is the overall climate; what can you do in the States? It starts to keeping our environment where taxes and regulation and litigation are all kept to a minimum. Strong right to work laws. We are 1 of 22 states that have that. That is a magnet for business, great higher education system.

And then thirdly, some of the intangibles: tone, saying you are open for business and welcoming business, not attacking business, which I think is critically important and I was delighted to see some of that last night as well in the President's remarks.

We have also set some big aspirational goals, I think, that are helpful, making Virginia the best State in America for small business, making it the energy capital of the east coast. Businesses have now come and are gravitating around those goals.

The second topic that I would say is there are some things in the short run that both Congress and the States can do to really attract business. Some of the things we have done in Virginia would be creating new economic development incentives for businesses to come here. I look at me not competing just against Carolina, but against China, India, Singapore, Taiwan, and other countries and a global economy.

So we have been much more aggressive in funding things like a Governors Opportunity Fund to provide incentives to business to relocate; investments in mega sites, opening up trade offices in India, and China; focusing on some of the core competencies that our State has in things like aerospace and agriculture, tourism, film, wine, things we are good at; and then putting more incentives to attract new businesses as well. And then major tax credits and

things that would create jobs and produce manufacturing jobs to return back to our Commonwealth.

The third thing I would say is the long-term approach. The President touched on this a little bit last night, and that is the importance of higher education. We have a major new initiative that I proposed to our general assembly just a couple of weeks ago to create 100,000 new degrees in Virginia over the next 15 years. I am very concerned, as you are, about the future of American competitiveness if we continue to lag behind in science, technology, engineering, math and health care, and the number of degrees that we are producing there compared to some of the Pacific Rim countries.

So we have got to invest and create more opportunities for our young people to be able to go to institutions of higher education. But we have got to run colleges, I think, a little bit more like a business so that we can keep the college tuitions low. They have doubled in the last 10 years in Virginia, and you price a lot of middle-class kids out if we don't find ways collectively to increase access, reduce cost, and focus on these areas of STEM.

The final area, Mr. Chairman, I would like to discuss with you are some of the things that you all here in the Federal Government can do to help us or to hurt us. And I want to tell you about a couple of those that I think can be impediments. And again, most Governors would say we really believe, not only under the tenth amendment, but the fact that we are closer to the people and therefore govern a little better, as Mr. Jefferson said, that we ought to have a little more latitude to be able to do these free-market things that we believe will work.

Let me tell you a couple that I think don't help. Major new regulations. I think Heritage has estimated there were 43 major new rules promulgated in 2010, the largest number in 30 years, at a cost of $26 billion to business nationally.

The President talked last night about introducing an executive order to say we are going to cut down on regulations, find things that don't work, inhibit entrepreneurship and small business development and free enterprise. I applaud that. I urge you to hold his feet to the fire and make sure you really do that to cut down on regulation.

Secondly is bills like card check and cap-and-trade that you have proposed and considered in the past that, for me as a coal-producing State, that dramatically hike up energy costs, undermine our Right to Work laws. That is not good for me as the chief executive officer of a State.

There are some rules that EPA has promulgated that are noble; for instance, in cleaning up the Chesapeake Bay. But the TMDLs will cost Virginia about $700 million in unfunded mandates in our State and our businesses over the next 15 years.

Mr. Chairman, you mentioned health care. We estimate about $2 billion in unfunded mandates on the businesses and the State of Virginia over the next 2 years as a result of the health care bill.

So what I would say to you is that the things that we can do in the short and the long term involve more opportunity, more education—not more guarantees, keeping a lid on regulations, on taxes, inhibiting States like mine that have a Right to Work law with things like card check that get in the way. We would ask you

to restrain from doing those things so that we can continue to be the laboratories of innovation that I think our Constitution contemplates.

So thank you, Mr. Chairman, I look forward to your questions.

Chairman KLINE. Thank you, Governor.

[The statement of Governor McDonnell follows:]

Prepared Statement of Hon. Bob McDonnell, Governor, Commonwealth of Virginia

Good afternoon, Mr. Chairman. Thank you for the kind invitation to join you all this morning to talk about the state of the American Workforce.

Over 400 years ago, the Commonwealth of Virginia began as an international business venture—and we have a strong and proven track record of success. While over the past few years the economy unfortunately slowed down in Virginia, as it did nationally, the fervor and passion of the entrepreneurial spirit continues to remain strong in the people across the Commonwealth from Chincoteague on the Eastern Shore to the Cumberland Gap in the far southwest.

When I took office just over a year ago, we set out to create a Commonwealth of Opportunity.

We are the northernmost "Right to Work" state, we have a pro-business environment that fosters economic growth with low taxes and reduce regulations. We have a strong, diverse workforce prepared to meet the needs of businesses today. We have been recognized nationally as one of the best states in which to do business. While still unacceptably high with an unemployment rate of 6.7 percent, and over 280,000 Virginians out of work, we do have the 9th lowest unemployment rate in the nation.

We have put forth bold initiatives to get our economy moving again. I firmly believe it is the entrepreneur who makes businesses grow and prosper—not the government. Because of our trust in the men and women to determine the course of their business destiny—we have announced 128 new projects, over $2.2 billion in new investment and over 11,673 new jobs.

Since last February 55,400 net new jobs have been created in the Commonwealth, the fourth highest number in the nation—trailing only Texas, Pennsylvania and California.

Our accomplishments include the announcement that Northrop Grumman will move their headquarters from California to Virginia and Microsoft's announcement that they would make the largest investment in Southern Virginia history, opening a $500 million state of the art data center in Mecklenburg County.

We are committed to simultaneously attracting new employers while also strengthening our workforce—and I have recently announced my "Top Jobs for the 21st Century" initiative that will enable our higher education institutions to issue an additional 100,000 degrees over the next 15 years, making Virginia one of the most highly educated states in the nation. Our initiative also places a greater emphasis on the high demand science, technology, engineering and math subjects through the formation of a public-private partnership that will engage the business and professional community in leveraging best practices for K-12 and higher education.

We are encouraged by the growth we have seen—slow and steady as it may be—and the steps we are taking to ramp up that growth are working, but there still remains a lot of work to do.

However, no matter what pro-free market and job-creation steps we take in Virginia, we cannot avoid the fact that what happens here in Washington can cancel much of it out and make our work that much more difficult.

As you know, our small businesses are the backbone of our economy. Our small businesses continue to struggle—and when they are able to rebound we will all be on a more prosperous path. According to a study just released by the by the National Federation of Independent Businesses, the largest problem currently confronting small businesses nationwide is weak sales, followed by taxes and government regulations.

A recent Heritage Foundation analysis reported federal agencies issued 43 new major rules increasing regulatory burdens in Fiscal Year 2010. The total costs of these rules—as estimated by the regulators—exceeded $26.5 billion. That's the highest single-year cost recorded since 1981, the first year for which records are available. These increased burdens will stunt operations—especially for small businesses.

We can see the negative impact of excessive federal regulations throughout our Commonwealth.

For example, the total cost of implementation of the Environmental Protection Agency's mandated Chesapeake Bay Total Maximum Daily Load and the associated Watershed Implementation Plan for Virginia agriculture will be up to $2.5 billion. The Health Care Reform passed last year will increase the number of Medicaid enrollees in Virginia from 270,000 to 425,000, at a cost of $2 billion by the year 2022. Our business owners are concerned about how they are going to comply with the increased costs to provide insurance to their employees.

I am concerned—especially as the Governor of a Right to Work state—about the December announcement of the National Labor Relations Board announcing its intention to publish in the Federal Register a proposed rule requiring almost all private sector employers to post in the workplace a notice to employees outlining their rights under the National Labor Relations Act. The poster entitled, "Employee Rights" lists seven bullet points that state employees have the right to organize, form or join a labor union and repetitively state they have the right to negotiate their wages, benefits and working conditions with their employer. This is counterproductive and detrimental to the message we are trying to send in Virginia.

Just last week President Obama announced what he called "A 21st Century regulatory system," in which his Executive Branch agencies would seek "affordable, less intrusive means to achieve the same ends-giving careful consideration to benefits and costs." He issued an executive order "Improving Regulation and Regulatory Review"—instructing agencies to begin a retrospective analysis of their existing regulations—and we hope to see burdensome regulations actually repealed as a result.

Mr. Chairman, members of the Committee, I applaud you for bringing this panel together today to talk about this paramount issue: "The State of the American Workforce." In Virginia we are working to keep taxes low, and regulation and litigation to a minimum in order to free our entrepreneurs and job creators to grow their businesses and create the private sector jobs our citizens need. We hope this Committee and this Congress will move aggressively and quickly to remove the obstacles that hinder job growth in our great Commonwealth and nation.

Thank you and I look forward to your questions.

Chairman KLINE. Mr. Messinger.

STATEMENT OF DYKE MESSINGER, PRESIDENT, POWER CURBERS, INC., ON BEHALF OF THE NATIONAL ASSOCIATION OF MANUFACTURERS

Mr. MESSINGER. Good morning, Chairman Kline and distinguished members of the committee. I am Dyke Messinger, President and CEO of Power Curbers, Incorporated, headquartered in Salisbury, North Carolina. We employ 105 people in the United States. We were established in 1953, and manufactured the first automatic curb-building machine in the world. And I have been leading a manufacturing company for 35 years.

On behalf of manufacturers in the United States, I appreciate the opportunity to discuss impediments to job creation because, as we all know, manufacturing does mean jobs. Manufacturing supports an estimated 18.6 million jobs in the United States, about one in six private sector jobs. To put this in context, this is about the equivalent of the entire populations of the five largest cities in the United States: New York, Los Angeles, Chicago, Houston and Phoenix combined.

Manufacturing also means opportunity, innovation, security and economic growth. In my prepared testimony, I lay out a lengthy and, frankly, troubling list of these impediments in such areas as taxation, labor policy, trade, regulation, and innovation. Fundamentally, this should be understood not just as a list of impediments to job creation, but also to U.S. competitiveness.

We live in and operate in a global economy. Every time the Federal Government enacts a new law, tax, or regulation that makes

it harder for a U.S. manufacturer to compete with foreign companies, that is also an impediment to us hiring people.

Change, inconsistency, uncertainty are also impediments. Employers who have no sense of what tax or regulatory policy will look like next year or 5 years from now are going to be cautious about hiring new workers.

The NAM last year developed our manufacturing strategy for jobs, and to make a competitive America, proposing policies that would lift these impediments. I would respectfully ask that this document be included in my submission to the committee.

The strategy sets three broad goals that, if completed, would mean that we achieve the kind of pro-manufacturing policies that encourage the hiring that is so important. We start with the goal that the U.S. will be the best country in the world to headquarter a company. It is critical that our national tax climate does not place manufacturers in the United States at a competitive disadvantage in the global marketplace. A pro-manufacturing tax policy must first acknowledge that when Congress raises taxes, it makes manufacturers in the U.S. less competitive. It is essential that Congress lower the corporate tax rate to 25 percent or lower, without imposing offsetting tax increases, as well as instituting permanent lower taxes for the over 70 percent of manufacturers that are S corporations and file as individuals.

We must also recognize that one of America's great competitive advantages is our dynamic labor market. Employers face growing uncertainty with NLRB efforts to enact the goals of the dangerous card-check legislation through executive action.

Additionally, manufacturers face further regulations from OSHA.

Health care is a pressing concern for all, of course. Above all, health care solutions must contain costs by building upon the existing employer-sponsored health care system without jeopardizing or mandating plan design.

Our second goal is one that President Obama recognized last night in his State of the Union address; that the United States should be the best country in the world to innovate, performing the bulk of a company's global research and development. The R&D tax credit is important to achieve this goal. It has passed and expired more than a dozen times.

This point reinforces my earlier comments about certainty. Business, investors, employers, we all crave predictability and permanence. A little more permanence in all tax policy would be a good thing.

And finally, our last goal is that the United States be a great place to manufacture, both to meet the needs of the American market, and serve as an export platform for the world. Manufacturers rely on overseas markets because the bulk of all U.S. goods and services are manufactured goods. Exports of manufactured goods have driven the 2009 and 2010 economic recovery. I know this well, as my company exports 75 percent of what we manufacture.

Rising energy costs continue to be an impediment to growth and job creation. We need a comprehensive, all-of-the-above energy policy that allows access to affordable sources of energy and promotes reliable generation of baseload power that meets the demands of a growing economy.

Mr. Chairman, members of the committee, I appreciate the opportunity to testify today to provide an overview of some of the many challenges currently facing manufacturers. Thank you very much.

Chairman KLINE. Thank you, sir.

[The statement of Mr. Messinger follows:]

Prepared Statement of Dyke Messinger, President and CEO, Power Curbers, Inc., on Behalf of the National Association of Manufacturers

Good morning Chairman Kline, Ranking Member Miller and distinguished members of the Committee. I appreciate the opportunity to speak with you today about the state of the American workforce, impediments to job creation and manufacturing strategies for jobs and a competitive America.

I am Dyke Messinger, president and CEO of Power Curbers, Inc. Power Curbers is based in Salisbury, North Carolina and employs 105 people in the United States. Power Curbers was established in 1953 and manufactured the first automatic curb machine in the world. I have been leading a manufacturing company for 35 years.

On behalf of manufacturers in the United States, I appreciate the opportunity to discuss impediments to job creation because manufacturing means jobs. Manufacturing also means opportunity, innovation, security and economic growth. Our nation's manufacturing employees are ready to preserve and build upon the greatness built by generations past and by those in manufacturing today.

The United States is the world's largest manufacturing economy, producing 21 percent of global manufactured products. U.S. manufacturing alone makes up 11.2 percent of our nation's GDP. More importantly, manufacturing supports an estimated 18.6 million jobs in the U.S.—about one in six private-sector jobs. To put this in context, this is about the equivalent of the entire populations of the five largest cities in the U.S.: New York City, Los Angeles, Chicago, Houston and Phoenix combined. Nearly 12 million Americans (or 9 percent of the workforce) are employed directly in manufacturing. Manufacturing jobs are high paying jobs, too. In 2009, the average U.S. manufacturing worker earned $74,447 annually, including pay and benefits—22 percent more than the rest of the workforce.

But today's manufacturers face many challenges to our global competitiveness and job creation efforts. Proposals that increase taxes and impose new regulations will make business in the United States less competitive. These proposals will stifle the already weak recovery and destroy manufacturers' ability to create jobs.

Manufacturers need policymakers in Washington to embrace policies and solutions that will ensure that the United States is the greatest place in the world to be a manufacturer and to be a manufacturing employee, because manufacturing means jobs. We must focus on manufacturing strategies that have three key goals:

- to be the best country in the world to headquarter a company;
- to be the best country in the world to do the bulk of a company's research and development; and
- to be a great place to manufacture goods and export products.

The U.S. Must Be the Best Country in the World to Headquarter a Company

Manufacturing today is global and mobile. Companies often enjoy an array of attractive choices when deciding where to locate their headquarters, do their research or build new facilities. While the use of government incentives is commonplace today, a country's or state's business climate itself ultimately determines where a company will be located.

As a springboard for future economic growth, investment and jobs, manufacturers believe the United States must seek to be the best country in the world in which to locate a manufacturing company's headquarters.

To do this, we need a national tax climate that does not place manufacturers in the United States at a competitive disadvantage in the global marketplace. A pro-manufacturing tax policy must first acknowledge that when Congress raises taxes, it makes manufacturers in the U.S. less competitive. Our tax system must promote fair rules for taxing active foreign income of U.S. based businesses. Congress must reduce the corporate tax rate to 25 percent or lower without imposing offsetting tax increases. Over 70 percent of American manufacturers are S-corporations that file taxes at the individual rate. We must institute permanent lower tax rates for individuals and small businesses.

We must also recognize that one of America's great competitive advantages is our dynamic labor market. Companies must move quickly to meet the demands of a rapidly changing marketplace, and the continuing expansion of federal mandates and

labor regulations undermines employer flexibility. In addition, increasing costs discourage the hiring of new employees.

To encourage competitiveness, the United States should reject new federal regulations that dictate rigid work rules, wages and benefits and that introduce conflict into employer-employee relations. We must also support initiatives at the Occupational Safety and Health Administration (OSHA) and other oversight agencies that encourage employers and employees to join in cooperative efforts for safer working environments. Employers' voluntary efforts to meet the needs of individual employees through flexible work schedules and benefit arrangements need to be recognized and promoted.

It is important that manufacturers are able to engage in positive and fair employee-employer relations. As employers, manufacturers face growing uncertainty in the area of labor law—especially from case decisions and regulations from the National Labor Relations Board (NLRB). While manufacturers greatly appreciate that Congress has rightfully recognized the dangers of "card check" legislation, any effort to implement the goals of that misguided legislation would be a threat to job creation. We continue to urge policymakers to uphold the principles of fairness and balance on which our labor laws have been developed for over seven decades.

Congress must also support health care reform that drives down costs. Above all, health care solutions must contain costs by building upon the existing employer-sponsored health care system without jeopardizing or mandating plan design. The health care law passed by Congress in 2010 must be continually assessed for its effectiveness, cost and unintended consequences. Regulations to implement this law must be fully transparent and must not add new employer mandates and costs.

The U.S. Must Be the Best Country in the World to Innovate

Innovation has long helped manufacturing in the United States maintain its global leadership. Between 2000 and 2006, manufacturing productivity increased annually by an average of 3.8 percent, primarily due to innovation and technological advances spurred by research and development (R&D). U.S. manufacturers perform half of all R&D in the nation, which drives more innovation than any other sector. To maintain this competitive advantage, tax provisions must be enacted that will stimulate investment and recovery, including strengthening the R&D tax credit and making it permanent. Manufacturers in the United States need the certainty and incentives provided by a permanent and robust R&D tax credit.

The federal government must continue its focus on basic R&D that expands the knowledge base, spurring private-sector R&D as well as commercial development. Innovation is served by robust funding for federal research agencies as well as financial support for public- and private-sector research.

To ensure that we have the skilled workforce necessary to ensure our economic competitiveness, manufacturers must be able to attract the best talent from here in the United States and from the entire world. Between 1995 and 2005, immigrants founded or co-founded 25 percent of all U.S. high-tech firms. Our nation's immigration rules must allow substantial increases in the number of employer-sponsored visas.

The United States Will Be a Great Place to Manufacture

An effective manufacturing strategy promotes domestic manufacturing that serves the U.S. and the increasingly integrated North American markets. It also supports companies that export and expand abroad to serve foreign markets. Manufacturing shipped a record $5.8 trillion in 2008 ($1.6 trillion in value added) and provided 11 percent of the nation's GDP. Manufacturers rely on overseas markets because the bulk (57 percent) of all U.S. exports of goods and services are manufactured goods. Exports of manufactured goods have driven the 2009-2010 economic recovery which is demonstrated by the fact that 75 percent of Power Curbers product is shipped overseas.

Manufacturers need a level playing field. In today's global marketplace, we are no longer competing only against businesses in our state or region or even the country. We face competition from around the world. Foreign manufacturers often must comply with fewer regulations and have governments that use every tool at their disposal to give those companies a competitive edge, frequently at the expense of manufacturers in the United States.

The solution is to increase access to foreign markets through trade agreements and ensure the regulatory environment in the U.S does not put manufacturers at a disadvantage.

To do this, manufacturers need a progressive international trade policy that opens global markets, reduces regulatory and tariff barriers and reduces distortions due to currency exchange rates, ownership restrictions and various "national champion

strategies." Congress must enact pending trade agreements and the Administration must negotiate additional agreements in the Pacific area and elsewhere. Trade agreements reduce the barriers to U.S. exports and create jobs.

In addition to leveling the playing field on trade, policies must help small and medium-sized manufacturers through expanded programs to help drive U.S. exports.

Manufacturers also need a comprehensive energy strategy that embraces an "all of the above" approach to energy independence that will allow access to affordable energy. Such a policy should encourage production of baseload electricity—the dependable power that is critical to manufacturing processes—including traditional coal, hydropower and natural gas, nuclear and renewable and alternative fuels. Reducing our dependence on foreign energy by increasing domestic supply will help achieve this goal. Congress should allow expanded production of oil and natural gas by lifting the moratorium on Outer Continental Shelf development, and encourage development of shale gas.

Regulatory Environment

Employers across the U.S., especially manufacturers, face considerable uncertainty that stifles economic growth and prevents job creation. Burdensome regulations and government mandates do little to address this uncertainty. A regulatory environment needs to allow economic growth. For laws that affect manufacturers, there are often scores of regulations that impose substantial compliance costs—burdens often never anticipated by the lawmakers who passed the legislation.

The Small Business Administration recently estimated that the annual cost of federal regulations in the United States increased to more than $1.75 trillion in 2008. The portion of these regulatory costs that falls initially on businesses was $8,086 per employee in 2008. This study represents the best research available to identify the disproportionate burden placed on small business by regulation, and it is 36 percent higher than larger firms. Manufacturers bear the heaviest burden from environmental regulation, while facing similar or more stringent regulations in workplace safety, health, transportation, financial, trade, tax administration, homeland security and export controls.

This Administration is in the midst of proposing or implementing numerous regulations. If they are not substantially changed from their present form, they could cost millions of jobs and weaken an economy in a still fragile recovery.

Based on data from the Government Accountability Office, 43 major new regulations were imposed over the previous two years. Collectively, the cost of these rules topped $26.5 billion. Manufacturers appreciate President Obama's recent executive order to review federal regulations harming economic growth. Growing overregulation from Washington harms job creation and stifles economic growth. This call for a government-wide review of regulations and rules is an opportunity for the President to demonstrate results by eliminating unnecessary regulations already in the pipeline or delaying poorly thought-out proposals that are costing jobs.

Some of the most concerning regulatory proposals stem from the Environmental Protection Agency (EPA). At the beginning of this year, the EPA began regulating greenhouse gas (GHG) emissions from stationary sources under the Clean Air Act. While only the largest facilities will be regulated at first, this action sets the stage for future regulation of much smaller sources. Manufacturers are also concerned that states are unprepared for the new permitting requirements, which will cause significant delays. This permitting gridlock will discourage manufacturers from building new facilities or expanding their current facilities, hurting competitiveness and discouraging job creation. Furthermore, additional facilities—including hospitals, agricultural establishments and even the smallest businesses—will be phased into the onerous permitting requirements in the near future.

While we are pleased that OSHA has announced that it intends to withdraw its proposed changes to noise control requirements, manufacturers still face many burdens from this agency. Specifically, manufacturers are concerned with OSHA's plans to make it more difficult for employers to work cooperatively with the agency to comply with workplace safety standards. Through a series of both proposed regulations and sub-regulatory administrative actions, OSHA is in the process of gutting key components of compliance assistance programs that have been proven to help employers make their workplaces safer while allowing the agency to focus its resources more effectively.

Conclusion

I appreciate the opportunity to testify before the Committee today to provide an overview of some of the many challenges currently facing manufacturers. It is my hope that Congress can embrace strategies that enhance our competitiveness and foster job creation. I respectfully request permission to submit a plan created by the

National Association of Manufacturers in June 2010—the Manufacturing Strategy for Jobs and a Competitive America.

Chairman KLINE. Dr. Boushey.

STATEMENT OF HEATHER BOUSHEY, SENIOR ECONOMIST, CENTER FOR AMERICAN PROGRESS

Ms. BOUSHEY. Thank you, Chairman Kline, Ranking Member Miller, Representative Andrews, and everyone on this committee today for inviting me here to speak. My name is Heather Boushey and I am the senior economist with the Center for American Progress Action Fund, and I am glad to be here to discuss the state of the American workforce. Until we fill the demand gap, we will have continued high unemployment which, in turn, will continue to drag our economy down.

Today's high unemployment was caused by the mismanagement of the economy in the 2000s, a financial sector not focused on fostering productive investments and a housing bubble.

We must address these root causes. Creating jobs now means making investments that not only boost employment in the short term, but lay the foundation for long-term economic growth. Jobs will not be created by limiting regulation, repealing the Affordable Care Act or focusing exclusively on the short-term deficit.

Now, the private sector has been adding jobs every month for a full year and at a faster rate than during the 2000 economic recovery. Even with the success of the Recovery Act in boosting job growth, however, at this pace we will not reach 5 percent unemployment for decades. Unemployment has stood at or above 9 percent for a record 20 months, and there is growing evidence that workers may not again find jobs at their prior pay rates. Job losses have been widespread and not only concentrated in the sectors hardest hit by the bursting of the housing bubble.

This directly contradicts the notion that the jobs crisis is a structural program. The continuing slow pace of the jobs recovery stems from insufficient aggregate demand in the overall economy. Gross domestic product has grown for five quarters now, and it is likely we will find out on Friday it has grown again. Much of this growth has been due to the Recovery Act and other policies aimed at addressing the fallout from the financial crisis. Yet our economy continues to have a gap between what our economy currently produces and what it would be producing if workers and the economy's productive assets were to be used at full employment.

About a third of this total output gap is due to the lost wages of the unemployed. Unemployment insurance fills that gap, and that is why it is critical to sustaining the economic recovery and that is why we can't just fill the gap with tax cuts.

Now, investment is the key to creating jobs now and building the foundation for a high productivity future. Even though corporate America is flush with cash, investment is at its lowest level in more than five decades. Yet the cost of capital continues to be at lows not seen since the 1960s, and small businesses continue to point to the problem as being the lack of customers. A lack of demand is their key problem.

Now, we know that we need to spend at least $2.2 trillion over the next 5 years just to repair our crumbling infrastructure. This doesn't even include things like high-speed rail, mass transit, and renewable energy investments, many of the things that the President talked about last night that we need to do to free ourselves from foreign oil and climate change.

Infrastructure investments have traditionally been a bipartisan issue and one that hopefully this Congress can build a bridge across the aisle to address. We should not, however, repeat the mistakes of the Great Depression, or, as it now seems, the conservatives have done in the U.K. with austerity policies that will not create jobs.

The most important reason for the rise in the deficit is rising unemployment and falling incomes. Economists Allen Blind and Mark Zandi have estimated that had Congress done nothing to address the fallout of the financial crisis, the deficit would have ballooned to more than 2½ times as large as it is currently projected to grow.

Moving forward, policymakers like yourselves must continue to ensure that financial markets are focused on their real purpose: making funds available to promote investment in America, not just speculation and greater profits for those in the financial services industry.

Yesterday the Financial Crisis Inquiry Commission clearly placed blame for the crisis on the lack of oversight and regulation of the financial sector. The agencies that oversee the financial markets must be fully staffed and allowed to do their job.

We also need to make sure that if a goal of our trade policy is job creation, then we need to evaluate whether or not these policies that we are pursuing will actually reduce our trade deficit and, on net, create jobs. We know from economic research that local labor markets that have increased exposure to Chinese exports have had high unemployment, lower labor force participation, and reduced wages. And there is not good empirical evidence that shows that the Korea free trade agreement would generate economically meaningful job gains. We need jobs now and we need the kind of investments that will transform our economy and renew long-run prosperity.

Thank you very much.

Chairman KLINE. Thank you.

[The statement of Ms. Boushey follows:]

Prepared Statement of Heather Boushey, Senior Economist, Center for American Progress Action Fund

Thank you, Chairman Kline and Ranking Member Miller for inviting me here today to testify on the state of the American workforce. My name is Heather Boushey and I'm a senior economist with the Center for American Progress Action Fund.

The challenges workers are as great as they've been in generations. The Great Recession has wrought havoc in the lives of millions of families. The policies that will create jobs are those that will increase aggregate demand by making investments that will not only boost employment in the short-term, but lay the foundations for long-term economic growth.

Until we fill the demand gap, we will have continued unemployment, which in turn will continue to drag down economic growth. Unemployment—the ultimate unused capacity—is a terrible thing. Allowing it to fester when you have tools at your disposal to alleviate it sends a message that our government not only doesn't care

about the very real hardships families are facing, but that they don't recognize the enormous waste of human potential.

The real question is whether policymakers will focus on not repeating the mistakes of the Great Depression and, rather, continue to focus on boosting investment until the recovery solidly takes hold.[1] While the immediate imperative is to address in the short-term high unemployment, we must also simultaneously begin to address the deep structural challenges to long-term growth and job creation.

Jobs will not, however, be created by limiting regulation or repealing the Affordable Care Act, nor by creating by cutting spending or focusing on the short-term deficit. And, I would caution you on focusing too much on the short-term deficit. That deficit is not due the result of overspending, but rather due to the failed economic policies and two unfunded wars of the Bush Administration, and the higher costs and lower tax revenues caused by the Great Recession.

The issues facing workers

Today's high unemployment is a function of the reality that there simply aren't enough jobs to go around because there is not sufficient demand in our economy. While the economy has been growing for at least five quarters now, businesses have not yet begun to ramp up hiring. While unemployment creates significant hardships for individual families, it also threatens the nascent economic recovery: the unemployed can't spend what they don't earn and spending is what keeps our economy humming. Thus, there is a direct link between lack of hiring and future economic growth.

High unemployment threatens economic stability of millions of American families

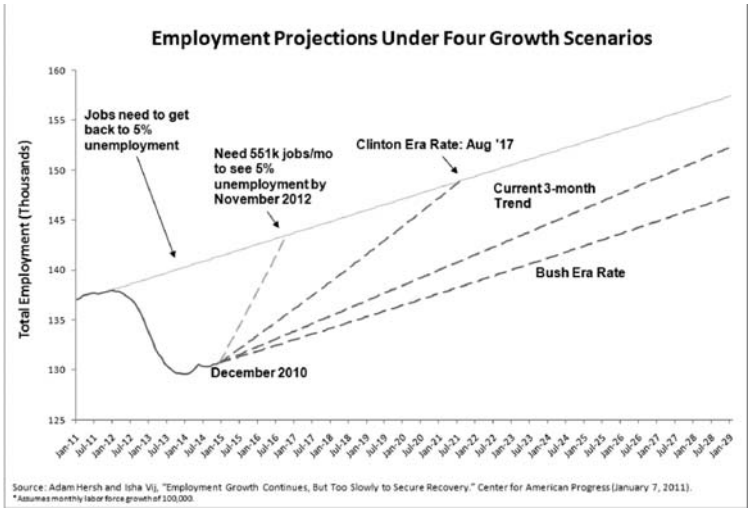
While the recession ended in June 2009, for everyday Americans, there's been no recovery. The private sector has been adding jobs every month for a full year and averaged 128,000 jobs per month over the past three months.[2] This is a faster pace than in the 2000s economic recovery, but at this rate, we won't reach 5 percent unemployment for decades (Figure 1).[3] To get to 5 percent unemployment by November 2012, we'd need to add more than four times the number of jobs that our economy is adding now—551,000 jobs each month.

Unemployment has stood at or above 9 percent for a record 20 months and economists predict it will remain this high at least through 2011. Nearly half of those unemployed have been job searching for at least six months.[4] The odds of finding work continue to look rather grim. For every five people searching for a job, there is only one job available. It's like a sad game of musical chairs: one chair, five seeking a seat. We all know how that game ends.

High unemployment has long-term consequences for workers and their families, as well as our economy overall. The more than 6 million unemployed workers who have been searching for a new job for at least six months are unable to make use of their skills or contribute to our nation's productive capacity. Consider these facts: Average mature workers who lose a stable job will see their earnings fall by 20 percent over 15 years to 20 years,[5] and the labor market consequences of graduating from college in a bad economy are large, negative, and persistent.[6]

Many workers may never find jobs at the level of the job they lost during this Great Recession. Recent data from the Bureau of Labor Statistics has found that as of last year at this time among those who were displaced from their job—permanently losing their job or laid off because their employer's plant closed or business failed—between 2007 and 2009, just half (49 percent) were reemployed. This is lowest reemployment rate on record for the series, which began in 1984. Of those reemployed in full-time work, more than half (55 percent) were earning less than they did prior to displacement.[7]

FIGURE 1



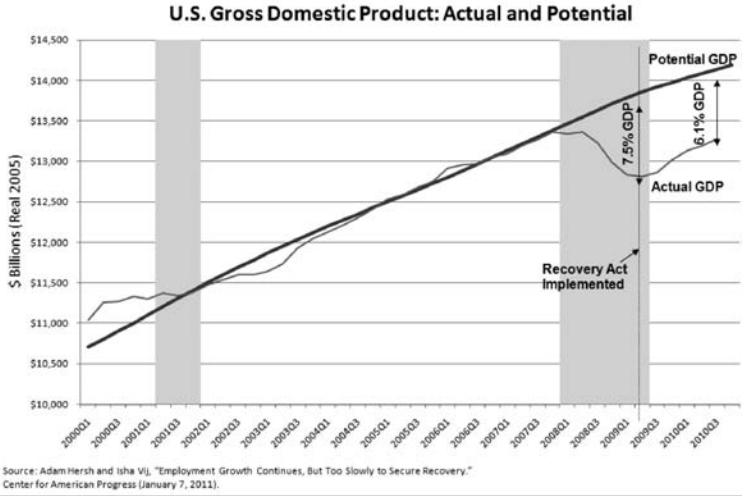
The continuing slow pace of the jobs recovery stems from one factor: Insufficient aggregate demand in the overall economy

Gross domestic product, or GDP, grew at an annual rate of 2.6 percent in the third quarter of 2010, the fifth quarter of positive growth in a row.[8] Much of this growth would not have happened without the American Recovery and Reinvestment Act and other policies aimed at addressing the fallout from the financial crisis.

Yet, our economy continues to have what economists call "excess capacity," which means there is not enough demand for all the goods and services we have the capacity to produce, and thus not enough demand for more workers. As of December 2010, capacity utilization was 76 percent, 4.6 percent below its average from 1972 to 2009.[9] Excess capacity is a technical term that economists use to describe what Americans are currently seeing everyday around them—excruciatingly high unemployment, especially long-term unemployment, and the devastation it causes families and communities all around our nation.

Another way to measure excess capacity is the "output gap," the gap between what our economy currently produces and what it would be producing if workers and the economy's productive assets were to be used at full employment. Currently, the output gap is equal to over 6 percent of our total gross domestic product (Figure 2). This is down from 7.5 percent when growth was at its nadir and just before the American Recovery and Reinvestment Act was passed and signed into law.[10]

FIGURE 2



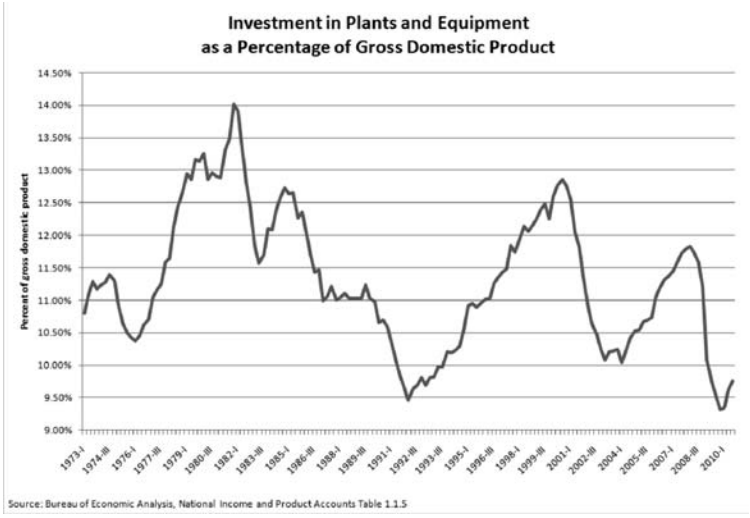
Currently, about a third of the total output gap is due to the lost wages of the unemployed.[11] To put some back of the envelope numbers on this, think of it this way: the typical worker brings home about $40,000 annually and about 15 million are out of work, leaving our economy about $600 billion smaller this year due to unemployment.[12] It's that gap that unemployment insurance fills and why it's critical to sustaining the economic recovery. And, why we can't just fill the output gap with tax cuts.

And, we are now in another jobless recovery, while profits soar. From December 2008 to September 2010, profits in the nonfinancial corporate sector rose in inflation-adjusted terms by 92.0 percent before taxes and 93.3 percent after taxes. In September 2010, profits were at their highest point since at least September 2007, before the recession started. The nonfarm nonfinancial business sector is holding more than $1.9 trillion in cash, totaling 7.4 percent of total corporate assets in the third quarter of 2010—the highest level since the fourth quarter of 1959.[13]

Even though corporate America is flush with cash, investment is at the lowest level in more than five decades. So far in this business cycle, from December 2007 to September 2010, business investment has averaged 9.8 percent of gross domestic product, the lowest average for any business cycle since the late 1950s (Figure 3). This low level of investment is not because of the cost or availability of capital, which continues to be at lows not seen since the 1960s.[14]

Without investment, our resources—the American people—languish in unemployment. A key challenge for policymakers is sorting out how to encourage investment.

FIGURE 3



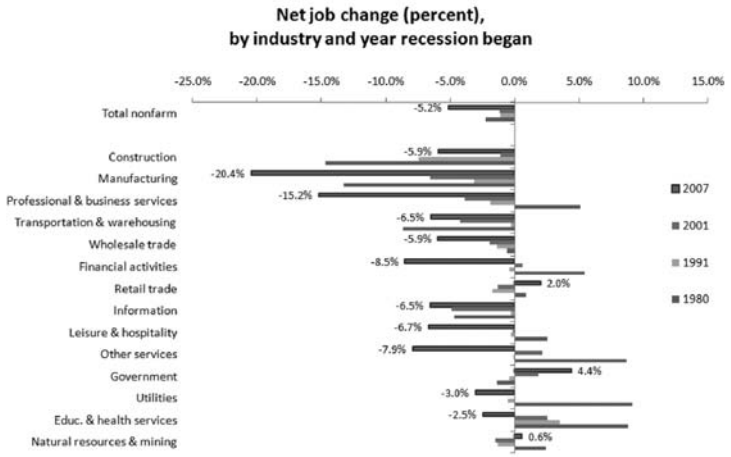
This jobs crisis is not a structural problem

In May of 2007, the unemployment rate was 4.5 percent. Just over a year and a half later, the private sector was shedding 700,000 to 800,000 jobs per month and unemployment continues to linger above 9 percent. For the unemployment problem to be structural, it would have to be the case that our nation's workers and employers all of a sudden become mismatched due to some new set of technological advances that made one in 10 workers instantaneously obsolete. There is no evidence that this has been the case in the years since 2007.

If today's high unemployment were largely about shifting workers out of the sectors hardest hit by the bursting of the housing bubble—primarily construction—job losses would have to be concentrated there. But, this has not been the case. In fact, the Great Recession has seen fairly broad, widespread job losses across industry, which contradicts the idea that there's one or two sectors that U.S. workers need to transition out of (Figure 4). Manufacturing, professional and business services, transportation and warehousing, financial activities, leisure and hospitality, and information services have all lost a larger share of jobs than construction.

Further, if unemployment was structural, the money pumped into the economy through monetary and fiscal policy would lead to higher prices. If more money were chasing a limited pool or workers or capacity, then prices should go up. Yet, in fact what we've seen is the opposite. Over the past year, prices have risen by just half a percent, just barely above deflation.

FIGURE 4



Source: Author's analysis of BLS Current Establishment Survey.

If the problem with unemployment were structural, the primary policy lever to address this is education and training. There are many reasons for policymakers to be concerned about the skills of the U.S. labor force: American students are consistently behind their academic peers internationally. According the U.S. Department of Education, out of 30 peer countries, students in the United States were ranked 30th for math, 23rd for science, and 17th for reading.[15] However, even if unemployment was a structural problem and training and education could solve it, this is not a solution that can address our immediate high unemployment. Setting up those programs, getting workers the skills they need will take time and our economy will not see the fruits of those endeavors for years. Investing in education is critical for our economy, but it cannot solve our current unemployment problem.

In thinking about the challenges facing workers and their families, we also need to remain cognizant of the difference in employment patterns for specific demographic groups. Workers of color continue to experience higher unemployment than white workers and the trends in employment continue to play out differently by gender. Between December 2007 and June 2009, the official timeframe for the recession according to the National Bureau of Economic Research, jobs held by men accounted for more than 70 percent of all the jobs lost. In ten of the past 12 months of job gains, the growth in jobs for men outpaced the growth for women and last summer, women actually lost jobs while men saw small increases. Over 2010, men gained just more than a million jobs, while women gained a paltry 149,000 (Figure 5).

The biggest gains for men have been in professional business services, where men gained 278,000 jobs, compared to 103,000 for women; trade, transportation, and utilities, where men have gained 245,000 jobs, while women lost 74,000; and administrative and waste services, where men gained 231,000 and women gained 137,000. One of the biggest gender gaps in employment trends is in government employment

The aid to the states as a part of the ARRA helped sustain women's employment through the Great Recession, but with the state budget crisis lingering, this could continue to bring down women's employment.[16] Women make up the majority of state and local government employees. Last year, local governments shed 259,000 workers, of whom 225,000 were women. At the state level, women have gained 55,000 jobs and men lost 43,000, but these gains for women were not enough to offset the local layoffs.

FIGURE 5

How did we get here?

Mismanagement of the economy in the 2000s, a financial sector only in service of its own profit rather than fostering productive investments, and a housing bubble all led to the economic disaster in front of us.

The failed economic policies of the 2000s

We now know that the perception of prosperity in the 2000s was in many ways a mirage. The housing bubble and financial innovations and the Great Recession masked deeper structural problems. The housing bubble, rapid growth of the real estate and financial sectors, and debt-fueled growth during the Bush era masked what were otherwise largely negative trends for American workers.

While the economy was growing, American workers were living through a lost decade. The 2000s saw no income gains for the typical American family [17] and saw the weakest employment gains and weakest growth in business investment of any economic cycle in the post-World War II era.[18] For most Americans, wages were stagnant, even though productivity rose.[19] Moreover, over the past two decades, we've seen two "jobless" economic recoveries and, with the exception of a few years in the late 1990s, widening wage and income inequality.[20]

Our labor market has become bifurcated, with fewer and fewer good jobs paying good wages and benefits and growth in employment at the high and low ends, leaving out the middle.[21] This is not a recipe for a strong middle class, restoring economic opportunity, or long-term economic competitiveness. Beyond the Great Recession and its global consequences, this is the great economic policy challenge of our time.

Most women now work outside the home and families have no one available to provide full-time care for children or ailing family members. Coupled with declining prospects for future job growth, this analysis gives a whole new meaning to middle-class squeeze.

The Recovery and Reinvestment Act

Congress has taken important steps to encourage private sector job creation. The Congressional Budget Office credits the American Recovery and Reinvestment Act, or ARRA, signed into law in February 2009 with saving or creating 1.4 to 3.6 million jobs and they estimate that 2.6 million jobs will be saved or created by in 2011.[22] Last summer, economists Alan Blinder and Mark Zandi estimated that the American Recovery and Reinvestment Act and other fiscal policies have saved or created 2.7 million jobs and without them, unemployment would stand at 11 percent and job losses would have totaled 10 million. On top of this, they estimate that if nothing had been done to address the financial crisis—no Troubled Asset Relief Program, no bailouts of American International Group Inc, and no investment in the

auto industry—our economy would have 5 million fewer jobs than we do today and unemployment would be sharply higher, at 12.5 percent.[23]

The ARRA kept teachers in schools and police officers on their beats, even as tax revenues fell. It kept money flowing into the pockets of the long-term unemployed, which in turn has not only helped those individual families hardest hit by the Great Recession, but also helped keep dollars flowing their local communities. It helped unemployed workers access health care, undoubtedly mitigating the well-documented negative health effects of unemployment.

Even with the success of the Recovery Act, there have been clear indications since 2009 that in order to fill in the output gap and lower unemployment, Congress will need to focus on policies that raise, not lower, aggregate demand.[24] As Federal Reserve Chairman Ben Bernanke noted this month in testimony:

Our nation's fiscal position has deteriorated appreciably since the onset of the financial crisis and the recession. To a significant extent, this deterioration is the result of the effects of the weak economy on revenues and outlays, along with the actions that were taken to ease the recession and steady financial markets. In their planning for the near term, fiscal policymakers will need to continue to take into account the low level of economic activity and the still-fragile nature of the economic recovery (emphasis added).[25]

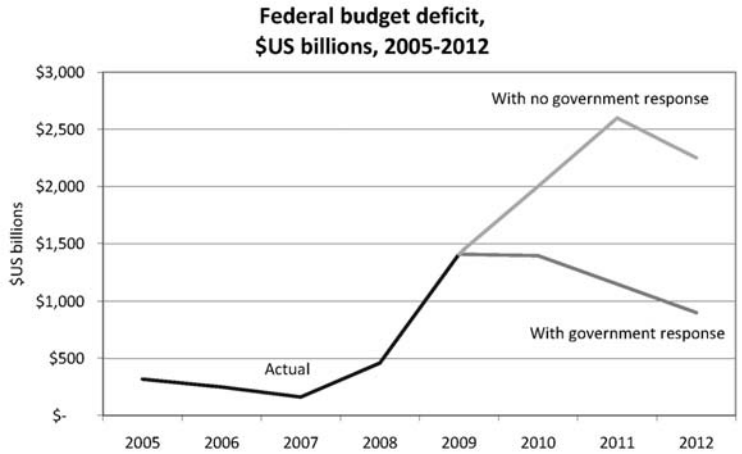
In this Great Recession, sustained government spending until the recovery hits its full stride is the best—and only—option to push the unemployment rate down. Because the Great Recession was preceded by a massive financial crisis, we knew from day one that it was likely to be deeper and more protracted than more recent recessions.[26] We've also known for two years now that the Federal Reserve has no more room to lower interest rates to boost demand.[27]

In other recent recessions, lowering interest rates was sufficient to push the economy toward sustainable growth, but this time it's not possible. The last recession that brought us double-digit unemployment, in the 1980s, was caused by tightening of monetary policy by the Federal Reserve under Chairman Paul Volcker as they were trying to address rampant inflation. The Federal Funds Rate hit nearly 20 percent in the 1981, which stopped inflation, but then also gave the Federal Reserve a great deal of room to lower rates to encourage economic activity. To boost growth, the Fed has pursued quantitative easing, using the proceeds from the central bank's mortgage bond portfolio to buy long-term government debt. That is, they are using unorthodox methods of pumping money into an economy and working to lower interest rates that central bankers do not usually control. Their effect is the same as printing money in vast quantities, but without ever turning on the printing presses.

Yet there is a rising chorus of voices singing the praises of deficit reduction over the benefits of saving our economy through expansionary fiscal policies. Once our economy recovers, of course, the deficit must be addressed, but until unemployment begins to fall and the economic recovery is firmly in train, these voices push us in the wrong direction. Their rhetoric argues that we not burden the next generation with unsustainable debts, but the reality is this: by not boosting demand for goods and services by helping existing excess capacity—the nearly 15 million unemployed workers in our country today—millions of workers will find no means of support today and will see their economic future grows dimmer by the week.

It is important to remember that by taking actions to avert greater unemployment, we averted a bigger federal deficit. The steps taken to shore up our economy have ended up being a better investment for jobs and for the deficit than doing nothing at all (Figure 6). Economists Blinder and Zandi estimated that had Congress done nothing, the deficit would have ballooned to more than 2.5 times as large as it did, hitting more than $2 trillion by the end of the 2010 fiscal year, $2.6 trillion in fiscal year 2011, and $2.25 trillion in fiscal year 2012. In actuality, they estimate that by the end of the 2010 fiscal year, the federal budget deficit will be $1.4 trillion and it will fall to $1.15 trillion in fiscal year 2011 and $900 billion in fiscal year 2012.[28]

FIGURE 6



Source: Congressional Budget Office and Blinder and Zandi, *How We Ended the Great Recession*

The most important reason for the rise in the deficit is rising unemployment and falling incomes.[29] In 2009, federal receipts were $419 billion below 2008 levels, a 17 percent drop, which was the largest decline from one year to the next in more than 70 years. Individual income tax receipts decreased by 20 percent, and corporate income tax revenues plummeted by more than 54 percent, which means corporations paid less than half in taxes than they paid the year before.[30]

To fix the jobs problem, fix the aggregate demand problem

Unlike any point in the decades since before World War II, the challenge of laying the foundation for a strong economy lies with you and this body of government. These are unusual times because it continues to be the case that fiscal policy is the primary lever that the federal government has at its disposal to spur economic growth. I urge you to consider that these extraordinary times call for extraordinary action—continued spending to aid to the long-term unemployed. The sense of imminent collapse of our financial sector, thankfully, now appears behind us, but the fallout for our economy remains and it is just as dramatic and continues to require bold steps.

Let's be clear: An overgrown financial sector, bloated on the real estate bubble it helped create, threw our economy into crisis. Moving forward, policymakers must continue to ensure that financial markets are focused on making funds available to promote investment in America, not just speculation and dividends for those in the financial services industry. We need vibrant capital markets so that innovative companies can access funds to invest; we do not need innovative financial products to allow Wall Street to siphon off these funds for its own gain.

Investment is the key to creating jobs now and building the foundation for a high-productivity future. The American Society of Civil Engineers estimates that we need to spend at least $2.2 trillion over the next five years just to repair our crumbling infrastructure.[31] This doesn't even include things like high-speed rail, mass transit, and renewable energy investments we need to free ourselves from foreign oil and climate change.

The Obama administration has proposed a $50 billion fund, which is a good start, but we need to invest more to both address today's jobs problem and lay the foundation for long-term economic growth. Infrastructure has been a traditionally bipartisan issue and one that hopefully this Congress can build a bridge across the aisle to address.

We also need to make sure that if a goal of our trade policy is job creation, then we need to evaluate whether these policies reduces our trade deficit and, on net, create jobs.[32] Economists estimate that local labor markets that have had increased exposure to Chinese imports have had higher unemployment, lower labor force participation, and reduced wages relative to local labor markets that have not had such exposure. What is notable is that although employment decline is concentrated in

manufacturing, the declines in wages occur across the local labor market and are actually most pronounced outside of manufacturing.[33] The authors note that:

Growing import exposure spurs a substantial increase in transfer payments to individuals and households in the form of unemployment insurance benefits, disability benefits, income support payments, and in-kind medical benefits. These transfer payments are two orders of magnitude larger than the corresponding rise in Trade Adjustment Assistance benefits. Nevertheless, transfers fall far short of offsetting the large decline in average household incomes found in local labor markets that are most heavily exposed to China trade.[34]

There is also not strong evidence that the Korea Free Trade Agreement will generate economically meaningful job gains. The U.S. International Trade Commission, the independent federal body that analyzes potential effects of trade pacts for Congress and the executive branch, estimate that while the Korea FTA would increase exports, it would increase imports even more and result in an increase in the total U.S. goods trade deficit of between $308 million and $416 million.[35] The largest estimated increases in the trade deficit would be in motor vehicles, electronic equipment, "other transportation equipment," iron, metal products, textiles, and apparel.

The unemployment insurance system and other automatic stabilizers must remain in working order. Filling the gap in demand will require continued attention to one of the key sources of demand: high unemployment. Most of the state's unemployment insurance trust funds are insolvent, however, with 30 states' owing a total of $41 billion, a debt that could rise to $80 billion.[36] The loans from the federal government will require that in 2011, 25 states must pay an extra $2 billion in federal unemployment taxes levied on employers, an increase of 30 percent over 2010.[37]

We all have an interest in not seeing the cost of hiring workers rise as firms struggle to ramp up hiring, but we also need to make sure that the unemployment insurance system has the integrity to continue to act as an important automatic stabilizer. Recent analysis shows that this system generated significant positive economic effects and kept unemployment from rising to more than 11 percent.[38]

With a mess like this, creating jobs isn't simple, but there couldn't be a better time to invest in America. Interest rates are low. Wages are low. We need jobs now and we need the kind of investments that will transform our economy and renew long-run prosperity.

Thank you.

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Chairman KLINE. Dr. Holtz-Eakin.

STATEMENT OF DOUGLAS HOLTZ–EAKIN, PRESIDENT, AMERICAN ACTION FORUM

Mr. HOLTZ-EAKIN. Thank you Chairman Kline, Ranking Member Miller, and Mr. Andrews and members of the committee, it is a great honor to be here today.

In my written testimony I emphasized four points. First, that the distress of the American workforce is very real and easy to document.

The second, that the most imperative thing at the moment is to concentrate on pro-growth policies and at every juncture, when faced with a policy decision, ask will this or will this not make it easier for an employer to put one more person on the payroll. With about 6 million employers, if everyone hired 1 person, we would take care of three-quarters of the unemployment problem very fast.

The third is that many of the policies in which we are currently engaged are at odds with that requirement for pro-growth imperatives.

And then the last is that over the longer term, when it is the return to full employment, our workforce will be best served by being better skilled, more flexible and better able to compete internationally, and that this committee is well situated to discuss the K-12

and higher education reforms that would be necessary to pursue that.

Given the limited time that I have, I am going to go very light on number one—not because it is unimportant, the distress is real—and number four, not because it is unimportant, but you already know everything about it and I have nothing really to add here.

I want to focus on the need for pro-growth policies and some of the things that I see on the landscape right now. Pro-growth policies are different than countersystemic cyclical policies, or stimulus in the political parlance. Stimulus is appropriate when the economy is falling, and we can debate the effectiveness of the American Recovery Act, and probably will, as an economics profession, for a long long time.

But that is not the situation in which we find ourselves. We have been growing since the third quarter, a year ago. We are growing far too slowly. It is a growth rate that is consistent with the trajectory of the economy's postfinancial crisis. All the evidence is, there are slow and long recoveries from financial crisis. That places an imperative on raising the growth rate to the maximum amount possible during that trajectory to get people back to work.

Where will that growth come from? It won't be from households. Households have seen their net worth badly damaged. Their pensions aren't worth what they used to be. They are badly in debt. Their homes are underwater in some case. They are not going to spend this economy to prosperity. And if we write them checks, it will be—there is no way to do that to replace their lost wealth. It is a strategy that will fail.

The same is true for governments. Our governments are on red ink everywhere. I applaud Governor McDonnell for avoiding such distress in Virginia, but if you look across the landscape, State and local governments are in deep financial trouble. They cannot be counted on to spend their way to prosperity.

The Federal Government budget is something I am happy to expand on but, put simply, if we pursue the path that is laid out, for example, in last year's administration budget or something that looks like the CBO report released earlier today, we will be downgraded as a sovereign borrower within this decade. And we cannot pretend that we can spend as a sustained mechanism to recover.

That leaves, by process of elimination, the business community and then exports, both of which have to be given every opportunity to power this economy going forward.

What is on the landscape at the moment in that area? Well, we have the fiscal outlook, which is in and of itself a threat to expansion. It is a promise of either higher taxes or higher interest rates in the financial classes in years to come, and the sooner Congress closes that debt by reducing the growth of spending, the better off the business environment will be.

We have on the agenda the administration's commitment to higher taxes. We heard last night about corporate tax reform. I am happy to give a sermon on the virtues of internationally competitive tax policies. But we also have the promise to raise taxes in 2013, including those on small businesses, which are the engines

of job creation in the United States. That is a negative from the point of view of the jobs outlook.

The recently passed Patient Protection and Affordable Care Act is riddled with bad economic policy from the point of view of growth. There are $700 billion worth of new taxes in that act. Those taxes, by any measure, will be passed along to workers in the form of lower wages or fewer jobs. And even the research of Christy Roemer, who was the former chairwoman of the President's Council of Economic Advisors, suggests that discretionary tax increases have the single most powerful negative impact on economic recovery. It is the wrong time to be doing that. There are higher mandates. Employers are going to have to pay the cost of those mandates by again cutting wages or jobs, and higher premiums.

The law, as I lay out in my written testimony, is a recipe for higher insurance premiums, which in the end will hurt employers as they try to hire people.

And the last, which has been mentioned before, is the regulatory environment. 2010 was a banner year for regulators and saw an 18 percent increase in Federal Register pages devoted to regulation. The cost of that regulation ranged from $20 billion, as Governor McDonnell mentioned, to 40 billion by some of our estimates. We can do better in providing an environment in which employers can put workers on the payroll and those workers can receive higher pay as we move forward.

So I thank you for the opportunity to be here today and look forward to answering your questions.

[The statement of Mr. Holtz-Eakin follows:]

The State of the American Workforce

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January 26, 2011

Chairman Kline, Ranking Member Miller, and members of the Committee I am pleased to have the opportunity to appear today to discuss the state of the American workforce. In my testimony, I wish to make a few simple points:

- The distress of the American workforce is palpable;
- Improved pro-growth policies – not more "stimulus" – are the key to a successful policy response;
- There exist currently important policy impediments to growth and job-creation; and
- Over the longer term education reform will be central to the success of the American workforce.

Let me discuss each in turn.

The Employment Picture in the United States

According to National Bureau of Economic Research the recession began in December 2007. Their data show that there were 142.002 million jobs in December of 2007 – the average of payroll and household survey data. In June 2009, NBER's date for the end of the recession, the same method showed 135.257 million jobs, for a total job loss of 6.745 million attributed to the recession. These numbers are quite close to those using the Bureau of Labor Statistics non-farm payroll, which showed a loss of 6.803 million.

There are glimmers of promise. Since December 2009, 1.1 million jobs have been added, bringing the U.S. to 130.712 million jobs. However at the same time, there are 14.5 million unemployed persons in the economy and many more discouraged workers. The peak in the size of the labor force was 155 million in October 2008, and is now estimated at slightly below 154 million.

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* The opinions expressed herein are mine alone and do not represent the position of the American Action Forum. I am grateful to Cameron Smith, Michael Ramlet, Sam Batkins, Annie Hsaio, and Matt Thoman for assistance.

For these reasons, the current unemployment rate of 9.4 percent likely understates the duress. Using the BLS alternative unemployment rate (U-6), one finds that unemployed, underutilized and discouraged workers are 16.7 percent of the total. As evidence of the difficulties, the number of long-term unemployed (27 weeks or more) is currently 6.4 million and accounts for 44.3 percent of all unemployed persons.

The Need for Economic Growth

These data reflect the fact that the U.S. has suffered a deep recession and is growing slowly. Over the course of the past several years, Administrations and Congresses have engaged in a number of counter-cyclical fiscal measures ("stimulus"): checks to households (the Economic Stimulus Act of 2008), the gargantuan stimulus bill in 2009 (American Recovery and Reinvestment Act), "cash for clunkers" (the Car Allowance Rebate System), and tax credits for homebuyers (the Federal Housing Tax Credit). As this Committee is well aware there is an ongoing debate regarding the effectiveness of these measures in mitigating the natural course of the business cycle downturn.

Regardless of the ultimate resolution of that debate, I believe it would be a mistake for policymakers to evaluate future policy from that perspective. The U.S. economy *is* growing, albeit slowly, not declining. Gross Domestic Product (GDP) has been rising since the third quarter of 2009, and employment is up from its trough in December 2009. There is substantial and widespread evidence of an ongoing economic expansion. Accordingly, this is not the time for counter-cyclical "stimulus".

The pace of expansion remains solid and unspectacular. In many ways this is not surprising. As documented in Rogoff and Reinhart (2009), economic expansions in the aftermath of severe financial crises tend to be more modest and drawn out than recovery from a conventional recession.[1] Nevertheless, at this juncture it is imperative that policy be focused on generating the maximum possible pace of economic growth. More rapid growth is essential to the labor market futures of the millions of Americans without work. More rapid growth will be essential to minimizing the difficulty of slowing the explosion of federal debt to a sustainable pace. More rapid growth will generate the resources needed to meet our obligation to provide a standard of living to the next generation that exceeds the one this generation inherited.

Drivers of Economic Growth

Policies focused on more rapid economic growth are the most important priority at this time. In light of this, it is useful to reflect on the four basic sources of growth in

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[1] See *This Time Is Different: Eight Centuries of Financial Folly*, by Carmen M. Reinhart and Kenneth Rogoff, 2009.

final demand for GDP: households, businesses, governments, and international partners.

Households are caught in a double bind of badly damaged balances sheets and weak income growth. As is well known, the collapse of the U.S. housing bubble left many households in mortgage distress, and more broadly diminished the net worth of the household sector. In addition, the financial crisis itself destroyed additional household wealth, with the result that household net worth is now $9 trillion below 2007. The pace of the expansion thus far has yielded modest income growth.

It would be surprising, or even unwise, to expect households to be a robust source of final demand growth. Instead, the best course for households would be to repair their damaged balance sheets as quickly as possible. Policies that support the ability of households to do so while otherwise maintaining their consumption patterns will be the most beneficial. There is little that one-time "stimulus" in the form of tax cuts or transfers contribute to these goals.

Similarly, federal and sub-federal governments face enormous budgetary difficulties, largely due to long-term pension, health, and other spending promises coupled with recent programmatic expansions. Consider the federal budget. Over the next ten years, according to the Congressional Budget Office's (CBO's) analysis of the President's Budgetary Proposals for Fiscal Year 2011, the deficit will never fall below $700 billion dollars. Ten years from now, in 2020, the deficit will be 5.6 percent of GDP, roughly $1.3 trillion, of which over $900 billion will be devoted to servicing debt on previous borrowing.

The budget outlook is not the result of a shortfall of revenues. The CBO projects that over the next decade the economy will fully recover and revenues in 2020 will be 19.6 percent of GDP – over $300 billion more than the historic norm of 18 percent. Instead, the problem is spending. Federal outlays in 2020 are expected to be 25.2 percent of GDP – about $1.2 trillion higher than the 20 percent that has been business as usual in the postwar era.

As a result of the spending binge, in 2020 public debt will have more than doubled from its 2008 level to 90 percent of GDP and will continue its upward trajectory. Traditionally, a debt-to-GDP ratio of 90 percent or more is associated with the risk of a sovereign debt crisis. Indeed, there are warning signs even before the debt rises to those levels.

As outlined in a recent report, the credit rating agency Moody's looks at the fraction of federal revenues dedicated to paying interest as a key metric for retaining a triple-A rating. Specifically, the large, creditworthy sovereign borrowers are expected to devote less than 10 percent of their revenues to paying interest. Moody's grants the U.S. extra wiggle room based on its judgment that the U.S. has a strong ability to repair its condition after a bad shock. The upshot: no downgrade until interest equals 14 percent of revenues. This is small comfort as the CBO

analysis shows 2015 as the year when the federal government crosses the threshold and reaches 14.8 percent, and continues to rise to 20.1 percent in 2020.

The federal government needs to reduce spending growth, control its debt, and do so dramatically. No sensible growth strategy can be built around greater federal spending, or greater government spending more generally.

With households and governments repairing balance sheets, this leaves the business sector spending and net exports at the heart of badly-needed pro-growth policies. Policies toward international trade are important and should be explored vigorously. The United States has been on the sidelines of international trade agreements for far too long. Pro-trade polices should be a bipartisan approach to raising growth and increasing jobs.

Current Impediments to Growth

The Fiscal Outlook

The fiscal future outlined above represents a direct impediment to job creation and growth. The United States is courting downgrade as a sovereign borrower. In a world characterized by financial market volatility stemming from Ireland, Greece, Portugal, and other locations this raises the possibility that the United States could find itself facing a financial crisis. Any sharp rise in interest rates would have dramatically negative economic impacts; even worse an actual liquidity panic would replicate (or worse) the experience of the fall of 2008.

An alternative scenario would be to appease creditors by raising additional revenue. Ultimately, this approach is likely to fail as the potential spending plans exceed any reasonable ability for the U.S. to finance via higher taxes.

In short, the failure to control future spending raises the prospect of higher interest rates or higher taxes, or both. This constitutes a serious impediment to confidence in the outlook in the United States.

The Commitment to Higher taxes

A related policy is the Administration's continued commitment to raising taxes. While the lame duck session of Congress reached an agreement to keep taxes at current levels, the Administration continues to argue that higher taxes are desirable beginning in 2013. The uncertainty over the future of the tax code is a strong policy negative, the promise to raise taxes in the future weighs adversely on employers, and the failure to commit to a sustained low tax environment remains an impediment to stronger growth.

Health Care Reform

Key provisions of the Patient Protection and Affordable Care Act (PPACA) are inconsistent with strong, pro-growth policies. In what follows, I focus on three in particular: mandate costs, administrative burdens, and tax increases.

Employer Mandate Costs
Among the key aspects of the PPACA is its mandate to cover employees with health insurance. Focusing first on those employers with more than 50 workers, beginning in 2014, those firms must pay a penalty if any of their full-time workers receive subsidies for coverage through the exchange. The penalty is equal to the lesser of $3,000 for each full-time worker receiving a premium credit, or $2,000 for each full-time worker, excluding the first 30 full-time workers. The fees are paid monthly in the amount of $1/12^{th}$ of the specified fee amounts. Firms with fewer than 50 employees are exempt from the so-called employer "play or pay" penalties if they do not offer coverage and their workers receive a subsidy in the exchange.

From the perspective of economic performance, the most important point is that the *best* possible impact is that the firm is already offering insurance, no individual ends up receiving subsidies and triggering penalties, and thus costs are unaffected. In every other instance, health insurance will compete with hiring and growth for the scarce resources of those firms.

One might think that the same situation prevails for the smallest firms – those under 50 employees – who are exempt from the coverage mandate. Unfortunately, for these firms, the greatest impact is the tremendous impediment to expansion. Suppose for example that a firm does not provide health benefits. Hiring one more worker to raise employment to 51 will trigger a penalty of $2,000 per worker multiplied by *the entire workforce*, after subtracting the first 30 workers. In this case the fine would be $42,000 (21 (51-30) workers times $2,000). How many firms will choose not to expand?

Proponents of the PPACA like to point toward the fact that small businesses will receive aid in the form of a small businesses tax credit, ostensibly offsetting the burdens outlined above. Unfortunately, the credit is available only for employers with fewer than 25 workers and those in which average wages are under $50,000. Thus, the cost and growth impacts for those with 26 to 50 employees remains unchanged. Moreover, the credit is not a permanent part of the small business landscape. An employer may receive the credit only until 2013 and then for two consecutive tax years thereafter. Thus, the credit is available for a maximum of six years.

Turning to the credit itself, to be eligible the employer must pay at least 50 percent of the premium. The credit is equal to 35 percent of employer contributions for qualified coverage beginning in 2010, increasing to 50 percent of the premium in 2014 and thereafter. The amount of the credit is phased-out for firms with average annual earnings per worker between $25,000 and $50,000. The amount of the credit is also phased-out for employers with between 10 and 25 employees.

The combination of requirements for premium contributions, limitations on employees, limitations on earnings, and phase-outs has surprised the small business community. In particular, the reform's strict definition that a firm is only a small business if it has 25 or fewer employees proved convenient to the legislators who crafted the bill. This narrow definition has led to a number of studies that assert that more than 80 percent of small businesses will be eligible for the tax credit.

Even those studies that recognize the limitation imposed by the 25-employee limit tend to overstate the likely penetration of the credit. For example, the Small Business Majority and Families USA recently estimated that 84 percent of the nation's 4.8 million businesses that employ 25 or fewer employees will be eligible for the tax credit.[2] Unfortunately, the net impact of the credit in offsetting the cost burden of the PPACA will depend not upon *eligibility* but rather on *receipt* of the tax credits. This distinction was noted early in the debate by the Congressional Budget Office. In November 2009 when the law was being considered before Congress, CBO found that, "A relatively small share (about 12 percent) of people with coverage in the small group market would benefit from that credit in 2016."[3]

A more useful study focuses on the estimated number of small firms who would qualify for the small business health insurance tax credit. A recent analysis conducted by the National Federation of Independent Business (NFIB) found that the total number of firms that offer health insurance and pay more than half of their employees' premium costs, as mandated under PPACA, is more likely 35 percent of all firms with less than 25 employees.[4]

In the same way that the mandate provides an implicit tax on growth, the structure of the small business tax credit will raise the effective marginal tax rate on small business expansion. For this reason, the credit may discourage firms from hiring more workers or higher-paid workers. Consider two examples.

In the first, employers will have an incentive to avoid increases in the average rate of pay in their firm. Suppose that the average wage in a small (3 worker) firm is $25,000 and the owner decides to add a more highly paid supervisor being paid $50,000. This will raise the average wages in the firm to $31,250 there by *reducing* the tax credit per worker from $2,100 to $1,596.[5] In effect, the structure of the credit raises the effective cost of adding valuable supervisory capacity.

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[2] See, http://www.smallbusinessmajority.org/ pdf/tax credit/Helping Small Businesses.pdf

[3] See, http://cbo.gov/ftpdocs/107xx/doc10781/11-30-Premiums.pdf

[4] See, http://www.nfib.com/nfib-on-the-move/nfib-on-the-move-item?cmsid=52099

[5] This example assumes the employer contributes $6,000 toward insurance for each employer.

In this example, total credits to the firm are essentially unchanged ($6,300 to $6,384) by raising the average wage. If the new supervisor were paid $75,000 however, total credit payments would fall from $6,300 to $4,368. The lesson is clear in that the structure of the credit can impose large effective tax rates on raising the quality of the labor force for those receiving the small business credit.

Similar incentives affect the decision to hire additional workers because the overall tax credit falls by 6.7 percent for each additional employee beyond 10 workers. This is a very strong disincentive to expanding the size of the firm. Using the example above, suppose that the firm has 10 employees and total credits received were $21,000. The firm's total subsidy will peak at $21,840 with the hiring of the 13th worker. Thus, a firm employing 13 workers would get a total tax credit of $21,840 while a firm employing 24 workers would receive a total credit of only $3,360.[6]

The upshot is that the small business tax credit is a mixed economic blessing. Relatively few firms will qualify for the credit and be able to offset the costs of health insurance. For those that do qualify, receipt of the credit imposes a new regime of hidden effective marginal tax increase on improvements in scale and quality.

Administrative Costs

Perhaps the most expensive and intrusive new cost on small business is contained in Section 9006 of the PPACA. This adds a new information reporting requirement mandating that business will have to issue Forms 1099 for goods purchased after 2011, regardless of the corporate form of the vendor. Vendors of goods will have to furnish, and businesses will have to collect, Tax ID numbers for all aggregate purchases totaling over $600 annually. If a vendor fails to furnish a correct Tax ID, the businesses receiving the goods is required by law to impose back-up withholding at the rate of 28 percent of the purchase price. This means that businesses will now have to keep records of all purchases and keep them sorted by Tax ID.

This costly expansion of administrative requirements has nothing to do with the objectives of health care reform. Thus, it is best viewed as an initiative in tax administration. From this perspective its inclusion is puzzling as neither the National Taxpayer Advocate nor the Treasury Department recommended this 1099 legislation that extends information reports to vendors of goods. The Office of the Taxpayer Advocate is concerned that the new reporting burden, particularly as it falls on small businesses, may turn out to be disproportionate as compared with any resulting improvement in tax compliance.[7]

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[6] See, http://www.ncpa.org/pdfs/ba703.pdf

[7] See http://www.irs.gov/newsroom/article/0,,id=225270,00.html

The health care reform's 1099 provision would apply to businesses of all sizes, charities and other tax-exempt organizations and government entities. Based on tax returns filed in 2009 for tax year 2008, more than 41 million organizations will now need to submit 1099 forms. This will be an administrative nightmare for businesses and non-profit organizations.

Moreover, it is not obvious that the Internal Revenue Service will be able to make productive use of this new volume of information reports. In general, the IRS' document matching system compares amounts shown on a taxpayer's tax return with amounts shown on third-party information reports like the form W2. Under this new provision, the amounts on the 1099 information reports will not match the tax returns.

Thus, from a tax administration perspective, it is exceedingly doubtful that the Section 9006 mandate comes close to making sense from a benefit-cost perspective. However, the greatest concern is the hidden impact of the 1099 provision on the operation of small businesses. For example, small businesses seeking to minimize recordkeeping burdens now have an incentive to use large vendors that can produce Tax ID reports for them. As a result, small business that lack that capacity to track customer purchases may lose customers, leaving the economy with more large national vendors and less local competition.

Tax Increases

The Act raises more than $700 billion in tax revenue from an excise tax on high-premium plans; reinsurance and risk adjustment collections; penalty payments by employers and uninsured individuals; fees on medical device manufacturers, pharmaceutical companies, and health insurance providers; and other revenue provisions. There is no theory or empirical research on job creation that suggests that large tax increases will spur employment. Taken at face value, one should be skeptical that PPACA will not harm the pace of overall economic recovery.

There are two taxes of particular interest contained in PPACA. Section 9015 increases the Medicare HI tax by 0.9 percentage points on wages in excess of $200,000 ($250,000 for couples filing jointly, $125,000 for married individuals filing separately), and also applies to self-employed earnings.

Sec. 1402 of HCERA imposes a 3.8 percent Medicare contribution tax on individuals, estates, or trusts of the lesser of net investment income or the excess of modified adjusted gross income over the threshold amount. The threshold amount is $250,000 for joint returns, $125,000 for married filing separately, or $200,000 for any other case. Both taxes are effective for taxable years beginning after 2012.

The first point to note is that these taxes have nothing to do with Medicare finance. While gross inflows may be credited to the HI trust fund, these dollars will finance the expansion of the new insurance subsidy entitlement program.

The second point to note is that these taxes apply to the labor and investment earnings of pass-thru entities taxed through the individual income tax. Thus, they are targeted at precisely the same group of individuals most likely to be business owners or entrepreneurs. The Joint Committee on Taxation projects that $1 trillion in business income will be reported on individual income tax returns in 2011. Notably, of that $1 trillion, roughly one-half, $470 billion, will be reported on returns that are likely to be the new surtaxes.[8]

This has the potential to impact employment. According to the Small Business Administration, there are almost 120 million private sector workers in the United States. Slightly more than half those workers, 60 million, work for small businesses. About two-thirds of the nation's small business workers are employed by small businesses with 20 to 500 employees. According to Gallup survey data conducted for the National Federation of Independent Business (NFIB), half of the small business owners in this group fall into the surtax brackets. This means there is a pool of more than 20 million workers in those firms directly targeted by the higher marginal tax rates. This is likely a conservative estimate as it ignores flow-through entities with one to 19 workers.

A final tax impact of the PPACA is that the impact of phase-outs of refundable credits may have even more perverse growth consequences. As noted in Brill and Holtz-Eakin (2010) the phase-outs in insurance subsidies contribute to high effective marginal tax rates.[9] The effect is to raise to as high as 41 percent the effective marginal tax rate on some of the lower-income U.S. workers. This has implications for the ability of families to rise from the ranks of the poor, or to ascend toward the upper end of the middle class. This growth and mobility is the heart of the American dream and is the most pressing issue at this time.

The Regulatory Environment

The year 2010 displayed tremendous federal regulatory activity. During a period of persistently high unemployment, federal agencies were more than prolific, proposing a record number of regulations, and at a record cost for the U.S. economy. The legislative measures passed this past year and their subsequent implementation will continue to dominate the regulatory environment. New Dodd-Frank

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[8] The Joint Committee on Taxation analysis does not take into account the impact on small, non-publicly-traded "C" corporations. There are several million of these entities, which will likely be adversely affected by the marginal rate increases on ordinary and capital income.

[9] Brill, Alex and Holtz-Eakin, Douglas, "Another Obama Tax Hike." *Wall Street Journal*, February 4, 2010. See also, Douglas Holtz-Eakin and Cameron Smith, "Labor Markets and Health Care Reform, 2010.
http://americanactionforum.org/files/LaborMktsHCRAAF5-27-10_0.pdf

regulations, Net Neutrality, and the EPA's CO_2 framework kept federal regulators busy in 2010 and 2011 appears to be little different.

The *Federal Register* published 82,590 pages in 2010[10], an historic high. This figure was an 18.5 percent increase from 2009[11], and up almost 11 percent since 2007[12].

The number of pages doesn't tell the whole story of the impact regulations have on businesses and consumers. For example, according to the U.S. Small Business Administration[13], the total regulatory burden in 2008 was $1.75 trillion, or roughly 12 percent of the nation's total economic output.

In 2010, the federal government promulgated 2,401 proposed rules, 3,562 new rules, of which 673 were considered significant. According to the Office of Information and Regulatory Affairs (OIRA), there are 136 major rulemakings (averaging at least $100 million) under review.[14] Calculating the total cost of these regulations can prove difficult even for the individual agencies, as they routinely request comment from industry experts.

When the federal government does provide and estimate, the total cost might seem small in isolation. But combined with thousands of other regulations, and the economic impact on businesses and consumers can become onerous. For example, in the last quarter of 2010, the total cost of proposed or enacted regulations (including regulations proposed by Congress) exceeded $43.8 billion, according to Forum calculations. This figure only includes the conservative agency estimates that tabulate recordkeeping burdens and costs of compliance.

The Heritage Foundation[15] has also conducted research on Fiscal Year 2010 regulations. According to their calculations, the total cost of enacted federal regulations was $26.5 billion, the highest ever recorded. The EPA's onerous new rules on carbon regulation, among many others, accounted for the lion's share of the total, $23.2 billion.

In addition, onerous cooling water rules regulating power plants could cost thousands of jobs in the energy sector. By next year, the EPA is likely to finalize cooling water intake regulations that could affect up to 252 gigawatts of generation

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[10] http://www.gpo.gov/fdsys/pkg/FR-2010-12-30/pdf/FR-2010-12-30.pdf
[11] http://www.gpo.gov/fdsys/pkg/FR-2009-12-31/pdf/FR-2009-12-31.pdf
[12] http://www.gpo.gov/fdsys/pkg/FR-2007-12-31/pdf/FR-2007-12-31.pdf
[13]http://docs.google.com/viewer?a=v&q=cache:910Pe1MSaCgJ:www.sba.gov/ADVO/research/rs264tot.pdf+%22the+impact+of+regulatory+costs+on+small+firms%22&hl=en&gl=us&pid=bl&srcid=ADGEESgnKjwH2t_hcPMeJXecfZ15xOnHz4Z5TJkAT8KhYWe0-Ud5ywi2tvTc_Yo8Pjz94KCQYg9nvWiK5FI6E
[14] http://www.reginfo.gov/public/
[15] http://www.heritage.org/research/reports/2010/10/red-tape-rising-obamas-torrent-of-new-regulation

capacity. To put this figure in perspective, the new EPA regulations could force the closure of the Mirant power plant in Alexandria, VA, which produces approximately 484 megawatts. Thus, EPA action could affect up to 500 Mirant-sized power plants.

The EPA was not alone, however. 2010 showed activity by several regulatory agencies. The Federal Communication Commission's unilateral attempt to impose so-called "net neutrality" is a key rule in 2010; legal challenges will make it almost impossible to implement fully in 2011. According to industry expert Bret Swanson, if net neutrality results in just a ten percent decline in IT infrastructure investment, it could cost the U.S. economy more than 502,000 jobs.[16]

Similarly, the passage of Dodd-Frank and its initial implementation will also put regulatory pressure on businesses and consumers in 2011.

Improving the Long-Run Quality of the Workforce

The Challenge

As is now well-understood, skills are central to labor market success. And for the nation as a whole, labor market success rests on an education system that aims for the highest standards and regularly delivers workers prepared for a lifetime of work characterized by skill acquisition and occupational mobility.

Unfortunately, student achievement in the United States lags behind the rest of the industrialized nations, and is falling further behind. In the United States, there are predictable gaps in achievement based on wealth and ethnicity. New solutions and innovative policies are needed to address this growing crisis. Pouring more money into the existing system alone will not be a successful solution.

The U.S. is not meeting the challenge of international competition. The Organisation for Economic Co-operation and Development (OECD) found that in 2006, America ranked 25th out of 30 industrialized countries in math and 24th in science. Moreover, cross-country comparisons of US students at two different ages – either 9-10 or at age 15 – suggest that as the young get closer to joining the labor force, the further they lag behind their international counterparts in reading, math, and science.

Within the United States, overall achievement is too low. Of 100 children born in 1983 who started kindergarten together in 1988, 30 of them would not have graduated on time in 2001. Of the 70 who would have graduated, 50 would start college, and just 25 of those 100 kindergartners would have a college degree by

[16]http://www.google.com/url?sa=t&source=web&cd=3&ved=0CCAQFjAC&url=http%3A%2F%2Fwww.nyls.edu%2Fuser_files%2F1%2F3%2F4%2F30%2F83%2FDavidson%20%26%20Swanson%20-%20NN%20Economic%20Impact%20Paper%20-%20FINAL.pdf&rct=j&q=swanson 502%2C000 %2

spring 2007. On average, students of color have a much lower, 50 percent, likelihood of graduating. Of those students of color who do graduate, they typically exit high school with the functional equivalent of an 8th or 9th grade education.

Furthermore, in higher education, the OECD also found in 2006 that the U.S. ranked 12th in higher education attainment among industrialized countries in the world, ranking higher than only six other nations.[17] The college dropout rate, as defined by taking more than six years to graduate, is also more than 40 percent.[18] Higher education needs to address issues of access, affordability, and improvement of quality and accountability.

The trends across countries and over time are not explained by spending. In 2004, U.S spending (measured as a percent of GDP) ranked 3rd out of 34 OECD countries. U.S. spending is almost 7.5 percent of GDP. Similarly, in 1983, total spending on K-12 education in the U.S. was $118.4 billion. If spending had increased only at the rate of inflation, spending would have been $246 billion in 2005. Instead, the U.S. spent $499 billion – about double the inflation-adjusted amount in 1983. The increase is not just due to more students; per-student spending grew from $5,691 in 1983 to almost $9,266 in 2005, after adjusting for inflation.

And what has been the result? Student performance as reported by the National Assessment of Education Progress (NAEP) on reading and math has remained essentially flat. Our educational system is getting the same output for an increasing cost – the system is 40 percent less efficient.

Principles for Better Performance

I believe we would be well served to adhere to the principles of excellence through competition and specialization. One way to think of this is to permit choice to work in many sectors at once: the traditional district sector, the district choice sector (magnets and open enrollment), the charter schools sector, and the private choice sector. Each of these sectors has a role to be played, and by embracing all of them in a co-existing model, we can greatly expand the number of effective models for students. The job is to create policies that allow for innovation without falling prey to the notion of a one-size-fits-all classroom.

In light of this, it is encouraging to see a bipartisan interest in building on the reforms of the No Child Left Behind law to improve K-12 education in the United States.

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[17] See, http://www2.ed.gov/about/bdscomm/list/hiedfuture/reports/pre-pub-report.pdf
[18] http://nces.ed.gov/programs/digest/d09/tables/dt09_331.asp?referrer=list

But there are good reasons to go slowly and make sure it is done right. Accountability has three facets. First, as noted above, I think it must be built upon a foundation of increased opportunity for school choice. An example of how school choice has been effective is looking at the DC Opportunity Voucher Program which was congressionally mandated to be evaluated by the Institute of Education Sciences (IES) before the program was eventually cut. Results showed that the program raised a student's probability of completing high school by 12 percentage points, from 70 percent to 82 percent, and that there was an increase in parent satisfaction of student education.[19] Every school will be more accountable if failure for students means failure for the teaching bureaucracy. Second, it includes state-level efforts, such as those in Florida that graded schools and energized parents to demand improvements in subpar performers. Finally, it includes oversight of federal programs to ensure that the taxpayers' dollars are used effectively.

Second, Members will need to take some time to find out what is happening on the ground. This is especially true given the large influx of nearly 100 new House Members and Senators who will need to get up to speed on the facts in an area where urban legend often rules.

For example, how did states and localities spend the billions of dollars in stimulus funding (nearly $100 billion) and "EduJobs" ($10 billion) funding, including the Obama Race to the Top initiative? Many states passed laws over the last year to improve their charter school laws and to change the way they compensate high performing teachers in order to be competitive to win one of the Race to the Top grants. The Race to the Top winners are only just now beginning to implement the reforms described in their applications. Are these reforms effective? Are they good models for others states? Given the importance of identifying and rewarding quality teaching (and – the mirror image – identifying and eliminating low-quality teaching) these are questions that must be answered before taking the next steps.

Third, as Congress takes steps to improve the Elementary and Secondary Education Act, the top priority is to make sure it keeps students, parents, teachers and communities first, as they are on the front lines and most able to improve student achievement. This requires serious outreach, not the kind of Washington-centric, ram-it-through-before-they-catch-us mentality that has prevailed the past two years.

Finally, as members of Congress scrutinize the current law and digest the new reforms taken by states and localities, it must first and foremost ensure that that reauthorization balances the federal and local roles. The voters have made clear their distaste for federal overreach. Thus, for example, mandating that states adopt Common Core (curriculum) Standards in order to receive funds is a step in the wrong direction. Instead, states should have the freedom to take this step on their own. At the same time, pretending that 100 percent local control would work is to

[19] See, http://newswire.uark.edu/Article.aspx?ID=14329

de facto condemn the very students who need freedom from their failing schools. Getting this balance right will take time.

Conclusions

The American workforce is under serious distress as a result of the most recent recession out of which we are only slowly growing. More rapid growth – in the form of repaired balance sheets, reduced federal spending and pro-growth policies – is essential to the labor market futures of the millions of Americans still out of work. Immediate hurdles to growth and job creation include the dire fiscal outlook of the US; the higher taxes promised in 2013; the mandates, administrative burdens and tax increases promised in the health care reform; and the ever-increasing regulatory rulemakings.

Despite the impediments, there remains room to improve. Education reform – using education dollars more effectively, increasing choice and improving measures of accountability – is central to the success of the American workforce.

Members of the Committee thank you for the opportunity to be here today. I look forward to answering your questions.

Chairman KLINE. Thank you all for your testimony. We will move now to questions from the members. We will be abiding by the 5-minute rule here. I don't have the same reservations about the gavel for my colleagues as I might for the witnesses. And we will try to get as many questions in as we can. And, again, I am mindful of the fact that members are having to leave as they look at their flight schedules shifting. You may see people taking a look at their BlackBerries and discovering that they have to leave even sooner. And so to give members a maximum opportunity, I am going to delay my own questioning and turn on my side to Dr. Bucshon.

Mr. BUCSHON. Thank you, Chairman. I am going to direct this question to Governor McDonnell. Thank you all for coming. We appreciate it. I am from Indiana and the Daniel's administration has estimated that the expansion of the Medicaid program, if 100 percent of the people sign up, may cost the State as much as $3.6 billion. I am going to make a few comments about Medicaid and what it does to access to health care, and then I will ask you a question about what your options are, what you see as the State's options if we can't get around that type of a mandate.

As a physician, the Medicaid programs in many States already are severely strapped for funds. In fact, a neighboring State of mine, they run out of money in September or October every year. And from a provider's standpoint, from a hospital or a physician, you basically have to re-bill the State later on, of which a good portion of that is further written off. What this has done across the country is it severely limits access to health care for Medicaid patients because providers won't take them or they limit the amount of time that they have available in their day to see these patients. So at a time when we are trying to expand health care coverage for Americans, the Medicaid program, in my view, will expand coverage; but if you don't have anybody to take care of you or that will accept what you have, then that doesn't really help you very much.

The other thing I would like to comment on is our strapped emergency rooms. Across the country already, as everyone knows, emergency rooms already are overcrowded with long wait times, and statistically this population of folks are the highest utilizers of emergency room services. So if you see that in your public hospitals in your States, a massive expansion of ER utilization at a time when we are trying to control health care costs, we are going to have the opposite effect.

So my question, Governor, is from your State's standpoint, what do you see as the options for the States if they have to come up with this extra money? What do they do with their public hospitals for funding? How will it affect your overall budget at your State? Will it cause tax increases at your State? And just give me kind of a general overall view of what you see this particular portion of the health care bill will affect you.

Governor MCDONNELL. Well, thank you Congressman Bucshon. We have looked at that and, of course, while my State is in litigation, we still know that with the clock ticking to 2014, we still have to take the prudent steps to build exchanges and do the things to implement the law.

Let me give you a pre-health-care reform view of Medicaid in my State, and this is across the board with other Governors as well. Medicaid spending in Virginia has gone from—it has increased 1,600 percent in the last 27 years. It has gone from consuming 5 percent of the budget to now 20 percent. Other States are already in the high 20s, 27, 28.

We are a relatively low-coverage State, and so with the impact of the Federal health care reform, we will have a precipitous increase in the Medicaid population in our State, such that we estimate by over the next 10 years it will—Medicaid spending in Virginia will go up even that much more and consume close to 30 percent of the budget. And that is about $2 billion of increased spending for Medicaid, unfunded from the Federal Government, by the year 2022.

So we are looking at ways now to implement these requirements from the Federal law in a way that is least bureaucratic and most efficient. I have got initiatives before our general assembly this year to look at far more use of managed care across the spectrum for all health services, including mental health, more generics, copays, but also more education.

You mentioned the issue of the overuse of the emergency room, which is the most expensive place to get medical care by this population, so education is obviously a part of it. But there is a tremendous budget-busting concern, I believe, of every Governor in the country about the growth in Medicaid on its own, plus the Federal mandate, with the new legislation growth and what it is going to do. So we are struggling to find ways to reduce Medicaid spending in a way that still keeps a healthy, quality, safety net but doesn't break the bank on spending and force cuts in other areas or pressure more tax increases.

It is a timely question. We don't yet have the answer and, ultimately, depending on what the courts decide on this measure, and what we can implement in our legislatures for reductions, that will make a difference.

The one last thing I would say, Mr. Chairman, is I know you have gotten letters from a number of us Governors asking you for some consideration on flexibility with the MOE requirements. For us to be innovators in our State governments and to find ways to implement this law and also to keep the costs of Medicaid as low as possible, we have got to have some relief from some of the mandates, from some of the MOE requirements, more flexibility.

I talked to Governor Daniels, in fact, yesterday about this issue. I think we will probably have another letter to you coming on this exact subject to say, Please, as long as this is the law, at least provide us more flexibility on how we can implement creative cost-cutting measures in Medicaid so that we can control our populations and our costs a little better.

Chairman KLINE. Thank you, Governor. The gentleman's time has expired. Mr. Andrews.

Mr. ANDREWS. Thank you, Mr. Chairman. Thank the ladies and gentlemen of the panel for excellent testimony.

The President said last night, and I think we should all embrace the goal you have reiterated of working together to foster an environment where entrepreneurs and businesses can create jobs for the people of our county.

And Mr. Messinger, I wanted to thank you for taking time away from your family and your business. You are a very effective advocate for your beliefs as a small manufacturer. And I wanted to ask you just retrospectively for a minute, do you think that Congress did the right thing when we passed the TARP bill?

Mr. MESSINGER. I happen to think that the TARP legislation was excellent. A quick story: I happened to go see Congressman Coble who had voted initially against it, and requested that he please vote for it. And I don't know if it was just my showing up, but others too on the telephone, I think it stabilized our country.

Mr. ANDREWS. I appreciate your advocacy efforts. I agree with you. And I think it was an important step forward and I appreciate you saying that, both previously and now.

Governor, welcome. It is not an easy time to be Governor. I sure do know that. And I wanted to ask you about an initiative that you have launched that sounds a lot like some of what we have heard the last few days around here, which I understand is a $4 billion transportation investment program for the Commonwealth of Virginia. And if I understand it correctly, you are expediting some bonds the Commonwealth already issued, I think to the tune of like 1.8 billion or so. And then you are proposing to borrow 1.1 billion and support that debt service with Federal payments from the transportation trust fund.

Two questions. One is, you know, there is consideration of reduction of discretionary domestic spending by 25 percent. Would you ever want to see us exempt the transportation trust fund from that 25 percent, or would you want to see us do the 25 percent cut?

Governor MCDONNELL. Obviously, that policy is very similar to yours. What I can say is that I think infrastructure investment in Virginia and America is one of our top priorities, especially for us in Virginia. You have probably driven around the southern part of the Beltway and understand what congestion does to the quality of life.

Mr. ANDREWS. I was actually parked on the southern part of the Beltway.

Governor MCDONNELL. I increased the speed limit to 70 miles an hour last year. Some in Northern Virginia said, We would be happy going 30.

Mr. ANDREWS. Seventy miles a day would be pretty good in Northern Virginia.

Governor MCDONNELL. But I would say to you that infrastructure investment is critical. I honestly think it was a lost opportunity to the degree that the stimulus policy was the right thing to do, there was very little money in there. Only about 6 percent of your total spending was there. That would have been nice. But I do think that, given the posture we are in, for us to use debt responsibly for the mortgage-like infrastructure is prudent, and I think we are going to get that done.

Mr. ANDREWS. I agree. I do think that is one of the areas we should avoid, that 25 percent. And I want to square that comment with Mr. Holtz-Eakin's testimony. And please forgive me if I mischaracterize what you say, or misunderstood, Mr. Holtz-Eakin, but I think you said that further stimulus at this time is ill-advised. And it seems to me the kind of transportation investment the Governor is supporting in Virginia, using Federal funds, is that kind of stimulus. Do you disagree with him about that point?

Mr. HOLTZ-EAKIN. Infrastructure can be a central part of the supply-side economics where you get good long-term growth as part of the productivity of the Nation. What I would urge you to not do is judge it by construction jobs created. If we look back and somehow judge the construction of the interstate highway system by the construction jobs created, we would have missed its economic importance completely.

Mr. ANDREWS. Using that litmus test, what would you think about the expansion of high-speed rail, like the President proposed last night?

Mr. HOLTZ-EAKIN. The thing I would most urge you to do is before you start looking at the dollars, you start looking at the quality of the programs. I participated for the past 3 years in something known as the Bipartisan Policy Center's national transportation policy project. And I won't belabor you with the findings. It is a bipartisan project. We have a bigger report called Performance Driven, all of which suggests that before you spend a dollar, you have to take the hundred or so programs in the Department of Transportation and turn them into something that generally has a Federal rationale and is motivated on economic growth.

Mr. ANDREWS. What about high-speed rail? Do you think it fits that litmus test or not? Do you agree with the President or disagree?

Mr. HOLTZ-EAKIN. I would probably disagree at this point because the notion that you should pick a mode—we should not, you should not care how it gets done. You should care what gets done.

Mr. ANDREWS. What do you think would have a higher priority, then? Which program would be better?

Mr. HOLTZ-EAKIN. That which from a national perspective most improved national connectivity. Whether it is from a port to a rail or from a port to a passenger will differ in parts of the country,

and to pick a single mode, high-speed rail, is to actually get the formulation of the policy wrong.

Mr. ANDREWS. So transportation investment based on economic productivity is something you support.

Mr. HOLTZ-EAKIN. Yes.

Mr. ANDREWS. Thank you very much. I yield back.

Chairman KLINE. I thank the gentleman. Dr. Heck, you are recognized for 5 minutes.

Mr. HECK. Thank you, Mr. Chairman. And also I would like to thank the panelists for braving the elements and taking the time to be with us this afternoon.

My question is for the Governor. I represent southern Nevada which has the dubious honor of having the highest unemployment rate in the Nation right now with 14.9 percent, estimated that actual unemployment is about 22 percent. But I am intrigued by Virginia's ability to be the fourth best in job creation and having an unemployment rate that is, you know, at ninth in the country, showing that there is still opportunity for success even in these tough economic times. I realize the demographics between Virginia and Nevada are very different.

But Governor, if you were to pick one or two policies or programs that you could state had a significant effect on your unemployment rate and lowering it and creating jobs, what would those be? And likewise, were there any policies or programs you tried which you found were not successful?

Governor MCDONNELL. I guess I would like to answer in part where I started with my remarks is there are certain fundamentals to economy and job creation and recruitment of entrepreneurs and innovation for small business that I think are universal, and that is keeping an environment where taxes and regulation and litigation are low. And the President frankly commented on all of those last night: that he wanted to see spending reform; keep taxes low; discretionary spending freezes; regulatory reform; medical malpractice reform. I mean, he said a lot of the right things last night that, if you all will work on that, I think are going to do some good things.

We have tried to do that. For instance last year, we were faced with a $4.2 billion budget deficit. Some had proposed halving that with a tax increase of $2 billion, the largest in Virginia history. We said no. We made the tough decisions. We have cut spending $4.2 billion and now we have got 5 percent-plus revenue growth, robust job creation numbers, and we have a $400 million surplus. I think those kind of physical principles is what I would say is the foundation.

And then secondly is, you have got to be aggressive. The American dream is still well and alive, but you have got to be able to reach out to the entrepreneur and the small business person in particular and show them why coming to your State is going to make a difference for them; 71 or so percent of all the jobs in America are still created by that small business person, under 250 jobs or so, and they have unique challenges; and a lot of them are the tax policies and the regulatory policies that inhibit them from getting started and then staying in business. Sixty percent fail within the first 5 years, and the number one reason is bad manage-

ment. The number two reason is government interference, taxes, regulation, litigation, et cetera.

So I think those fundamentals are universal and we have found a way for a while, frankly, with Democrat and Republican Governors to keep that formula in place and it is working.

Mr. HECK. Mr. Chair, if I may. Were there any programs or policies that you put into place that you found might have been detrimental to your job creation and job growth, things that you would advise others to avoid?

Governor MCDONNELL. Well, of course, I would say the flip side is the tax increases. We had our largest tax increase back in 04 and we didn't fare too well after that. Of course, some of that was the global economic downturn.

But I would say that the programs that are used—and we have created some—and my response to Mr. Andrews earlier, we have created some that are targeted at things like mega sites and corporate tax credits to come to Virginia, particularly in the tech and manufacturing sectors. And I have an opportunity fund of essentially flexible money for me to make offers for businesses to come here, as most States do, and frankly, a lot of foreign countries, particularly the Pacific Rim has now. So that is part of the market right now.

But if it is just corporate giveaways without targeted ROI analysis aimed at your core strengths, then I think you will waste money, and we have probably done a little bit of that over the years. So I think that is the key—strategic, targeted investments in those things that are going to grow on your core competencies in your State, and then be aggressive telling your story.

Mr. HECK. Thank you, Governor. Thank you, Mr. Chair. I yield back.

Chairman KLINE. Thank you. Mr. Scott.

Mr. SCOTT. Thank you, Mr. Chairman. And Governor, as a resident of Hampton Roads, spending a lot of time up here in Northern Virginia, I am looking forward to those transportation improvements.

You referred to your Top Jobs of the 21st Century Initiative. And the President talked last night about there is a close correlation between education and jobs. Can you tell me what it is going to take to create 100,000 new degrees over the next 15 years, a total of 6,000 a year. That is a lot of students. How are we going to do that?

Governor MCDONNELL. First, we have got to be able to get the universities to grow the pie and expand the number of degrees that they offer. UVA has been the first taker; 1,400 new degrees they are going to offer over the next couple of years. Right now, only 38 percent of the kids in Virginia can actually go to a Virginia university. So we have got enormous physical plant—only 38 percent of Virginians that are applying to college can actually go to a Virginia college. That is the limits on our capacity. About 42 percent have a college degree, but 4 percent or so of those earn those out of State. But we have to be able to use the enormous physical plant at our universities, weekends, summers, et cetera, to expand the opportunities.

Secondly, there is enormous potential with the Internet for distance education, having partnerships between multiple universities, which we now see in Virginia, to use virtual learning experiences. And they have to focus, Congressman, I believe on the STEM areas.

The President mentioned that last night. I think he is absolutely right. That is where our future competitive disadvantages will occur compared to the Pacific Rim countries and other emerging countries that get that and are graduating more engineers and scientists per capita than we are. But I think we have to realize, then, that universities can't be all things to all people. We may not need 43 different degrees in, let's say, philosophy. But we need a lot more in science and medical schools and engineering.

So what it is going to cost in Virginia, I am investing about $75 million by cutting other things out of the budget and reinvesting it in these core priorities of transportation and higher education. But it is going to take a sustained investment to create about 1,000 new degrees over a year.

Mr. SCOTT. Now, the President mentioned education past the high school level. All of that won't be 4-year degrees. Are you focussing also on vocational educational opportunities?

Governor MCDONNELL. Yeah. I think that is exactly right. There are a number of great paying jobs, not only in Virginia but around the country, that a 2-year certificate in welding or firefighting or a 2-year associate's degree will earn you. And that is why I think the focus on workforce development is critically important. It is probably the number one or two thing people ask for when they want to come to Virginia: What kind of educational establishment do you have? How well trained are your workers? Because in the long term, that is what is going to be able to sustain their growth.

Mr. SCOTT. From a jobs perspective, you faced, as all States did, significant budgetary challenges last year. Can you indicate what the revenue sharing part of the stimulus package did to your budget and how many fewer people you had to lay off because you got money from the stimulus package?

Governor MCDONNELL. Well, I think certainly the components dealing with education and the Medicaid funding certainly were helping us in plugging some of the holes that we had, although, you know what? If I didn't have it, I would have asked for more cuts. We cut $4.2 billion. Another billion, we would have found a way to do it, but it certainly lessened the blow in the short run.

Mr. SCOTT. Well, if you had cut a billion dollars out of the State budget, that would have had employment implications, would it not?

Governor MCDONNELL. It would. But I tell you what, virtually all the claims that were made were vastly overblown. We did some cuts to education. Your money that you provided last year helped to plug some of that. But the estimates were laying off 30,000 teachers. In essence, it really came out to be less than 1,000. And I will tell you why. When you give people less resources and you tell them to do more with less, our dedicated employees at the State and Federal level will do it. They will be more entrepreneurial, they will be more innovative, they will be more efficient.

And that is what happened in Virginia, Congressman, is we didn't have nearly those kind of layoffs. And of the job creation—maybe this will help answer your question. Of the job creation numbers that I have mentioned, about 60,000 net new jobs created over the last year in Virginia, only about 15 percent of those were public sector jobs.

Governor MCDONNELL. The rest of them were all private sector jobs.

Mr. SCOTT. Do you count government contracts like a road project as a private job or a public job? Although it is paid for——

Governor MCDONNELL. No, I don't know how they are counted. I assume they are counted probably as private sector jobs because they would contract those out.

Mr. SCOTT. Mr. Holtz-Eakin, you know in the 1990s we had great budget surpluses being developed and many jobs. In the 2000s we had a bad budget and bad jobs. Was that a coincidence?

Mr. HOLTZ-EAKIN. I think that there are many more complicated explanations of that. We also had a dot-com bubble in the late 1990s, early 2000s, that drove Federal receipts and probably the primary factor on top of some severe budgetary stringency in the late '90s that drove the budget to surplus. 2000 was littered with some bad economic shocks that. Attacks on the U.S. directly, Sarbanes-Oxley, scandals, Enron, WorldCom. We have had a number of impacts both on the up and the downside over that period, and there is no simple explanation for the performance.

Chairman KLINE. The gentleman's time has expired. Mrs. Roby.

Mrs. ROBY. Thank you, Mr. Chairman. My question is for Governor McDonnell. Being from another right-to-work State, could you explain more about how it has either helped or hindered the economic growth in increasing jobs during a recession? And are there any specific lessons or insights that you could share with the committee as it relates to that?

Governor MCDONNELL. Of course there is another 22 right-to-work States, and I have the privilege of being Governor of one of them. And it just obviously makes the opportunities and the flexibility for management that much greater in how they control their workforce.

It is one of the top selling points that I use when I ask companies to come to Virginia. We recently had Northrop Grumman moving their corporate headquarters to Fairfax County. The largest data center in Microsoft's history I believe is coming to Mecklenburg County this year. And one of the things that I tell them about why they ought to come here is because they will be able to have maximum flexibility under our law to control their workforce, set their policies.

And so I think that is a critical selling point. I mentioned the card check bill. We were strongly opposed to that in Virginia, almost unanimously. Almost every business organization in Virginia sent letters and lobbied against that when you considered that in a last couple of years because we thought that would be a significant undermining of a key asset for our State and yours, Congresswoman, as well for expanding jobs and creating opportunities that reduce costs.

Mrs. ROBY. Thank you. I yield back.

Chairman KLINE. Thank the gentlelady for setting that example. Ms. Hirono, you are recognized.

Ms. HIRONO. Thank you, Mr. Chairman. My first question is for Governor McDonnell. I completely agree with you that more of the stimulus money should have gone for infrastructure support for our States and counties. It is good that you have that perspective.

Would you support the Federal Government putting more money into supporting infrastructure development for our States and counties?

Governor MCDONNELL. Not if it adds a penny to the debt or the deficit. That is the overriding concern that I hear from people in my State. And you have to understand it is a foreign concept, honestly, for a Governor. I think all but—49 States have a balanced budget amendment. We do not understand deficit spending very well because we are not allowed to do that under our Constitution.

So I would say if you would reset the priorities and make some of the tough choices even in entitlements. Essentially that is what we did in Virginia last year with health care and education and things that are quasi-entitlements in our State. We cut, and it worked out pretty well. People did more with less, with smart decisions. If you retargeted that into infrastructure, I think that would be a good thing. That is real new jobs.

The Federal Government has estimated that $100 million in transportation construction supports about 3,000 jobs. That is a significant return, not only in getting something done but also in job creation.

Ms. HIRONO. So as long as it does not add to the deficit, then you would be all for it? Is that a view that is shared by your fellow Governors of the other 49 States?

Governor MCDONNELL. I think we do believe that to the degree that you discern in Article I, section 8 that it is the responsibility of Congress at all to get into transportation. Perhaps under the general welfare clause.

Ms. HIRONO. The jurisdiction of this committee.

Governor MCDONNELL. If you deem that to be a proper role of the government, then I would say that these infrastructure investments in partnership with the State governments are something that is a top need for States and for our Nation. You have heard the stories obviously about roads, bridges, other infrastructure crumbling, 60, 70 years old. Something that I am focusing on, as I said to Mr. Andrews earlier here.

Ms. HIRONO. It is clear in our country that we are trillions of dollars behind in supporting our infrastructure.

You noted in your testimony that one of the areas that you would like Congress to focus on is the burden of regulation and you cite to the Heritage Foundation report that focused on 43 significant new rules. And I have a copy of that report. It is called Red Tape Rising. And one of the regulations that was focused on by the Heritage Foundation is one that has to do with crane and derrick safety standards to prevent cranes from falling into buildings and killing people, which is what was going on. If you read the regulation, the Heritage Foundation focused on the cost of the regulation, which it is true about 150 million, but when you look at the benefit side of the equation it actually saved 209 million.

So if you were just doing a simple cost-benefit analysis then the savings or the benefits would exceed the costs. But you know when you are talking about saving lives, I would say that that should have been even heavier on the side of the benefit side.

So my question is are you aware whether the Heritage Foundation took the offsetting of the benefits into account when they cited to these 43 rules and the costs of those rules?

Governor MCDONNELL. I can't tell you. Under your analysis I think there are qualitative aspects after you do the cost-benefit analysis just on dollars, then there has to be some good management judgment applied. So perhaps in your analysis or your example that might not be one we might all embrace. But the macro point is that if this is the largest number of major new rules at 43 that has promulgated since 1981, there is a problem. And I have the same problem in Virginia. When I was Attorney General we did a regulatory reform task force for 2 years and we had a similar standard that is what President Obama just put in his executive order. And that is that if there is a better way to do it that respects the free market, that reduces cost, then we ought to look at a different way of doing it and we got rid of about 350 pages of regulations. I have got 24,000 pages left.

Ms. HIRONO. I agree with you. I am not a big fan of unnecessary regulations either. But there is also a danger when you do the cost-benefit analysis that we really have the full package.

Going on to Mr. Messinger, did you say that you thought the stimulus bill was a good thing? Did I hear you correctly?

Mr. MESSINGER. I think the question was on TARP.

Ms. HIRONO. What did you think of the stimulus?

Mr. MESSINGER. I think parts of it were very helpful. I will give you an example. Our customers are highway contractors and they, and I think the rest of the country, expected more infrastructure money to come out of the stimulus.

Ms. HIRONO. I am with you on that.

Mr. MESSINGER. Okay. And as a result our customers put off purchases of new equipment because they didn't see any certainty to what was going on. So we didn't see a huge benefit for our business out of the stimulus.

Chairman KLINE. The gentlewoman's time has expired.

Ms. HIRONO. I am so sorry. Thank you very much.

Chairman KLINE. Mr. Thompson, you are recognized.

Mr. THOMPSON. Thank you, Mr. Chairman. Thanks to the panel for being here and lending your expertise today.

Governor McDonnell, my question has do with workforce in an area that we haven't touched on specific to your State; concerns offshore oil and gas development off of Virginia's coast. As I understand it, the President announced that Virginia's lease sale 220 would be included in the current 2007-2012 5-year plan and then following the Deep Water Horizon accident the administration withdrew the sale. Did Virginia play a role in making that decision not to move forward?

Governor MCDONNELL. No, we didn't. I will say with respect to the administration we did play a role in the initial decision that the President made in March to authorize Virginia lease sale 220 to go forward. We were delighted and we thought the President

made the right decision. I had a number of conversations with Secretary Salazar and meetings with him in advance, and I was delighted with the administration's decision to allow us to go forward as the first State on the East Coast to drill for oil and natural gas.

The Secretary did call me shortly about an hour before the President made the decision that he was pulling the plug, frankly indefinitely, on offshore exploration. I told the Secretary that I appreciated the call but it was short-sighted and reflected no confidence in the Federal Government to be able to properly react to this disaster in the Gulf and no confidence in the ability of American industry to create the new technology that was necessary to react. And I didn't think we ought to give up and write off an entire industry that could create tremendous capital investment and jobs at this time in America and that I was very disappointed.

Mr. THOMPSON. Given that sounds like a unilateral decision on the part of the administration, have you made any estimates as to the economic impact exploration might have for the State or frankly the potential job growth that could be associated with the industry?

Governor MCDONNELL. Congressman Thompson, there were several estimates by various groups that have been made over the last couple of years. Some of the problems dealt with the fact that because the ban had been in place for so long that the seismic studies were largely outdated and so there is so much better technology to know better what is out there. And I would say that a couple of the more reputable estimates indicated about 1,900 to 2,600 jobs over the next 10 years, about $10 billion in capital investment, and about $250 million in revenue sharing. And that would assume that Congress would allow offshore drilling off the Atlantic Coast to have the same revenue sharing deal that the Gulf States have, which is about 37.5 percent. If we got something like that sharing it with Virginia, it would be significant new revenue.

In fact, I had a bill passed the last session of the general assembly approving offshore drilling and dedicating 80 percent of that new revenue from offshore drilling to transportation infrastructure. So we were ready to go with the President's announcement. Unfortunately, now that is not the case.

But what we do know is that it is an extraordinary opportunity. We don't have great beaches just like they do on the Gulf Coast. I don't want to drop a well on those beaches. We understand the need to be slow and prudent, but not to pull the plug indefinitely as I understand where we are now where Virginia really does not have a shot for an indefinite period of time.

Mr. THOMPSON. You mentioned the beautiful beaches in Virginia. Do you believe that the oil and natural gas exploration in the Atlantic could coexist not just with the beautiful beaches, but obviously the presence of the Navy in that area?

Governor MCDONNELL. We do. And I think national security ought to take the first priority. We have got the greatest naval base in the world in Norfolk, Virginia. It is a great source of pride for us in Virginia. We have had some discussions with some of the leaders down there about their operations to discuss what areas might need to be off limits and what areas could still be used for offshore exploration of gas, oil, or wind without affecting naval op-

erations. We have the same issue with Wallops Island, the spaceport off of the Virginia-Maryland coast. But I believe those industries can coexist very well with offshore energy exploration.

Some areas would have to be off limits, but some can still be used and I think that is just a matter of logistics. My concern is writing off the industry indefinitely because of clearly a disaster of significant proportions. But when you have 4,000 oil rigs that have been working reasonably well for 40 years and then to throw in the towel on the industry, that does not seem like the American way. We are better than that. And that is what I expressed to the Secretary, and I hope Congress would consider taking some action maybe to move this along a little bit quicker.

Thank you.

Mr. THOMPSON. Thank you, Chairman.

Chairman KLINE. The gentleman's time has expired. Mrs. McCarthy, you are recognized.

Mrs. MCCARTHY. Thank you, Mr. Chairman. Ms. Boushey, listening to the testimony, one of the things I think is missing is we are hearing everybody saying the job killing effects of Federal regulation. And yet when you look at this chart, the brown area is basically during the Bush years and they had deregulation. During Obama's 2 years we had regulation, yet we had job growth.

Can you explain the difference between the regulation and deregulation and why we have job growth during those years?

Ms. BOUSHEY. Thank you. That is an excellent question, and it does underscore that that can't necessarily be the answer to what was going on with jobs necessarily. Two things that I would point out on the regulatory front. First of all, the Recovery Act was not necessarily a bunch of new regulations but was a bunch of spending designed to spur economic growth and to spur job creation, which clearly it did. It has been significantly effective.

And I very much enjoyed some of the conversation on this panel talking about how we should have spent more of that money on infrastructure. My understanding of the political process was that a lot of—about a third of that money went towards tax cuts that did not have the biggest bang for the buck that those infrastructure dollars would have had. So that is something the next time this comes around I hope this conversation comes back up and we can spend all of that money on infrastructure.

But the second piece that we need to note when we are thinking about regulation is of course when we are talking about regulation it is a wide array of different sorts of themes and different things that the government is doing. One piece—and again I would point to the report that came out yesterday from the commission that studied the financial markets and what happened. It was the lack of regulation that actually caused this whole crisis to begin with.

And so when we are talking about this as if it was some sort of monolith, I would like us to just focus for a moment. The reason we saw these massive job losses was because we weren't doing our job regulating the financial markets, and that is something that looks like is going to come up again in this Congress, whether or not we are going to make sure that the money is there to fund the agencies to do that regulation, to hire that staff to do that.

One thing that I always sort of note when you look at the fantastic people that do government service, those folks who are doing the regulating in those agencies are folks like you that are not making the big bonuses trying to regulate this very large industry with a lot of money at its disposal. But we need to make sure that those agencies are fully funded.

I hope that answers at least part of your question.

Mrs. MCCARTHY. Last night the President talked about the infrastructure of this country and many of us, probably many of us sitting here and in certainly some of the other committees, happen to think of putting more money into the stimulus for infrastructure. I can talk about the great State of New York. You know, our bridges, roads, basically are falling apart. States don't have the money to do it. The high unemployment rate with our union contractors and our union laborers. So I happen to think that is where we are going with it.

On the financial, I think people are starting to forget because the economy is coming back now. The Dow went over 12,000 today, and that is something that everybody has been looking for. But with that being said, we had a slow economy as far as getting people back to work because people were still holding their money. And as far as saying there are too many regulations out there, when you think of all the tax cuts we gave to those particular corporations to be able to buy equipment, to be able to have a tax write-off going down 5 years on equipment that they bought, I don't think people actually understand what we have been doing. And if you have any answers to that, that would be great.

Ms. BOUSHEY. I would like to comment on infrastructure and needing to do more. Where I live here in the District of Columbia I have seen a small business owner across the street from me have to deal with three different water main breaks that has closed down his business for a number of days at a time. One of the things that we haven't heard enough about in this infrastructure conversation is how important these investments are, especially for small- and medium-sized businesses who can't relocate as easy as the big multinational can to a State with a better infrastructure to deal with it. But the traffic, the kinds of things that we were joking about earlier, that has a real impact on economic growth.

And so making those investments will certainly boost jobs and boost employment, but it is also good for small business, even if it is not directly employment. It is helping them to do their business better.

Mrs. MCCARTHY. Extremely important for small businesses. I live in Mineola, Nassau County, Long Island, New York. Most of our villages are 50 to 100 years old and the pipes are all 50 to 100 years old and we have already had reports of many of the mains breaking. They have no money and they can't even do the roads because there is no sense doing the roads until the mains are fixed. So it has been a round robin. That hurts our small businesses and that hurts downtown. And those revenues basically go into the villages to keep up the upkeep as far as they can. So I agree with you on that.

And I guess what I would say, too, also, if right-to-work States—I happen to think it is a problem mainly because one of the things

when you talk about OSHA, they haven't been aggressive enough to make sure that our people aren't getting injured. The amount of injuries and the amount of deaths in this country because of workplace violations, shall we say, and we have seen those statistics and yet in my opinion it does not matter what administration has been there, they have not enforced the laws that are already on the books.

Chairman KLINE. The gentlelady's time has expired. I am going to take this opportunity to ask—take a little bit of time and ask some questions.

Mr. HOLTZ-EAKIN. Mr. Chairman?

Chairman KLINE. Yes.

Mr. HOLTZ-EAKIN. With all due respect, I want to make the record to correct——

Chairman KLINE. I am going to start with you. We have multiple competing things here. Let me go to you, Dr. Holtz-Eakin, because I know that you wanted to say something about the regulatory issues.

Mr. HOLTZ-EAKIN. I wish mostly to make sure the record correctly reflects that I am a sitting member of the Financial Crisis Inquiry Commission. I have served for nearly 2 years and I appreciate the honor of the appointment. The commission will not report until tomorrow at 10 a.m. So anything that Ms. Boushey may believe about the findings of that commission are premature. There is no public release of the document. I don't know what she is referring to. I would ask members to read the complete report and the additional views by all members before drawing any conclusions.

Chairman KLINE. Thank you. I am going to continue to ask questions. I will yield just a moment for a unanimous consent request.

Mr. ANDREWS. I ask unanimous consent to include the statement of Congressman Kucinich in the record.

Chairman KLINE. Hearing no objection, so ordered.

[The statement of Mr. Kucinich follows:]

Statement and Questions Submitted From Hon. Dennis J. Kucinich, a Representative in Congress From the State of Ohio

I thank the Chairman for holding this important hearing on the state of the American workforce.

We know from our constituents that they are hurting. In my home state of Ohio, the unemployment rate is at 9.6%. In October of 2010, there were 588,000 individuals in the State of Ohio who were forced to rely on unemployment insurance benefits to keep their heads and their families' heads above water. And nationwide, according to the Department of Labor, nearly 8.3 million Americans were receiving unemployment compensation as of early November. The recession has pushed America's middle class to the brink. Families across America are hanging on by their fingertips.

Many are blaming the dire state of America's workforce on small businesses regulations, unions, pension obligations, the health care bill, and even China. In my home state of Ohio, there is a movement to eliminate collective bargaining rights for home health care and child care workers, and to restrict the bargaining rights of police officers and fire fighters. I want to say clearly: targeting the right of workers to organize is no solution to our continuing economic crisis.

Placing the blame on workers or on regulations ignores one of the main reasons for job loss in the United States: free trade policies. We have actively pursued policies that have shipped American jobs overseas and left our domestic manufacturing sector in shambles. We are here because we all agree we must do more to ensure that American industries, as a foundational part of our economy, remain strong.

Some of the witnesses today have spoken about the effect of regulations on small business. Yet they neglected to mention the free trade policies that give the same U.S. business incentives to close local factories and ship their production and jobs overseas for cheap labor.

Question: In your testimony, Ms. Boushey, you make a very important point that I would like to highlight to the other members of this Committee. As you know, the President is urging Congress to approve a free trade agreement with South Korea that the Administration recently negotiated. You state in your testimony:

> There is also not strong evidence that the Korea Free Trade Agreement will generate economically meaningful job gains.

Ohio's economy was already struggling long before the current recession hit. According to the Bureau of Labor Statistics, Ohio lost approximately 430,000 manufacturing jobs from 1990 through July of 2010.

So it seems that the "free trade" is actually a complex class war in which US CEOs who move their manufacturing to other countries are among the winners, and US workers are among the losers.

Question: Ms. Boushey, would it be correct to say that one of the main effects of free trade policies is to incentivize US corporations into taking advantage of cheaper foreign labor by moving jobs to those other countries?

So would you agree that the evidence is that free trade policies do not automatically increase employment, as some claim?

Second Question: Ms. Boushey: I am particularly concerned with the bleak budget situation faced by state and local governments, who are the backbone of service to Americans. When our constituents turn to help from their government, they are most often using a state or local government service. In your testimony, you sound the alarm that funds from the President's Economic Stimulus program (the American Recovery and Reinvestment Act) has prevented the employment level of women from dropping, and that this support is running out. You state in your testimony that last year, local governments in this country cut 259,000 workers, of which 225,000 were women, offsetting some modest statewide government increases in employment of women. You state in your testimony that we need policies that create jobs and measures to increase aggregate demand and lay the foundations for economic growth. And I know that this means, among other efforts, a big movement to repair and replace infrastructure in this country. It is correct to say that in the area of infrastructure investment, it is not that the private sector does not want to invest in massive infrastructure projects but that they simply do not have the resources to do so?

Chairman KLINE. Put me on the clock. I am going to try to mind my own regulations here. It is a little bit of a challenge sometime.

I want to continue with you, Dr. Holtz-Eakin, for just a minute. You mentioned trade, and I think the Governor may have as well. What impact do you think that the year after year delay of enacting the free trade agreements that have been sitting in front of us has had on economic growth and job creation?

Mr. HOLTZ-EAKIN. I think they are unambiguously bad. If you look at the Colombia free trade agreement, for example, it is already the case that Colombian companies have free access to American markets. The only thing that signing that agreement would do would be to allow U.S. workers through American companies to have the same access to Colombian markets, and we are sitting on the sidelines giving up the opportunity to sell these products abroad and create jobs in America.

It also sends the signal to our international competitors that we will not be at the table and we are not an important country to negotiate with and we get bypassed in other opportunities to expand our access to trade. 95 percent of the world's consumers are outside of our borders. Those are the markets our children will sell into and each day that we are on the sidelines we harm our future.

Chairman KLINE. What about, we talk about regulations. What about other regulations that may exist that are getting in the way or causing U.S. jobs to go overseas in this regulatory environment?

Mr. HOLTZ-EAKIN. Every business location decision is a weighing of the value of the business proposition: What do I get in the way of a skilled labor force, the capacity to produce, and low taxes, low regulation, low litigation. We have at the moment a range of regulatory initiatives that are quite threatening to the business community. The EPA has five separate rulemakings at the moment ranging from the mercury rule to greenhouse gases under the Clean Air Act, intake for clean water; all are estimated to be quite expensive. Some will have dramatic impacts on particularly the electricity generation industry and that affects the manufacturing. So this is not in and of itself an explanation of anything but it is another piece of a puzzle that says if you want to create jobs do not create barriers over which businesses have to leap.

Chairman KLINE. Okay. One more question. We have voted a number of times in this Congress to extend unemployment benefits, as we have had historically high unemployment continually month after month. And we hear an argument that Dr. Boushey mentioned and others have said that continuing these unemployment benefits is good for the economy. Fills the gap, I think. I am trying not to put words in her mouth. Do you have some observation on the effects of extending these unemployment benefits?

Mr. HOLTZ-EAKIN. It is a complicated issue. The first thing is to recognize what dominates anything is getting a job. And so the premium should be put on all the factors that create pro-growth policy environment.

The second would be that at some point you no longer are doing unemployment benefits. This is not a temporary bridge between jobs. You need to have effective education programs for workers to move into new industries, because they are not temporarily unemployed and we should recognize that.

The third is that the extension is not unambiguously a good thing. Economics is in the end a calculus of benefits versus cost and there are costs to extensions of unemployment insurance, including harm to the worker's skills themselves. Lots of evidence suggest that the longer someone is on a UI program the less likely they are to be employed and when employed at lower wages. And so in the research literature you find unemployment insurance extensions associated with continued high unemployment. Reduced extensions actually do lower the unemployment rate. And in some cases that is a benefit to the worker by getting them back into the labor force before their skills deteriorate.

Chairman KLINE. I was going to move to the Governor but I can see that I am going to run out of time. I think an important message there is that we have workers now who are simply never going to go back to the job, maybe even the industry where they were employed. And so worker training and education is going to be an important part of what we look at.

Thank you. I see I am about to run out of time. And Ms. Woolsey.

Ms. WOOLSEY. Thank you, Mr. Chairman. I am concerned that because of this new found fever to cut regulations we might have

an open season on any regulations a Member of Congress or the business community doesn't like regardless of its merits. So let's be very careful that that is not where we go with all of this. The everything-on-the-table approach is quite worrisome because it has the potential to undermine rules meant to protect workers, rules that took decades to achieve.

So as the President stated in his speech last night, we have to keep common sense regulations that protect people, even as we do away with rules that may in some way hinder job growth. The fact of the matter is that if more regulations had been on the books and government regulators had done their jobs, we may have averted the housing crisis that jump-started the recession in the first place. It should be clear to all of us that some areas of the economy need to be highly regulated. Complying with regulations should not be an excuse for failing to create jobs. And as the President pointed out last night, corporate profits are at record highs. Corporate profits are at record highs and the stock market is booming. United States businesses are sitting on nearly $2 trillion in cash. They need to start spending some of that money and making investments necessary to get our economy moving again.

So this brings me to questions to you, Dr. Boushey. You are quoted and you have said in your statement that we need to find and fill the demand gap, that women—which I am assuming means that women and minorities have to be trained and educated and prepared for the jobs that we have available in our country now and jobs of the future.

But what we are finding out and we do find out that most women are already working outside of the home and their families and they are struggling. Not only finding a job that pays a livable wage—not only finding a job but finding one that pays a livable wage but also affording to work in the first place, including child care.

So what would be your recommendation that this—how can they contribute to balancing work and family—not just for women but for all workers—with these profits they are sitting on? What would you do to ensure a better workplace?

Ms. BOUSHEY. Thank you, Congresswoman. I appreciate the question. There is a couple of things. Certainly first and foremost there is a lot of the great companies out there that are already doing a lot for their employees in terms of their families and in terms of workplace flexibility. There is a lot of opportunity for other companies to learn from that and to do more and the White House has had an initiative this year and they are going out to places around the country and talking about flexibility and what companies can do and doing some community forums. I think that is number one.

Number two, as we have seen the budget crisis play out in the States, we have seen a lot of things that help them keep their jobs be some of the first things on the chopping block. Child care assistance, home health aides, after school programs. These are things that not only disproportionately employ women but also help families and provide the care they need and do their jobs. And one of the tragedies—there are so many tragedies of this great recession, but one of them is that as we have seen job losses at State level

and a quarter of million job losses at the local level over the past year, that has disproportionately affected women workers. So making sure that that those items are not always the first on the chopping block is something that we can think about.

If I may just digress for just one moment, I did want to add one thing about the unemployment insurance system, which is that we do know that it is not from the conversation earlier, a lot of the economics, the bulk of the economics research shows that people who get these benefits, they need them and this has had the biggest bang for the buck relative to almost any other program we have. A recent report from the DLS shows that it has been about $2 into the economy for every $1 spent on those programs. I would just venture to say that we do need to continue these benefits until the unemployment rate comes down and not have them be sacrificed in the name of short-term deficit cutting. But I will let you continue your questions.

Ms. WOOLSEY. Well, thank you very much. I have just a short question if I have time for the Governor. You mentioned regulations and the importance of the oil industry in the Gulf Coast area. There were regulations that are safety regulations that were ignored that had something to do, of course, with the deaths and the destruction that occurred. Would that cost jobs if those regulations had been in place or do you think there are some regulations we should be stricter with and about?

Governor MCDONNELL. Yes, ma'am, absolutely. I don't think anybody is advocating some arbitrary 30 percent across-the-board reduction. There should be a targeted strategy. We mentioned some of them. The President did in his executive order; That is, essentially does the cost of compliance and the cost of enforcement, does it far exceed whatever the benefit is from a public safety or consumer protection standpoint? Is there a better way to do it with less bureaucracy? And those ought to be the test.

And in your example not only should those regulations have been in place, they should have been enforced better than what we are hearing now. That certainly is not the type of regulation we are talking about. It is the ones—we all know that regulations are such that businesses don't pay taxes, nor do they really pay for the cost of regulations. They incorporate it in their price of goods and services and pass it on to you and me.

So that is, I think, the concern that I have. Those that don't pass that kind of test, that increase the cost of goods and services, is the ones that we ought to get rid of.

Chairman KLINE. Thank you. The gentlewoman's time has expired.

Mr. Rokita.

Mr. ROKITA. Thank you, Mr. Chairman. And I thank the panelists for your time. Following up on that a little bit, Governor, I appreciate the test that you just proposed but it is also true, isn't it, that we can develop a regulation or a thousand that protects everyone? We could do things to make sure that no one gets killed and watch every single job that is left in this country go to China. So there is a balance test here. It is intangible. And the fact of the matter is in a free society and a free public, if we are going to keep it, sometimes bad things happen to very good people. And it can't

be the mission of the Federal Government at every turn to try to stop it because it will fail.

Governor, another point to you. You mentioned the word "latitude" at the very beginning of your remarks when you said if the Federal Government or this Congress would allow the States more latitude. I imagine you said that because you are a gentleman. That is all I have known from Virginia. But as a former statewide official and knowing a little bit of your history, I also understand that you are a constitutionalist. And it seems to me that we ought to be recognizing the fact that it is not for us to decide what latitude to give to the States. It is for the States and the people to decide under the enumeration clause what latitude to give us. And I have only been here 19 or so days, but I can already say that the last thing that this Federal Government needs or anyone even up here on the dais needs is more latitude to control, run, and otherwise dictate the lives of the people.

I would ask you then, and the question is to you: Would you help us? There are some of us here who would like to see that turned around. Would you help us, with Governor Daniels, Governor Christie, others, to see the enumeration clause empowered again?

Governor MCDONNELL. It is a very good question and you are correct. Philosophically I agree 100 percent with what you said. Many of us Governors in both parties talk about the 10th amendment as the forgotten amendment and that is the by-product of both Republican and Democrat congressional actions probably over the last 70 or 80 years.

And so most Governors, while we appreciate certain Federal help and actions, especially if it is consistent with Article I, section 8, which is pretty much the founder's mission for you, we do believe that most of the rest of those things to the maximum extent possible should be left to the States and the people respectively. That is the charter.

So I think that is a great prescription for success in a new system of federalism for all of us going forward because when the Federal Government is not doing things that it shouldn't be doing, one, you save money. And two, you allow the States, the laboratories of democracy closer to the people, to do some of the things that they ought to do. And we got an example of that I think just yesterday where we had a bipartisan letter from both Governor Gregory and Governor Heinemann, the Chairman and Vice Chairman of the National Governors' Association, saying please don't pass a law letting States file bankruptcy. One, you will take accountability away from us, and, two, we don't need that kind of help. What we do need to do is make sure that we are governing ourselves accordingly in the States.

I do think that you are going to hear more from the Nation's Governors, and we appreciate the invitations like today for us to come and speak on these issues, to help us to discuss—have a robust dialogue about the rebirth of federalism and maybe a little bit different balance in State-Federal power because of the 10th amendment. I think you are right.

Mr. ROKITA. Thank you, Governor. I yield, sir.

Chairman KLINE. I thank the gentleman.

Mr. Payne.

Mr. PAYNE. Thank you very much to the panel. Governor, I was interested in your comment that you like a program if it doesn't add to the debt. I recall years ago, in the 50s and 60s, I used to travel in Virginia a lot and there was just Route 1. Many, many years later I came to Congress and met a late Congressman, Norm Sisisky. Norm was very effective. I know that many of the new Members do not like programs called by earmark, but Norm Sisisky actually added to the national debt because he built that highway system that brought Home Depot and all those great businesses into Virginia.

Now, if he took your notion—of course, it did add to the Federal debt. Of course I think it has been paid back many times, at least to the State of Virginia. So I am trying to reconcile if you say it is a penny into debt, even though outward years it is going to be beneficial. Could you go through that again very briefly? Because Virginia wouldn't be in the great position it is in today as a hub for Home Depot and those roads that were built through Norm Sisisky from Virginia getting the money to Virginia, adding to the debt. But it is helping your State in a robust way.

Governor MCDONNELL. Congressman Sisisky was a very effective Congressman and we are fortunate to have a lot of effective Congressmen from the Great Commonwealth. What I would say, Congressman, is I think what I have heard from a lot of Virginians and on both sides of the political spectrum is that they are tremendously concerned about the future of this country if we stay on this trail of debt now at $14 trillion, the deficit going up a trillion over the last couple of years, and frankly billions, hundreds of billions before that under Republican administrations. So it is a bipartisan problem.

When I as a Governor have to balance the budget every year, we borrow up to 5 percent of our total revenues solely for capital projects. What we don't do is what people are concerned about Congress doing, and that is borrowing for the hot dogs, diapers, pencils, and cigarettes, the daily operations of government. That is a concern.

So these targeted investments in infrastructure that are made by the Congress to invest in the States and claiming that as a priority without increasing spending in other areas, I think that is something a lot of people embrace. But if it continues to add to the price tag that my kids and your kids and our grandchildren have to pay back, that is what you are hearing from citizens far and wide that they are rejecting.

Mr. PAYNE. Another—thank you for that clarification. You mention in your testimony that to post a workplace notice to employees outlining their rights under the NLRA that it is counterproductive, detrimental to the message that you are trying to send in Virginia. So I am just wondering how is informing a worker of their rights to you detrimental to the State of Virginia?

Governor MCDONNELL. That may have been a little harsh.

Mr. PAYNE. It is your testimony. You said it.

Governor MCDONNELL. I know. I said it. But what I believe we don't need to do in a right-to-work State is advertise how to create more labor unions. It has been a hallmark of Virginia's success. That is why we are ranked number one in Forbes and CNBC and

every other periodical in the last 5 years as a place that business wants to relocate because of the tax regulatory litigation climate, the right-to-work laws, and our education system. Those are the fundamentals that build that.

My point in that, while not stated as best as I could, my point is that a right-to-work State if we are advertising how to create more unions it is the opposite message that we are trying to send to create jobs and opportunity.

Mr. PAYNE. Just very quickly, talking about right-to-work States, out of the three worst unemployment problems in the country, two are right-to-work States, including the worst in the Nation, Nevada, right-to-work, 14.5; California is a free bargaining State, 12.5; Florida, right-to-work State, 12 percent.

So I think a lot is being played into the right to work and not right to work. It does not seem that much of an impact. As a matter of fact, out of the 10 or highest unemployment, five are right-to-work, five are not.

But just before my time expires, on the drilling we are happy about the President's order to hold back. The companies did know what was right and wrong, but we had the big spill because they took a shortcut. And I think America is great, as you mentioned, and we ought to be able to get over these problems. However—and we don't have time for an answer—but business seems that enough profit is not enough. So there is no ceiling. The question is how do you get people to know that that cap was not sufficient to prevent that blowup in the Gulf?

Chairman KLINE. The gentleman's time has expired. I am eager to keep my commitment to close this hearing at 4 o'clock, but I would like to yield a couple of minutes to Mr. Barletta, who has been waiting patiently.

Mr. BARLETTA. My question is to Mr. Messinger. As a former business owner, I understand what a business looks for when making decisions for investment for the long-term. Uncertainty in the business environment today is handcuffing businesses in deciding whether to expand or invest or start a new business.

We all can agree that we would like to save whatever manufacturing jobs we have left here in America, and I believe you had mentioned in your testimony that 70 percent of American manufacturers are subchapter S corporations. My question to you is do you believe that the current health care bill and the extension of the current tax rates for only 2 years is contributing to that uncertainty?

Mr. MESSINGER. Absolutely, Congressman. I am going through a renewal process right now in our health insurance, and while we don't have a final rate they are telling us in the 15 percent range. And clearly that is on top of prior years of multiple rate increases employing. The private insurers are unsure of what is going on and how they are going to be effected. So yes, on health insurance for sure.

While I applauded many things the President said last night, especially concerning jobs in this country, I was concerned that he laid out his own cap for taxes, saying that they should be increased. Now is not the time for us to be worrying about what tax rates should be in 2 years. We should be worried about job creation

today. And I think in my testimony, I have laid out some of the things that I feel are important there.

Mr. BARLETTA. Thank you.

Chairman KLINE. I thank the gentleman. We are rapidly approaching 4 o'clock. I would like to certainly thank the witnesses and yield to Mr. Andrews for any closing remarks he might have.

Mr. ANDREWS. I would also like to thank the witnesses for their preparation and their time. I have a unanimous consent request that a letter prepared by 250 economists supporting the health care bill be entered into the record.

Chairman KLINE. Without objection.

[The information follows:]

January 26, 2011.

Hon. JOHN KLINE, *Chairman;* Hon. GEORGE MILLER, *Ranking Member,*
U.S. House of Representatives, Education and the Workforce Committee, Washington, DC 20515.

DEAR CHAIRMAN KLINE AND REPRESENTATIVE MILLER: Congress this week is holding hearings on the economic impact of health care reform. We write to convey our strong conclusion that leaving in place the Patient Protection and Affordable Care Act of 2010 will significantly strengthen our nation's economy over the long haul and promote more rapid economic recovery in the immediate years ahead. Repealing the Affordable Care Act would cause needless economic harm and would set back efforts to create a more disciplined and more effective health care system.

Our conclusion is based on two economic principles. First, high medical spending harms our nation's workers, new job creation, and overall economic growth. Many studies demonstrate that employers respond to rising health insurance costs by reducing wages, hiring fewer workers, or some combination of the two. Lack of universal coverage impairs job mobility as well because many workers pass up opportunities for self-employment or positions working for small firms because they fear losing their health insurance or facing higher premiums.

Second, the Affordable Care Act contains essentially every cost-containment provision policy analysts have considered effective in reducing the rate of medical spending. These provisions include:

- Payment innovations such as greater reimbursement for patient-centered primary care; bundled payments for hospital care, physician care, and other medical services provided for a single episode of care; shared savings approaches or capitation payments that reward accountable provider groups that assume responsibility for the continuum of a patient's care; and pay-for-performance incentives for Medicare providers.
- An Independent Payment Advisory Board with authority to make recommendations to reduce cost growth and improve quality within both Medicare and the health system as a whole
- A new Innovation Center within the Centers for Medicare and Medicaid Services charged with streamlining the testing of demonstration and pilot projects in Medicare and rapidly expanding successful models across the program
- Measures to inform patients and payers about the quality of medical care providers, which provide relatively low-quality, high-cost providers financial incentives to improve their care
- Increased funding for comparative effectiveness research
- Increased emphasis on wellness and prevention

Taken together, these provisions are likely to reduce employer spending on health insurance. Estimates suggest spending reductions ranging from tens of billions of dollars to hundreds of billions of dollars. Because repealing our nation's new health reform law would eliminate the above provisions, it would increase business spending on health insurance, and hence reduce employment.

One study concludes that repealing the Affordable Care Act would produce job reductions of 250,000 to 400,000 annually over the next decade. Worker mobility would be impaired as well, as people remain locked into less productive jobs just to get health insurance.

The budgetary impact of repeal also would be severe. The Congressional Budget Office concludes that repealing the Affordable Care Act would increase the cumulative federal deficit by $230 billion over the next decade, and would further increase the deficit in later years. Other studies suggest that the budgetary impact of repeal is even greater. State and local governments would face even more serious

fiscal challenges if the Affordable Care Act were repealed, as they would lose substantial resources provided under the new law while facing the burdens of caring for 32 million more uninsured people. Repeal, in short, would thus make a difficult budget situation even worse.

Rather than undermining health reform, Congress needs to make the Affordable Care Act as successful as it can be. This would be as good for our economy as it would be for the health of our citizens.

Sincerely,

Henry J. Aaron, Senior Fellow, The Brookings Institution
Jean Marie Abraham, Assistant Professor, University of Minnesota School of Public Health
Randy Albelda, Professor of Economics, University of Massachusetts, Boston
Sylvia A. Allegretto, Economist, University of California, Berkeley
Stuart Altman, Sol C. Chaikin Professor of National Health Policy, Brandeis University
Elizabeth Oltmans Anant, Assistant Professor of Public Policy and Economics, Duke University
Rania Antonopoulos, Director, Gender Equality and the Economy Program, Levy Economics Institute
Kenneth J. Arrow, Professor of Economics Emeritus, Stanford University
Michael Ash, Associate Professor of Economics and Public Policy, University of Massachusetts, Amherst
David Autor, Professor and Associate Head, Department of Economics, Massachusetts Institute of Technology
Susan L. Averett, Charles A. Dana Professor of Economics, Lafayette College
Christopher Avery, Roy E. Larsen Professor of Public Policy, Harvard University, Kennedy School of Government
Rojhat B. Avsar, Assistant Professor of Economics, Columbia College
M.V. Lee Badgett, Professor of Economics, University of Massachusetts, Amherst
El-hadj Bah, Lecturer, University of Auckland
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Mr. ANDREWS. Finally, thank you for conducting this hearing so fairly. We would like to move to working together on good legislation that will help create jobs in our country. Thank you.

Chairman KLINE. I thank the gentleman. I will close by saying thanks to my colleagues. Thank you very much to our witnesses—what a terrific panel—for enduring the weather and the voting and all of those things. Thank you very much. And thanks to my colleagues. Have a good safe trip.

The committee is adjourned.

[Additional submission of Mr. Messinger follows:]

Manufacturing Strategy

For Jobs and a Competitive America

January 2011

Manufacturing Means *JOBS!*

The Facts About Manufacturing in the U.S.

- The United States is the world's largest manufacturing economy, producing 21 percent of global manufactured products. Japan is second at 13 percent and China is third at 12 percent.
- U.S. manufacturing produces $1.6 trillion of value each year, or 11.2 percent of U.S. GDP.
- Manufacturing supports an estimated 18.6 million jobs in the U.S. — about one in six private sector jobs. Nearly 12 million Americans (or 9 percent of the workforce) are employed directly in manufacturing.
- In 2009, the average U.S. manufacturing worker earned $74,447 annually, including pay and benefits. The average non-manufacturing worker earned $63,507 annually.
- U.S. manufacturers are the most productive workers in the world — twice as productive as workers in the next 10 leading manufacturing economies.
- U.S. manufacturers perform half of all R&D in the nation, driving more innovation than any other sector.

Manufacturing Strategy

For Jobs and a Competitive America

January 2011

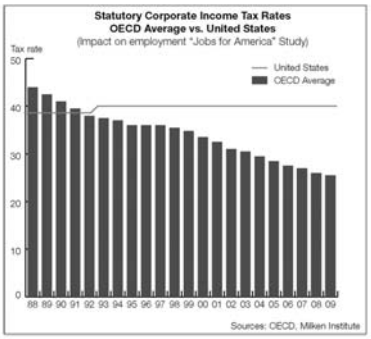
Manufacturing Means *JOBS!*

The United States Will Be the Best Country in the World to Headquarter a Company.

Manufacturing today is global and mobile. Companies often enjoy an array of attractive choices when deciding where to locate their headquarters, do their research or build new facilities. While the use of government incentives is commonplace today, a country's or state's business climate itself ultimately determines where a company will be located.

As a springboard for future economic growth, investment and jobs, manufacturers believe the United States must seek to be the best country in the world in which to locate a manufacturing company's headquarters. To do so, the National Association of Manufacturers (NAM) supports these policies and actions:

✓ **Create a national tax climate that does not place manufacturers in the United States at a competitive disadvantage in the global marketplace. A pro-manufacturing tax policy must first acknowledge that when Congress raises taxes, it makes manufacturers in the U.S. less competitive:**



- Reduce the corporate tax rate to 25 percent or lower without imposing offsetting tax increases.
  - The United States now has the second highest statutory corporate tax rate among the major industrial countries in the Organization for Economic Cooperation and Development (OECD), trailing only Japan. Other countries have been regularly lowering their tax rates to encourage economic growth. A recent analysis by the Milken Institute, "Jobs for America," concluded that reducing U.S. corporate income tax rates to the current average of OECD countries would stimulate growth in the manufacturing sector and create more than 2 million jobs by 2019.
- Promote fair rules for taxation of active foreign income of U.S. based businesses.
  - The United States is unique among major industrial nations in taxing a company's global income — as opposed to a territorial tax system. This feature of the U.S. tax code poses special challenges when it comes to global investment decisions and the return of foreign profits to the United States.
- Institute permanent lower tax rates for individuals and small businesses.
  - Small businesses are responsible for the bulk of new jobs created in the United States, and tax policy should support the capital formation that encourages new businesses and expansion. Capital gains, accelerated depreciation and expensing and estate taxes are also areas where long-term lower tax rates strengthen manufacturing and job creation.

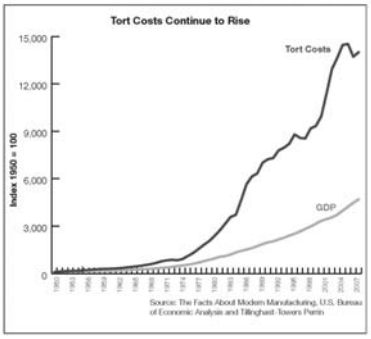
✓ **Encourage the dynamic labor market that is one of America's great competitive advantages. Companies must move quickly to meet the demands of a rapidly changing marketplace, and the continuing expansion of federal mandates and labor regulations undermines employer flexibility. In addition, increasing costs discourage the hiring of new employees. To encourage competitiveness, the United States should:**

- Reject new federal regulations that dictate rigid work rules, wages and benefits and that introduce conflict into employer-employee relations.
  - Oppose the Employee Free Choice Act in any form, including individual provisions such as forced arbitration and snap elections.
  - Resist National Labor Relations Board (NLRB) rulemaking that overturns the long-established balance in management-labor relations.

- Support initiatives at the Occupational Safety and Health Administration (OSHA) and other oversight agencies that encourage employers and employees to join in cooperative efforts for safer working environments.
- Recognize and promote the voluntary efforts of employers to meet the needs of individual employees through flexible work schedules and benefit arrangements.

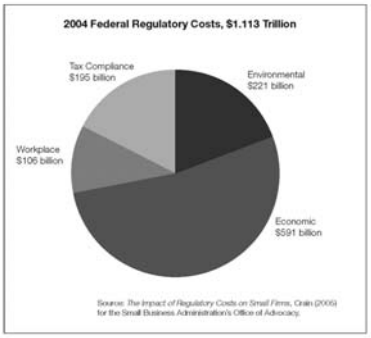
✓ **Implement a common-sense, fair approach to legal reform. Direct tort costs account for almost 2 percent of GDP in the United States — the highest in the world — and our system of "jackpot justice" injects damaging risk and uncertainty into the business climate. A manufacturing strategy will bring legal costs under control to end that disadvantage:**

- Restore fairness in our legal system. Provide clear standards for liability and justice for all parties, including specific statutes of limitations, sanctions on frivolous claims and limits on punitive damages.
  - Preserve federal pre-emption for federally approved products in national commerce, preventing use of litigation in 50 state courts to function as de facto regulators.
  - Oppose special-interest legislation that incentivizes and subsidizes litigation against manufacturers, such as tax deduction for contingency lawsuits.
  - Maintain the force of the Class Action Fairness Act.



✓ **Create a regulatory environment that promotes economic growth. For laws that affect manufacturers, there are often scores of regulations that impose substantial compliance costs — burdens often never anticipated by the lawmakers who passed the legislation. The Small Business Administration's Office of Advocacy has estimated that regulatory compliance costs amount to $1.1 trillion annually. A pro-growth regulatory environment should:**

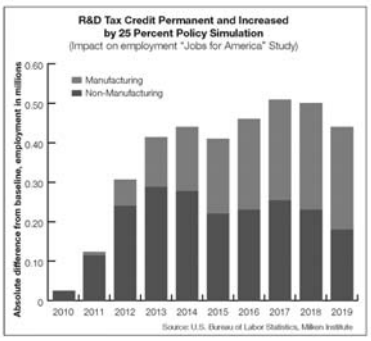
- Balance costs and benefits of regulation, preventing the imposition of regulatory burdens that are counterproductive or force businesses to close.
- Defend the policymaking role of Congress by opposing its circumvention through regulatory rulemaking. For example:
  - Reject the Environmental Protection Agency's (EPA) efforts to exceed its authority when it seeks to establish national economic policy through greenhouse gas regulations.
  - Resist expansion of the Federal Trade Commission's (FTC) authority that would give the FTC broad new powers over nearly every sector of the U.S. economy.



The United States Will Be the Best Country in the World to Innovate, Performing the Bulk of a Company's Global Research and Development.

Innovation has long helped manufacturing in the United States maintain its global leadership. Between 2000 and 2006, manufacturing productivity increased annually by an average of 3.8 percent, primarily due to innovation and technological advances spurred by research and development (R&D).

A long-term *Manufacturing Strategy for Jobs and a Competitive America* will further investment in the research, ideas and people who produce innovation. R&D is, as the Commerce Department's Manufacturing Council phrased it, "the single most important source of technological advancement leading to higher productivity."



✓ **Enact tax provisions that will stimulate investment and recovery, including:**

- Strengthen and make permanent the R&D tax credit. Manufacturers in the United States need the certainty and incentives provided by a permanent and robust research and development tax credit.
  - The Milken Institute's "Jobs for America" analysis reported that increasing the R&D tax credit by 25 percent and making it permanent would enhance American innovation: By 2019, real GDP would rise by 1.2 percent (or $206.3 billion) and 270,000 manufacturing jobs would be created. President Obama has called for a permanent R&D tax credit, and members of both parties of Congress support it.

✓ **Encourage the federal government's continued critical role in basic R&D by:**

- A continued focus by the federal government on basic R&D that expands the knowledge base, spurring private-sector R&D as well as later commercial development. Innovation is served by robust funding for federal research agencies as well as financial support for public- and private-sector research.

✓ **Recognize intellectual property (IP) as one of America's competitive strengths that must be defended at all levels, domestically and globally. U.S. IP is worth between $5 trillion and $5.5 trillion, yet the continuing trade in counterfeit products results in the loss of hundreds of thousands of jobs annually. The *Strategy* should:**

- Support enhanced efforts against counterfeiting through Executive Branch agencies, including Treasury, Justice and Customs and Border Protection.

✓ **Attract the best talent from here in the United States and from the entire world:**

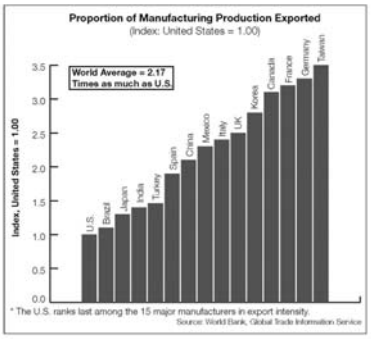
- Support substantial increases in the number of employer-sponsored visas.
  - Between 1995 and 2005, immigrants founded or co-founded 25 percent of all U.S. high-tech firms. Reform of U.S. immigration law regarding legal immigrants is essential to the nation's competitiveness. Such reform must include increases in the numbers of employer-sponsored permanent visas, streamlined and simplified procedures for the temporary or non-immigrant visas, and other changes to enhance flexibility in responding to employer demands.

The United States Will Be a Great Place to Manufacture, Both to Meet the Needs of the American Market and Serve as an Export Platform for the World.

Manufacturing shipped a record $5.8 trillion in 2008 ($1.6 trillion in value added) and provided 11 percent of the nation's GDP. Exports of manufactured goods have driven the 2009-2010 economic recovery. An effective manufacturing strategy will promote domestic manufacturing that serves the U.S. and the increasingly integrated North American markets, while also supporting companies that export and expand abroad to serve foreign markets. In both cases, maintaining a strong manufacturing base requires a comprehensive energy strategy, robust infrastructure investment and skilled employees.

✓ **Promote progressive international trade policy that opens global markets, reduces regulatory and tariff barriers and reduces distortions due to currency exchange rates, ownership restrictions and various "national champion strategies." Specifically, a progressive trade policy will:**

- Enact pending trade agreements and negotiate additional agreements in the Pacific area and elsewhere.
  - Fifty-seven percent of all U.S. exports of goods and services are manufactured goods. Trade agreements reduce the barriers to U.S. exports and are a proven benefit to manufacturers. Over the past two years, manufacturers in the U.S. sold nearly $50 billion more in manufactured goods to our free trade partners than we bought from them.
- Promote a World Trade Organization (WTO) Doha Round result that will slash tariffs and non-tariff barriers.
  - The United States must become more engaged in negotiating and enacting trade agreements, while pursuing multilateral action (such as the WTO Doha Round negotiations) that comprehensively — and fairly — reduce trade barriers to manufacturing exports.



✓ **Modernize the United States' outdated export control system to encourage exports and strengthen national security:**

- The current export control system unnecessarily limits the development and sale of U.S. high-tech products commercially available elsewhere.
  - The Milken Institute's analysis, "Jobs for America," reports that modernizing export controls on commercially available technology products could expand real exports of goods and services by 1.9 percent (or $56.6 billion) and create 340,000 jobs by 2019.

✓ **Assist and energize exporting by small and medium-sized manufacturing through expanded export promotion programs as well as export credit assistance for both small and large firms:**

- The United States has many effective but underfunded tools to help manufacturers export, such as trade fairs, marketing assistance and the Export-Import Bank.

✓ **Create a comprehensive energy strategy that embraces an "all of the above" approach to energy independence:**

- Encourage production of baseload electricity — the dependable power that is critical to manufacturing processes — including traditional (coal, hydropower and natural gas), nuclear and renewable and alternative fuels.
- Reduce dependence on foreign energy by increasing domestic supply: Expand production of oil and natural gas by lifting the moratorium on Outer Continental Shelf development, and encourage development of shale gas.

✓ **Promote policies that protect the environment, encourage additional investment and innovation, and recognize the global scope of many environmental issues:**

- Establish federal climate change policies that reduce greenhouse gases while maintaining a competitive playing field.
  - A comprehensive approach toward reducing greenhouse gas emissions is critical. A unilateral, U.S.-only approach toward this global issue could have a severe, anti-competitive effect on manufacturers in the U.S. and the entire economy.
- Pursue legislation that pre-empts regulatory efforts, state and local laws, regional programs and related litigation.
  - Manufacturers need policies that remove market barriers to achieving energy efficiency and create incentives for emissions reduction at a net economic gain. EPA's regulation of greenhouse gas emissions under the Clean Air Act circumvents the policymaking branch of government and Congress and reflects an extreme approach that would damage the ability of manufacturers in the U.S. to create jobs and compete globally.
- Support the deployment and development of new, energy-efficient and environmentally friendly technologies that will add jobs while improving our environment.

✓ **Invest in infrastructure to help manufacturers in the United States more efficiently move people, products and ideas:**

- Support innovations that include capital budgeting, private investment bonding, environmental permit streamlining and flexibility to the states as part of a comprehensive infrastructure strategy.
  - The long-term reauthorization of surface transportation funding should be a priority for both immediate job creation and long-term competitiveness.
  - Authorize, invest in and accelerate the development of a satellite-based Next Generation Air Transportation System.
  - Encourage high-speed communications and innovation through broadband infrastructure investment.

The Milken Institute's Analysis, "Jobs for America"

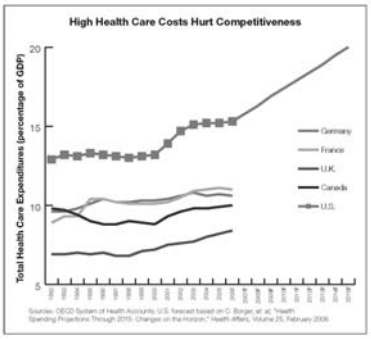
- Estimates that highway and transit investment of $225 billion over three years will create a total of 6.2 million jobs, $238 billion in earnings and $775 billion in output.
- Projects that NextGen investment of $10.4 billion over three years will create a total of 181,900 jobs, along with $9 billion in earnings and $32 billion in output.
- Estimates that broadband infrastructure investment of $55 billion will generate a total of nearly 1.1 million jobs, $44 billion in earnings and $158 billion in output.

✓ **Encourage innovation through education reform, improvement and accountability:**

- Invest in science, technology, engineering and math (STEM) education.
  - Manufacturing increasingly requires a skilled workforce able to build on strong fundamentals in math, science and analytical abilities to adapt to new technologies and rapidly changing manufacturing processes. Unfortunately, skills gap surveys consistently underscore how a majority of manufacturers in America are facing a serious shortage of qualified employees.
- Improve the quality of education in early childhood, primary, secondary and post secondary school systems.
  - Promote a system of nationally portable,industry-recognized skills credentials — an approach that provides employers with the certainty that they are hiring a skilled technical workforce, at the same time providing expanded opportunities for workers regardless of whether they are new or transitioning to new careers.

✓ **Support health care reform that drives down costs:**

- Contain the cost of health care by building upon the existing employer-sponsored health care system without jeopardizing or mandating plan design.
  - The health care law passed by Congress in 2010 must be continually assessed for its effectiveness, cost and unintended consequences.
  - Regulations to implement the law must be fully transparent and must not add new employer mandates and costs.



The Future is Now

Each of the priorities and policy recommendations included in this *Manufacturing Strategy for Jobs and a Competitive America* would improve the ability of manufacturers in the United States to compete in the global marketplace. But the power of the recommendations grows when considered and enacted as a whole — as a comprehensive strategy.

The United States is the strongest, largest and most productive manufacturing economy in the world. But our competitors want to take our place, and their national governments dedicate themselves to this goal with resources and strategic planning. America must do better.

We want the United States to be the best place in the world to headquarter a business. The United States should be the best place to innovate and do the bulk of a company's global research and development. And the United States should be a great place to manufacture for the North American market and to serve as an export platform for the global market.

The United States should be the greatest place in the world to be a manufacturer and to be a manufacturing employee. If put into effect, the *Manufacturing Strategy for Jobs and a Competitive America* will help achieve this critical goal for our nation.

Manufacturing Policy Checklist:

The United States Will Be the Best Country in the World to Headquarter a Company.

- ❑ **Create a pro-manufacturing tax climate:** Reduce the corporate tax rate to 25 percent or lower, promote fair rules for taxation of active foreign income of U.S.-based businesses, institute permanent lower tax rates for individuals and small businesses
- ❑ **Encourage a dynamic labor market:** Oppose new federal regulations that dictate rigid work rules, wages and benefits, reject regulations that introduce conflict into employer-employee relations
- ❑ **Implement a common-sense, fair approach to legal reform:** Provide clear standards for liability and justice for all parties, including specific statutes of limitations, sanctions on frivolous claims and limits on punitive damages
- ❑ **Create a regulatory environment that promotes economic growth:** Balance costs and benefits of regulation, preventing the imposition of regulatory burdens, defend the policymaking role of Congress by opposing its circumvention through regulatory rulemaking

The United States Will Be the Best Country in the World to Innovate, Performing the Bulk of a Company's Global Research and Development.

- ❑ **Enact tax provisions that will stimulate investment and recovery:** Strengthen and make permanent the R&D tax credit
- ❑ **Encourage the federal government's continued critical role in basic R&D**
- ❑ **Recognize intellectual property as one of America's competitive strengths that must be defended at all levels, domestically and globally:** Support enhanced efforts against counterfeiting through Executive Branch agencies
- ❑ **Attract the best talent from here in the United States and from the entire world**

The United States Will Be a Great Place to Manufacture, Both to Meet the Needs of the American Market and Serve as an Export Platform for the World.

- ❑ **Promote progressive international trade policy that opens global markets and reduces regulatory and tariff barriers due to currency exchange rates, ownership restrictions and various "national champion strategies"**
- ❑ **Modernize the outdated U.S. export control system to encourage exports and strengthen national security**
- ❑ **Assist exporting by small and medium-sized manufacturing through expanded export promotion programs as well as export credit assistance for both small and large firms**
- ❑ **Create a comprehensive energy strategy that embraces an "all of the above" approach to energy independence:** Encourage the production of baseload electricity, reduce dependence on foreign energy by increasing domestic supply
- ❑ **Promote policies that protect the environment, encourage additional investment and innovation, and recognize the global scope of many environmental issues**
- ❑ **Invest in infrastructure to help manufacturers in the United States more efficiently move people, products and ideas**
- ❑ **Encourage innovation through education reform, improvement and accountability**
- ❑ **Support health care reform that drives down costs**

[Ms. Boushey's responses to questions submitted by Mr. Kucinich follow:]

DEAR CONGRESSMAN KUCINICH: Thank you for your interest in my testimony before the Committee on Education and Workforces' hearing entitled "State of the American Workforce," on January 27, 2011. My answers for the record to your questions are:

Question 1. You ask whether it would be correct to say that one of the main effects of free trade policies is to incentivize U.S. corporations into taking advantage of cheaper foreign labor by moving jobs to those other countries? Would you agree that the evidence is that free trade policies do not automatically increase employment, as some claim?

Answer: Let's start with what free trade agreements are supposed to do. The U.S. interest in these agreements is to promote trade, both imports and exports, with other countries. These agreements do not typically lower tariffs only in one di-

rection but rather lower tariffs in both directions. Our economy's total demand for goods and services is defined as consumption, plus investment, plus government spending, plus net exports, exports minus imports. Trade agreements typically lower tariffs for both U.S. exports and imports from other countries and should therefore raise both exports and imports. Given this, *a pirori,* there's no reason to think they will increase U.S. jobs, unless we sign agreements heavily weighted in favor of U.S. exports.

In the case of the Korea free trade agreement, the U.S. International Trade Commission, the independent federal body that analyzes potential effects of trade pacts for Congress and the executive branch, has estimated that while the Korea FTA would increase exports, it would increase imports even more. As a result, the U.S. ITC estimates that the Korea FTA will lead to an increase in the total U.S. goods trade deficit of between $308 million and $416 million.[1] The largest estimated increases in the trade deficit would be in motor vehicles, electronic equipment, "other transportation equipment," iron, metal products, textiles, and apparel.

Question 2: You ask, is it correct to say that in the area of infrastructure investment, it is not that the private sector does not want to invest in massive infrastructure projects but that they simply do not have the resources to do so?

Answer: As daunting as it seems, the level of capital investment needed in our nation's infrastructure must grow. American businesses have the funds and access to credit markets to make investments. From December 2008 to September 2010, profits in the nonfinancial corporate sector rose in inflation-adjusted terms by 92.0 percent before taxes and 93.3 percent after taxes. In September 2010, profits were at their highest point since at least September 2007, several months before the start of the Great Recession.[2]

But, even with strong profits, much of the infrastructure investment we need to do is in repairing our crumbling basic infrastructure. The American Society of Civil Engineers estimates that we need to spend at least $2.2 trillion over the next five years just to make repairs.[3] This includes projects like replacing aging water facilities that are near the end of their useful life, repairing aging and deficient dams, and quarter of our nation's bridges that are either structurally deficient or functionally obsolete.

Roads, bridges, broadband, water and sewer lines, and a host of other goods require large-scale investments. For any one company it may be too expensive, but moreover, the public has an interest in creating widespread access to these goods. Businesses large and small and employees all benefit from infrastructure investments that they are able to make use of. If every bridge were private, then the toll costs and time wasted stopping for tolls might be prohibitively expensive and inefficient. Programs like Build America Bonds, which provides municipalities with subsidies to float bonds for long-term infrastructure projects, could help increase the capital available for these kinds of projects.

[Whereupon, at 4:00 p.m., the committee was adjourned.]

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[1] U.S. International Trade Commission. "U.S.-Korea Free Trade Agreement: Potential Economy-wide and Selected Sectoral Effects." USITC Publication 3949. September 2007, Corrected printing March 2010, at 2–14, Table 2.3, Available at: *http://www.usitc.gov/publications/332/pub3949.pdf*

[2] Christian Weller, "Economic Snapshot for January 2011," Center for American Progress, January 31, 2011, available at *http://www.americanprogress.org/issues/2011/01/econsnap0111.html.*

[3] American Society of Civil Engineers, "America's Infrastructure Report Card" (2009), available at *http://www.infrastructurereportcard.org/sites/default/files/RC2009_full_report.pdf.*