MADE IN AMERICA: INNOVATIONS IN JOB CREATION AND ECONOMIC GROWTH

HEARING

BEFORE THE

SUBCOMMITTEE ON COMMERCE, MANUFACTURING, AND TRADE

OF THE

COMMITTEE ON ENERGY AND COMMERCE
HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

FIRST SESSION

MARCH 3, 2011

Serial No. 112–15

Printed for the use of the Committee on Energy and Commerce

energycommerce.house.gov

U.S. GOVERNMENT PRINTING OFFICE

66–517 PDF WASHINGTON : 2011

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

COMMITTEE ON ENERGY AND COMMERCE

FRED UPTON, Michigan
Chairman

JOE BARTON, Texas
Chairman Emeritus
CLIFF STEARNS, Florida
ED WHITFIELD, Kentucky
JOHN SHIMKUS, Illinois
JOSEPH R. PITTS, Pennsylvania
MARY BONO MACK, California
GREG WALDEN, Oregon
LEE TERRY, Nebraska
MIKE ROGERS, Michigan
SUE WILKINS MYRICK, North Carolina
Vice Chair
JOHN SULLIVAN, Oklahoma
TIM MURPHY, Pennsylvania
MICHAEL C. BURGESS, Texas
MARSHA BLACKBURN, Tennessee
BRIAN BILBRAY, California
CHARLES F. BASS, New Hampshire
PHIL GINGREY, Georgia
STEVE SCALISE, Louisiana
ROBERT E. LATTA, Ohio
CATHY MCMORRIS RODGERS, Washington
GREGG HARPER, Mississippi
LEONARD LANCE, New Jersey
BILL CASSIDY, Louisiana
BRETT GUTHRIE, Kentucky
PETE OLSON, Texas
DAVID B. MCKINLEY, West Virginia
CORY GARDNER, Colorado
MIKE POMPEO, Kansas
ADAM KINZINGER, Illinois
MORGAN GRIFFITH, Virginia

HENRY A. WAXMAN, California
Ranking Member
JOHN D. DINGELL, Michigan
EDWARD J. MARKEY, Massachusetts
EDOLPHUS TOWNS, New York
FRANK PALLONE, JR., New Jersey
BOBBY L. RUSH, Illinois
ANNA G. ESHOO, California
ELIOT L. ENGEL, New York
GENE GREEN, Texas
DIANA DEGETTE, Colorado
LOIS CAPPS, California
MICHAEL F. DOYLE, Pennsylvania
JAN SCHAKOWSKY, Illinois
CHARLES A. GONZALEZ, Texas
JAY INSLEE, Washington
TAMMY BALDWIN, Wisconsin
MIKE ROSS, Arkansas
ANTHONY D. WEINER, New York
JIM MATHESON, Utah
G.K. BUTTERFIELD, North Carolina
JOHN BARROW, Georgia
DORIS O. MATSUI, California

SUBCOMMITTEE ON COMMERCE, MANUFACTURING, AND TRADE

MARY BONO MACK, California
Chairman

MARSHA BLACKBURN, Tennessee
Vice Chairman
CLIFF STEARNS, Florida
CHARLES F. BASS, New Hampshire
GREGG HARPER, Mississippi
LEONARD LANCE, New Jersey
BILL CASSIDY, Louisiana
BRETT GUTHRIE, Kentucky
PETE OLSON, Texas
DAVID B. MCKINLEY, West Virginia
MIKE POMPEO, Kansas
ADAM KINZINGER, Illinois
JOE BARTON, Texas
FRED UPTON, Michigan *(ex officio)*

G.K. BUTTERFIELD, North Carolina
Ranking Member
CHARLES A. GONZALEZ, Texas
JIM MATHESON, Utah
JOHN D. DINGELL, Michigan
EDOLPHUS TOWNS, New York
BOBBY L. RUSH, Illinois
JANICE D. SCHAKOWSKY, Illinois
MIKE ROSS, Arkansas
HENRY A. WAXMAN, California *(ex officio)*

CONTENTS

[1] Mr. Greenblatt did not answer submitted questions for the record.

MADE IN AMERICA: INNOVATIONS IN JOB CREATION AND ECONOMIC GROWTH

THURSDAY, MARCH 3, 2011

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS,
COMMITTEE ON ENERGY AND COMMERCE
Washington, DC.

The subcommittee met, pursuant to call, at 10:06 a.m., in room 2123 of the Rayburn House Office Building, Hon. Mary Bono Mack (chairwoman of the subcommittee) presiding.

Members present: Representatives Bono Mack, Blackburn, Harper, Cassidy, Guthrie, McKinley, Pompeo, Kinzinger, Barton, Butterfield, Towns, Rush, Schakowsky and Waxman (ex officio).

Staff present: Gib Mullan, Chief Counsel, Commerce, Manufacturing, and Trade; Brian McCullough, Professional Staff Member; Shannon Weinberg, Counsel; Robert Frisby, Detailee; and Paul Cancienne, Policy Coordinator, Commerce, Manufacturing, and Trade.

Mrs. BONO MACK. The subcommittee will come to order.

Good morning, and welcome to this hearing of the House Subcommittee on Commerce, Manufacturing, and Trade.

Today, stubbornly high unemployment continues to have a chokehold on the American economy. In the months ahead, our subcommittee will be taking a close look at some of the impediments to progress and the keys to a more prosperous America. The chair will now recognize herself for an opening statement and officially come to order.

OPENING STATEMENT OF HON. MARY BONO MACK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mrs. BONO MACK. We have a unique opportunity to make "Made in America" matter again. If we as a Congress and as a Nation are truly serious about creating the kind of positive legislative and regulatory environment needed to create new jobs as well as to bring back jobs to the United States from abroad, there are some commonsense steps that we should take right now. As chairman of this subcommittee, which has jurisdiction over interstate and foreign commerce, I am hoping to make job creation one of our top priorities.

After a record 20 straight months of unemployment above 9 percent, it is time to finally free American innovation and ingenuity long held hostage by a regulatory regime which is as great a threat to our prosperity as is any foreign regime. Today, U.S. businesses are holding tight onto more than $1.8 trillion in cash reserves. Let us give them a reason to invest that money in America's future. Here are some of the things we should do immediately.

First, let us ensure regulatory fairness. Rules and regulations imposed by Washington cost Americans more than $1.75 trillion each year, or about $15,500 per household. Moving forward, we should complete a top-to-bottom review of all regulations, scrubbing every outdated and senseless regulatory requirement off the books. Next, place a moratorium on any job-killing regulations and establish a more fair and transparent review process. And finally, require Congressional approval for all major rules and regulations imposing significant new costs on the economy.

Second, we need to make intellectual-property protection a top priority. By most estimates, the theft of U.S. intellectual property costs our economy hundreds of billions of dollars a year but the real damage, both in terms of lost jobs and stalled progress, is impossible to calculate. Most sinister, this is deflating to our Nation's entrepreneurial spirit and psyche. Simply put, our Nation's economy cannot thrive in a world of no-cost competitors.

Third, let us incentivize and reward innovation. According to a recent report by the Information Technology and Innovation Foundation, the United States ranked sixth among 40 nations in innovation-based competitiveness but were dead last in progress made over the past decade—dead last. There are smart ways to use the U.S. Tax Code and patent laws to reward companies that create new jobs and keep those jobs here in America.

Fourth, we need to open more foreign markets to U.S. products. We simply cannot sit on the sidelines while other nations sign free-trade agreements and gain a foothold in promising new markets. Long-stalled trade promotion agreements with South Korea, Colombia and Panama should move forward quickly. Years of lost opportunities have only resulted in thousands of lost jobs. It is time to quit playing politics with our trade policies.

Fifth, we should embrace vigorous oversight of new laws and agencies. Aggressive oversight doesn't have to be a political parlor game. Rather, we should see these as beneficial opportunities to get it right. Americans want and deserve our best efforts. Oversight hearings, which this subcommittee will be holding this year, are a unique opportunity to see what is working and what is not. And at the end of the day, we must have the political courage to embrace change that is not always popular but necessary.

Finally, let us make in-sourcing in vogue. Frankly, I am tired of hearing people say the jobs are gone and they are not coming back. Outsourcing is not a one-way street. By providing a stable and predictable regulatory framework, by protecting intellectual property, by incentivizing and rewarding innovation and by opening more foreign markets to our products, we can not only end the exodus of jobs overseas but also begin the process of bringing some of those jobs back home to America.

In fact, it has already started. GE, General Motors, Ford, Boeing, Delta Airlines, Master Lock and Caterpillar are just a few of the companies that are embracing in-sourcing. They should be applauded and other U.S. companies encouraged to follow suit. During the course of this entire week, ABC News has been taking an in-depth look at how buying "Made in America" can translate into millions of new jobs across the United States.

Today, we are at an important crossroads in our Nation's history. The way forward is clear: creating new jobs and preserving existing jobs here at home should be our top priority. It will strengthen our economy, reduce the deficit, enhance U.S. competitiveness and restore pride in "Made in America." For this subcommittee, there can be no greater legacy.

[The prepared statement of Mrs. Bono Mack follows:]

PREPARED STATEMENT OF HON. MARY BONO MACK

We have a unique opportunity to make ″Made in America″ matter again. If we, as a Congress and a nation, are truly serious about creating the kind of positive legislative and regulatory environment needed to create new jobs—as well as to bring jobs back to the United States from abroad—there are some common-sense steps that we should take right now. As Chairman of this Subcommittee, which has jurisdiction over interstate and foreign commerce, I am hoping to make job creation one of our top priorities.

After a record 20 straight months of unemployment above 9 percent, it's time to finally free American innovation and ingenuity—long held hostage by a regulatory regime which is as great a threat to our prosperity as any foreign regime. Today, U.S. businesses are holding tight onto more than $1.8 trillion in cash reserves. Let's give them a reason to invest that money in America's future. Here are some things we should do immediately.

First, let's ensure regulatory fairness. Rules and regulations imposed by Washington cost Americans more than $1.75 trillion each year or about $15,500 per household. Moving forward we should complete a top-to-bottom review of all regulations, scrubbing every outdated and senseless regulatory requirement off the books. Next.place a moratorium on any job-killing regulations and establish a more fair and transparent review process. And, finally, require Congressional approval for all major rules and regulations imposing significant new costs on the economy.

Second, we need to make intellectual property protection a top priority. By most estimates, the theft of U.S. intellectual property costs our economy hundreds of billions of dollars a year, but the real damage—both in terms of lost jobs and stalled progress—is impossible to calculate. Most sinister, this is deflating to our nation's entrepreneurial spirit and psyche. Simply put, our nation's economy cannot thrive in a world of ″no cost″ competitors.

Third, let's incentivize and reward innovation. According to a recent report by the Information Technology and Innovation Foundation, the United States ranked sixth among 40 nations in ″innovation-based competitiveness.″ But we were dead last in progress made over the past decade. Dead last. There are smart ways to use the U.S. Tax Code and patent laws to reward companies that create new jobs and keep those jobs here in America.

Fourth, we need to open more foreign markets to U.S. products. We simply can't sit on the sidelines while other nations sign free trade agreements and gain a foothold in promising, new markets. Long-stalled trade promotion agreements with South Korea, Colombia and Panama should move forward quickly. Years of lost opportunities have only resulted in thousands of lost jobs. It's time to quit playing politics with our trade policies.

Fifth, we should embrace vigorous oversight of new laws and agencies. Aggressive oversight doesn't have to be a political parlor game. Rather, we should see these as beneficial opportunities to ″get it right.″ Americans want—and deserve—our best efforts. Oversight hearings, which this subcommittee will be holding this year, are a unique opportunity to see what's working and what's not. And, at the end of the day, we must have the political courage to embrace change that's not always popular but necessary.

Finally, let's make ″insourcing″ in vogue. Frankly, I am tired of hearing people say, ″The jobs are gone, and they are not coming back.″ Outsourcing is not a one way street. By providing a stable and predictable regulatory framework.by protecting intellectual property. by incentivizing and rewarding innovation. and by opening more foreign markets to our products—we not only can end the exodus of jobs overseas, but also begin the process of bringing some of those jobs back home to America. In fact, it has already started. General Electric, General Motors, Ford, Boeing, Delta Airlines, Master Lock and Caterpillar are just a few of the companies that are embracing ″insourcing.″ They should be applauded and other U.S. companies encouraged to follow suit.

In fact, during the course of this entire week, ABC News has been taking an in-depth look at how buying ″Made in America″ can translate into millions of new jobs across the United States.

Today, we are at an important crossroads in our nation's history. The way forward is clear: creating new jobs and preserving existing jobs here at home should be our top priority. It will strengthen our economy, reduce the deficit, enhance U.S. competiveness and restore pride in ″Made in America.″ For this subcommittee, there can be no greater legacy.

Mrs. BONO MACK. And now I would like to yield back my time and recognize the gentleman from North Carolina, the ranking member, Mr. Butterfield, for 5 minutes.

OPENING STATEMENT OF HON. G.K. BUTTERFIELD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA

Mr. BUTTERFIELD. Thank you, Madam Chairman. Thank you very much for convening this very important hearing today, and let me just say that this conversation is certainly very timely.

Helping unemployed Americans get back to work must be our agenda of Democrats and Republicans. Millions of Americans are out of work through no fault of their own. They are unable to pay their bills, much less save for retirement or their children's education. Some Americans are even forced to choose between feeding themselves or taking the medicines they deserve. This is unacceptable. Given the state of the economy, we must leave no stone unturned in our search for policies that can promote hiring and bring jobs to those who need them.

The Recovery Act was a good first step. Some have questioned the wisdom of this investment. The country's most respected economists, however, agree that there would have been significantly slower growth and higher unemployment if this investment had not been made. It is working. It is working in my district and I pray that it is working in your district.

You will hear me say repeatedly while we serve together that I represent the fourth-poorest district in America. It is mostly a rural area in eastern North Carolina. Many of my constituents who are lucky enough to have a computer and Internet connection at home use dial-up service, and because of relatively low population density, there is little incentive for companies to build the necessary middle-mile infrastructure to reach these areas. In this day and age, how is someone in a rural area supposed to start or grow a successful business or learn high-tech skills in school without access to broadband Internet? The NTIA fortunately saw the need that existed and awarded two stimulus grants for broadband infrastructure that will bring high-speed Internet capacity to tens of thousands of my unserved and underserved communities.

The economy is now beginning to create more jobs each month than it sheds. Certain parts of the economy have returned to profitability but this upturn has not resulted in America's companies investing in new hires. I suppose they are waiting for market certainty and Congressional certainty. While they wait, too many Americans are still suffering. It is time for us to take the second step. The Federal Government must engage, not through another stimulus but through targeted, strategic investments like rural North Carolina's broadband grants that have the potential to create jobs in the short term, support long-term national priorities and provide a competitive business climate for the successful industries of the future. Investments in three particular areas stand out as building blocks. Research and development is certainly where we begin, infrastructure and education, especially STEM education. I am fully committed to getting our fiscal house in order. I think we all are. And I believe the President has made clear that he is as well. But reducing the deficit will come only through a serious look at the government's long-term obligations, not through rapid across-the-board cuts. It is not inconsistent to make tough choices about necessary cuts at the same time that we identify critical strategic investments in our country's future.

And so I look forward to a robust discussion and receiving the testimony of the Assistant Secretary, whom we welcome today, and the witnesses on the second panel. The fact remains and it is very clear, we must create the opportunity for business and industry to create 7 million jobs to get the economy back where it was before the recession. It will take innovative approaches to get there. We will not get there if we continue to be mired in partisan brinksmanship. The American people are demanding, they are demanding bipartisan solutions to these complex American problems, and that is why I congratulate the chairman for convening this hearing today. I welcome all of the witnesses and I look forward to their testimony.

I yield back, Madam Chairman.

Mrs. BONO MACK. Thank you.

Chairman Upton, he yielded his 5 minutes for his opening statement to me in accordance with committee rules, and as his designee, I would like to recognize Ms. Blackburn, the vice chairman of the subcommittee, for 2 minutes.

Mrs. BLACKBURN. Thank you, Madam Chairman. I thank you for that well-stated opening statement that sets the playing field for this hearing.

The other night, I was watching a documentary on Ronald Reagan. We have all been looking at the centennial of his birth, and I was reminded of a statement that he said during the 1980 campaign, and it was that a recession is when your neighbor loses his job, a depression is when you lose your job and recovery is when Jimmy Carter loses his job. Now, unfortunately, we can't sit around and wait for a change in Administration to begin this recovery. So Madam Chairman, as you said in your statement, it is time for us to do some things differently and to make some well-placed changes.

I have to disagree with my colleague from North Carolina that the stimulus bill was a good first step. When you talk to people in my district, which I do every single week, they are telling me that there is a lot wrong, and when you have a stimulus bill that has unemployment above 9 percent over 21 months of this, when you have got underunemployment even higher up in 15, 17, 20 percent, depending on where you are, it says things are not right. What we hear from our constituents and what I am hearing in the listening sessions that I am holding every week in my district, what I hear from people is that the long arm of government with regulation is killing the incentives to create jobs. What I am hearing is uncertainty on tax and regulatory policy is a killer when it comes to creating and retaining or expanding jobs. What we are hearing is that they want government to get out of the way, to provide some certainty, and they want us to focus on creating the environment that will allow job growth to take place

I thank the chairman. I yield back my time.

Mrs. BONO MACK. I thank the gentlelady.

Now I would like to recognize the chairman emeritus of the committee for 2 minutes, Mr. Barton.

Mr. BARTON. Thank you, Madam Chairwoman. We appreciate you holding this hearing. We welcome our witnesses, the Hon. Assistant Secretary Fernandez and our witnesses on the private sector panel after that.

Downstairs we are having a food fight on health care with the Secretary of Health and Human Services. There is quite a disagreement between the Republicans and the Minority on that issue. But on this issue, there should be agreement on both sides of the aisle that we actually do all support the creation of jobs and the creation of a robust economy.

We tend to be gloomy and doomy when we talk about the ability of our economy to create jobs, and it is true that we have been in a recession the last several years. Having said that, on the positive side, unless one of our expert witnesses corrects me, my understanding is that our manufacturing sector produced more goods and services last year than any year in history. My perception is that in terms of productivity per worker, the American worker is still the most productive worker in the world. My perception is that in terms of productivity increase, we have doubled and perhaps tripled the productivity of the average American worker in the last 20 to 25 years.

So we do have an economy that has a robust manufacturing capability. Having said that, we have the ability in Washington by high taxes, by regulatory overkill to stifle and threaten that productivity. So hopefully this hearing will give us some roadmaps about how to increase productivity, how to unleash the economic entrepreneurship of America and how to keep us number one and make us more competitive in the world markets.

With that, Madam Chairwoman, I yield back.

Mrs. BONO MACK. I thank the gentleman.

Mr. BUTTERFIELD. Madam Chairman?

Mrs. BONO MACK. Before we go to your side, I would like to recognize for the last minute a new member of the committee, Mr. Guthrie from Kentucky.

Mr. GUTHRIE. Thank you, Madam Chairwoman.

I come from a small business and manufacturing background and know firsthand what is needed to allow job creators to remain competitive. We cannot be a country that does not make things. As a manufacturer, I am familiar with the very serious uncertainty that our job creators face today, many of which we will be discussing in this committee.

Today we live in the world's most productive economy but we can't take it for granted. The United States faces greater competitor as our business sees every day from China, India, Brazil and the EU, and I applaud the chairwoman's willingness to reopen the book on our economic policy with an eye towards innovation and job creation. I look forward to reevaluating the related policies within the committee's jurisdiction. It is fitting that Congress does the same, although I do hear mostly from people and from businesses I am familiar with is not just concern about what Congress is doing but the excess regulatory burden that is coming from the Administration. They say didn't we just have an election but we are still hearing these things are coming forward after they felt like they made a correction in the election.

So we look forward to discussing where the Administration is going with that, and I yield back.

Mrs. BONO MACK. I thank the gentleman.

Mr. BUTTERFIELD. Madam Chairman?

Mrs. BONO MACK. Yes?

Mr. BUTTERFIELD. Madam Chairman, it appears that the gentlelady from Illinois has arrived, and in the absence of the ranking member of the full committee, I would ask unanimous consent that she be allowed to use the time that Mr. Waxman would have otherwise used.

Mrs. BONO MACK. Without objection, the gentlelady is recognized for 5 minutes.

Ms. SCHAKOWSKY. Thank you, Madam Chairman and Ranking Member.

I am so glad that we are here today to talk about jobs because frankly, from my point of view, from my perspective, the new Majority has done absolutely nothing to create jobs for the American people since they have been in charge. Quite to the contrary, instead, they want to gut federal programs in a way that economists say will eliminate jobs, slow our economic growth and put hardship on the American people and spend time doing things like conducting a radical social campaign against women and family planning.

Yesterday, Ben Bernanke said that under Republicans' Continuing Resolution, we could lose "a couple hundred thousand jobs." Economist Mark Zandi, who was an advisor to John McCain, has said the bill could cost us 700,000 jobs. And even Goldman Sachs, not that I am a fan of Goldman Sachs, but they have estimated that it could cut our gross domestic product by 2 percent. And the Republican response so far has been so be it. And Americans deserve better than that. We need to make investments in our Nation by building a strong infrastructure, educating our kids, supporting industries like nanotechnology, which is really great in my district, partnerships with the private and the public sector with Northwestern University and spin-off companies and renewable energy which have the potential to create millions of good jobs.

So now I see that our ranking member of the full committee has arrived and I would like to yield the rest of my time to him.

OPENING STATEMENT OF HON. HENRY A. WAXMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. WAXMAN. Thank you very much. I appreciate your taking the opportunity to talk about the hearing for today.

Job growth must be our number one priority but I am concerned that the policies being pursued by the House would have the opposite effect. They would eliminate jobs, not create them.

A recent analysis from Goldman Sachs concluded Republican spending cuts in the C.R. could significantly reduce U.S. economic growth, thereby decreasing job growth and further slowing down the recovery. An analysis from Moody's Analytics concluded that the Republican spending cuts could result in up to 700,000 fewer jobs by the end of the fiscal year. Slower growth and fewer jobs are clearly steps in the wrong direction for this country.

American families are facing real economic pain. For millions, their jobs are gone, their savings depleted, their home values down, and their belief in the promise of the American dream diminished. We have a responsibility to these Americans to not only keep moving along a path of job growth, but to act reasonably and responsibly to accelerate the growth of recent months.

So how do we get there? The President has called for the United States to out-educate, out-innovate and out-build our competitors, and I believe we are up to that challenge. In order to meet that challenge we need targeted public and private investments in key sectors that will grow our economy and create jobs.

One key sector is education. The United States is near the bottom of industrialized nations in math and science literacy. We must invest in science, technology, engineering and math to compete with the rest of the world.

Another key sector is research and development. In order to retain America's competitive edge, we must always be planning for the future. Basic research must be advanced in all areas including manufacturing, biomedical, clean energy, cyber security and information technologies.

And finally, we must invest in our infrastructure, both our physical infrastructure like crumbling roads and bridges and our virtual infrastructure encompassing computing, networking and wireless spectrum.

I agree we need to put our Nation's fiscal house in order but we should not choke our economic recovery. That would be profoundly counterproductive. We are facing revenue shortfalls because we have fewer people working and contributing to the federal treasury. Boosting job growth and boosting consumer spending leads to increased federal revenues as more people return to the tax rolls. All of this leads us to the long-term goal that we all share of protecting our fiscal future. We must spend responsibly, but most importantly, in the short and mid term, we must focus on growing our economy and creating jobs. We must focus on investing in education, innovation and modern infrastructure to ensure we stay ahead of our competitors around the world.

Madam Chairman, I am glad we are having a hearing on job growth and I look forward to working in a bipartisan way to solve our pressing fiscal issues. I yield back the balance of my time.

Mrs. BONO MACK. I thank the gentleman.

We are going to have two panels before us today. Each of the witnesses has prepared an opening statement. As is customary, they will be placed in the record. Each of you will have 5 minutes to summarize that statement in your remarks.

On our first panel today, we are very pleased to have the Hon. John Fernandez, Assistant Secretary of Commerce, Economic Development Administration. Thank you for being here today, Mr. Secretary, and you have 5 minutes.

STATEMENT OF JOHN FERNANDEZ, ASSISTANT SECRETARY OF COMMERCE, ECONOMIC DEVELOPMENT ADMINISTRATION, DEPARTMENT OF COMMERCE

Mr. FERNANDEZ. Thank you very much, Chairman Bono Mack and Ranking Member Butterfield and members of the subcommittee. I appreciate the opportunity to be here today on behalf of the Economic Development Administration. I applaud the leadership for the subject of this hearing. I think it is near and dear to all of us and it is a critically important time in our country's history.

A few weeks ago, President Obama released his proposed budget for fiscal year 2012. It represents a fiscally responsible plan to rebuild our economy and win the future by out-innovating, out-educating, out-building our global competitors and creating the jobs and industries of tomorrow.

The budget focuses our federal resources in critical areas of education, innovation, clean energy and infrastructure. It proposes to reform how Washington does business, putting more federal funding up for competition, cutting waste and reorganizing government so it can better serve the American people.

You know, all of us know that economic development is not easy, even in better times, and we certainly know that the reality is that economic development has changed significantly in the 45 years since EDA was created. We can no longer count on "build it and they will come" economy development strategies of the 20th century. These strategies don't work on today's global economy.

The Department of Commerce and EDA are providing leadership to the Administration's efforts to build a more innovation-driven, more entrepreneurial economy. In particular, to spur innovation, we must cultivate competitive, high-performing regional economies as the foundation for national growth. EDA's Jobs and Innovation Partnership puts a premium on regional innovation cluster strategies as a platform for linking multiple initiatives across the Administration and the Nation's metropolitan areas and rural communities. The Jobs and Innovation Partnership is designed to cultivate public-private partnerships and support strategies that capitalize on regional assets to create jobs and encourage business expansion.

Importantly, the investments we make support bottom-up strategies developed by local and regional leaders. This orientation that the best ideas bubble up from regional and small business leaders is a critical element in our ship.

Here are a few examples of the kinds of investments we have recently made. EDA invested a little over $2 million in JumpStart, which is a venture development organization in Cleveland, Ohio, to promote innovation and small business development in six Midwest cities. EDA provided a small but catalytic grant to the city of Nashwauk, Minnesota, to build critical infrastructure that was needed to secure the development of the new Essar Steel plant, which was a $1.6 billion project which was projected to create about 2,800 jobs. EDA helped fund the Water and Energy Technology Incubator in Central Valley, Fresno County, to nurture and grow water and energy technology businesses. Since its opening, more than 15 companies have been formed and leveraged over $17 million in private capital, creating jobs for central Californians.

I wanted to also make a note about American COMPETES, which was reauthorized by Congress last year. I really appreciate the strong bipartisan support for that piece of legislation. It provides the tools that EDA needs to encourage and support more of this kind of regional innovation strategy.

We work hand and hand with many of other federal agencies to promote and advance such regional strategies. In 2010, the White House Interagency Task Force for the Advancement of Regional Innovation Clusters launched the first-ever joint federal funding opportunity to involve six other federal agencies. Included in this partnership are the Department of Energy, the National Institute of Standards and Technology, the Department of Labor, Department of Education, the SBA and the National Science Foundation. We are currently working through this interagency process to identify even additional opportunities to accelerate regional innovation clusters

There should be no doubt in today's global economy that regions matter. Our most serious competitors don't come from the town just down the road or across the State line. They come from around the world, from India, Germany, Singapore, China and too many other countries to name.

So Chairman Bono Mack and members of the subcommittee, I certainly do appreciate the opportunity to be here today to talk about our efforts at our agency to support competitiveness of America's regions as we continue to provide the kinds of opportunities for the people throughout the country, and I look forward to answering your questions today and working closely with Congress to help strengthen our communities and small businesses. Thank you.

[The prepared statement of Mr. Fernandez follows:]

Statement by
JOHN R. FERNANDEZ
ASSISTANT SECRETARY OF COMMERCE FOR ECONOMIC DEVELOPMENT
U.S. HOUSE OF REPRESENTATIVES-
COMMITTEE ON ENERGY AND COMMERCE SUBCOMMITTEE ON COMMERCE, MANUFACTURING, AND TRADE
March 3, 2011

Introduction

Chairman Bono Mack, Ranking Member Butterfield, and members of the Subcommittee, thank you for the opportunity to testify today on behalf of the Economic Development Administration (EDA). I look forward to discussing EDA's role in supporting President Obama's efforts to accelerate sustainable economic growth and job creation.

A few weeks ago, President Obama released his 2012 Budget Request, which represents a fiscally responsible plan to rebuild our economy and win the future by out-innovating, out-educating, and out-building our global competitors, and creating the jobs and industries of tomorrow.

The budget focuses federal resources in the critical areas of education, innovation, clean energy, and infrastructure. It also proposes to reform how Washington does business, putting more federal funding up for competition, cutting waste, and reorganizing government so that it better serves the American people.

All of us know that economic development is not easy, even during better times. And since the financial crisis, it's gotten much harder. We must deal with the reality that economic development has changed significantly in the 45 years since EDA was created.

We can no longer count on the "build it and they will come" economic development strategies of the 20th Century. These strategies won't work in today's global economy.

The Department of Commerce (DOC) and EDA are providing leadership to the Administration's efforts to build a more innovation-driven, more entrepreneurial economy. In particular, to spur innovation, we must cultivate competitive, high-performing regional economies as the foundation for national growth.

Andy Grove, the former chairman and CEO of Intel, addressed this issue in an article for *Businessweek* called "How to Build an American Job." He said, "A new industry needs an effective ecosystem in which technological know-how accumulates, experience builds on experience, and close relationships develop between supplier and customer."

That's why we launched the "Jobs and Innovation Partnership," EDA's initiative to help build such ecosystems, where the private sector can flourish and create the "connective tissue" that will bind together vibrant regional economies.

The Jobs and Innovation Partnership is built upon two key pillars: innovation and regional collaboration. Innovation – or the implementation of new ideas or recombination of old concepts in new ways - is the key to new and better jobs, a resilient economy, and global competitiveness. Regional collaboration is also essential in this economic competition. Regions that work together to leverage resources and build upon their unique comparative assets are better poised for economic success. We work with regions through this partnership to identify areas in which we could help strengthen ties for economic growth.

The Jobs and Innovation Partnership puts a premium on regional innovation cluster strategies as the platform for linking multiple initiatives across the Administration and the nation's metropolitan and rural areas. At his Winning the Future Forum on Small Business in Cleveland last week, President Obama said that when it comes to clusters the *"synergies that develop from all those different facets coming together can make the whole the greater than the sum of its parts."*

Furthermore, the Jobs and Innovation Partnership involves sharing best practices from around the nation. In 2010, EDA, working with the State Science and Technology Institute, launched the Regional Innovation Acceleration Network (RIAN), which is going to help venture development organizations like JumpStart, Ben Franklin Technology Partners, and others, replicate their success on a national scale. Commerce Secretary Gary Locke also created the National Advisory Council for Innovation and Entrepreneurship (NACIE) to ensure that we are integrating the best ideas from private sector and civic leaders from around the country into our work. NACIE will offer policy recommendations that will facilitate economic growth through entrepreneurial activity, the commercialization of new ideas and technologies into high-growth, innovation-based businesses, access to capital, and ultimately job creation. The Council also serves as a vehicle for ongoing engagement with the entrepreneurship community and other stakeholders.

The Jobs and Innovation Partnership is designed to increase the effectiveness of EDA's investments by cultivating public/private partnerships and supporting strategies that capitalize on regional assets and collaboration to create jobs and encourage business expansion. Importantly, the investments we make support bottom-up strategies developed by the local and regional leaders we serve. This orientation – that the best ideas bubble up from regional and small business leaders – is a critical element of the Jobs and Innovation Partnership.

Rather than pursuing a one-size-fits-all approach, EDA funds customized solutions such as innovation infrastructure investments, business incubation, revolving loan funds, planning grants, and other resources within urban, rural and regional economies. EDA's unique portfolio of flexible programs allows us to respond to changing regional conditions faced by our local government and regional partners.

For example, EDA invested approximately $2.25 million in JumpStart to promote innovation and small business development in the cities of Akron, Ohio; Detroit, Michigan.; Fort Wayne, Indiana.; Gary, Indiana.; St. Paul, Minnesota.; and Duluth, Minnesota. As part of President Obama's Startup America initiative, launched to accelerate the creation of high-growth companies and jobs, JumpStart has leveraged an estimated $100 million in private investments, which grantees estimate have created nearly 950 jobs.

Just a few months ago, EDA provided a $1.4 million grant to the city of Nashwauk, Minnesota to build the critical infrastructure needed to secure the development of the new Essar Steel Minnesota plant, a $1.6 billion project projected by the grantee to create 2,800 full time jobs. This strategic infusion of public and private capital, talent, and innovation is creating a regional industry cluster focused on American steel production that can be exported to Canada and overseas markets.

In 2003, EDA invested in construction of a 23,324 square foot Water and Energy Technology Incubator in Central Valley, Fresno County. The mission of the Incubator is to nurture and grow water and energy technology businesses, create a network of high technology resources, develop incubation and business development partners, provide access to comprehensive services and create sustainable high growth. Since 2007 when the incubator opened, it has housed more than 15 Water and Energy Technology entrepreneurs, who have obtained over $17 million in private capital and created jobs for Central Californians.

In September 2010, EDA provided $1.6 million to the Pacific Northwest Diabetes Research Institute in Seattle, Washington, to fund the acquisition of new technology and upgrades of scientific equipment and instrumentation.. This project promotes innovation and intellectual property development in the health care industry, and supports bio-tech start-ups by providing shared scientific equipment and facilities in the fight to cure diabetes. This investment is part of a $1.617 million project that the grantee estimates will create 515 jobs and generate $1.3 million in private investment.

EDA's strategic investments enhance the competitiveness of America's communities, spur innovation and create jobs. EDA's flexible programs leverage private/public investments, support "bottom up" strategies, and build 21st century infrastructure. Its work is generating real returns: since the beginning of the Obama administration, EDA has funded public/private projects that grantees estimate have created 161,500 jobs. EDA estimates its return on investment to be $6.90 per dollar invested based on the Agency's historical portfolio and findings from the Rutgers study which evaluated outcomes of EDA's investments.

America COMPETES

The America COMPETES ("COMPETES") Reauthorization Act of 2010 supports EDA's Jobs and Innovation Partnership initiatives through the establishment of a Regional Innovation Program to encourage and support the development of regional innovation strategies.

Additionally, COMPETES supports the Administration's efforts to accelerate the commercialization of research. As Secretary Locke and others have said, we can't simply invest in Research & Development (R&D) and hope that some of this research is commercialized. We must have more effective systems to ensure that we accelerate the creation of new products, new industries and new jobs. This is the priority of the Commerce Department's recently established Office of Innovation and Entrepreneurship (OIE).

In 2010, EDA created the i6 Challenge, a national competition to target investments in America's commercialization infrastructure. Six winning projects were selected from a field of over eighty applications. One of the winning applicants was the University of Akron Research Foundation and Austen BioInnovation Institute in Akron, Ohio. Their project, the Innovative Solutions for Invention Xceleration, will increase innovation and accelerate commercialization of new technologies by bringing together world-class scientists, physicians, engineers, researchers, and entrepreneurs in the biomedical device/product and polymer science industries of Northeast Ohio. This month, we will launch another round of the i6 Challenge to target additional investments designed to accelerate the commercialization of research and business formation.

EDA is also working hand-in-hand with other federal agencies to promote and advance regional collaboration. In 2010, the first pilot project of the White House Interagency Taskforce for the Advancement of Regional Innovation Clusters (TARIC) was launched. EDA took a leadership role in coordinating the first-ever joint Federal Funding Opportunity (FFO) involving six other federal agencies: the Department of Energy (DOE), DOC's National Institute of Standards and Technology/Manufacturing Extension Partnership (NIST/MEP), the Department of Labor (DOL), the Department of Education (ED), the Small Business Administration (SBA), and the National Science Foundation (NSF). The Taskforce selected energy efficient building systems design as the focus for its first pilot project, which will be anchored around a DOE-funded Energy Innovation Hub. EDA is investing $5 million in this project.

In FY 2011, EDA is leading the TARIC in exploring inter-agency funding opportunities for supporting regional clusters. TARIC's efforts will further advance the Administration's regional innovation clusters (RIC) initiatives. TARIC's priorities include coordinating and leveraging federal resources to support the growth of existing RICs, and promoting the establishment of new RICs. TARIC's primary objectives include monitoring trends in regional innovation clusters, coordinating with federal staff in regional offices, and facilitating a unified federal response to requests for assistance from regions related to economic development, education, workforce, and entrepreneurship.

There should be no doubt that in today's global economy, regions matter. Today, our most serious competitors don't come from the town just down the road or across the state line. They come from around the world – from India, Germany, Singapore, China, and too many other countries to name. At the end of the day, we all want the same thing: a better economic future. We want a future where sustained economic growth creates good jobs and rising incomes; where prosperity is fueled not by excessive debt, reckless speculation, and fleeing profit, but is instead built by skilled, productive workers; where sound investments spread opportunity at home and allow this nation to lead the world in the technologies, innovations, and discoveries that will shape the 21st century.

Closing

Chairman Bono Mack, Ranking Member Butterfield, and members of the Subcommittee, thank you for the opportunity to address EDA's efforts to enhance the global competitiveness of America's regions. I am proud of the agency's continued leadership on this issue and firmly believe that EDA will continue to be a catalyst for economic growth and job creation in our country. I look forward to working closely with Congress to strengthen our communities and small businesses and to provide them with the tools they need to keep America on top. Thank you, and I welcome any questions the committee may have.

Mrs. BONO MACK. I thank the Secretary, and the chair will recognize herself for the first 5-minute round of questions.

So Secretary Fernandez, thank you very much for being here today. It is a pleasure to meet you. Some of my questions are going to be tough and to the point. My goal isn't to assign blame for our Nation's economic problems; my goal is to find solutions. As the ranking member said, all of us here want the same thing: a very strong and vibrant, prosperous America.

But here is my first question. In this week's Bloomberg Business Week, one of our Nation's smartest minds, Mary Meeker, looks at the United States as a business and asked, "Would you invest in a company that lost $2 trillion last year and has a net worth of a negative $44 trillion?" So Secretary Fernandez, how would the Administration answer that question and how do we make "Made in America" matter again?

Mr. FERNANDEZ. Well, I think the Administration would absolutely respond with a resounding "yes." I mean, there are clearly challenges that we have had to face following the financial meltdown and some of the transformational things that are happening in the global economy. But I think America is incredibly well positioned to build on the leadership we have had in innovation. As Chairman Barton mentioned, we have some of the most productive workers in the world. We have some of the most innovative companies in the world.

But there is certainly, and I think we would all agree, that there are areas where we need to seriously tackle some of these challenges. The President has been clear that he supports reforming our corporate tax structure so that we can be more competitive globally. We are serious about looking at the kinds of regulatory reform that can help spur innovation.

Mrs. BONO MACK. On that note, let me jump in. Five minutes is so quick, Mr. Secretary.

Small, successful businesses in America all have good business plans and usually they are flexible. They are flexible enough to evolve over time as market conditions change. What would you say are the essential elements of the Administration's business plan when it is on the—I am asking the same question that you are answering but if you could continue, I guess, in that vein.

Mr. FERNANDEZ. What I could say, Madam Chairman, is that I think, candidly, your opening comments laid out a large range of issues that are critically important that I think there are tremendous opportunities for bipartisan support. The tax structure has to be competitive. We have to invest in innovation. We have to support education, 21st century infrastructure. I think there are many places where the Congress and the Administration can work together because, again, the whole notion of this hearing about making in America is essentially important to all of us and we embrace that objective and I think we can work together on it.

Mrs. BONO MACK. Well, we all agree and we are all saying we want to together but something clearly isn't working. Unemployment has been stuck at more than 9 percent for a record 20 straight months.

I was a small-business owner. I owned a small restaurant, and I knew on a firsthand basis that for me to have succeeded as a restaurateur, the government needed to get out of the way, and I think that, as the vice chairman, that is what we are all looking for is government to get out of the way and let the private sector lead the way. Can you speak to that a little bit? Are you hearing the same thing that we are hearing, that the vice chair talked about, that the government needs to get out of the way and actually help by getting out of the way, by removing the impediments to growth?

Mr. FERNANDEZ. What I hear and what my experience has been is that certainly the private sector is going to be the driver and source of innovation and job creation. There is no dispute about that. But the government has a critical role to play as well.

Mrs. BONO MACK. But right now there are rules and regulations that are imposed that cost Americans more than $1.75 trillion a year. So how does that reconcile? Those two don't reconcile at all. To put it in some perspective, the federal budget deficit is projected to be $1.4 trillion. So if we are going to create jobs, how do we provide a more fair and sensible predictable regulatory regime? What we are saying and what we are doing are not reconciling at all.

Mr. FERNANDEZ. Well, as the President has said, and he said it in the State of the Union, he said it in since then, is that we absolutely do support regulatory review. We want to weed out the kind of regulations that are outdated and aren't productive or necessary, but finding and maintaining those that actually do serve a valid public good.

Mrs. BONO MACK. Can you name a quick two or three that you have already found?

Mr. FERNANDEZ. Well, I can't. For me, no. We are currently—at the EDA, in fact, we have published an RFI and we are reviewing all of our regulations as well. We are a small agency. But we think that are probably rules within our own system that are obstacles and slow down the process, particularly as we want to build public-private partnerships.

Mrs. BONO MACK. Well, I look forward to working with you on that in the future.

I would like to yield back my time and recognize the ranking member for 5 minutes.

Mr. BUTTERFIELD. Thank you very much, Madam Chairman.

Let me spend my time, Mr. Secretary, talking about infrastructure. My district in North Carolina will never recover unless we can invest in infrastructure and invest significantly in infrastructure, so this is very dear to me. We have heard time and time again that private investment drives the economy, and certainly that is true. We have heard it is time for the Federal Government to stop spending money, and we all hear that when we go home and to a certain extent that is also true. We also hear that it is time for the Federal Government to just get out of the way. We heard that from the vice chair of the committee this morning and we hear it from time to time.

While I agree that the private sector is and should remain the driver for economic growth and prosperity, public investments can indeed can help fuel private sector growth by lowering costs for American businesses. As the Association of Manufacturers suggests, investments in infrastructure can help manufacturers more efficiently move people, products and ideas. And so my question to you, sir, is, can you please explain to this subcommittee and to all who are interested how investments in modern infrastructure like roads and railroads and ports can improve the efficiency and competitive capacity of America's businesses?

Mr. FERNANDEZ. Well, let me just say this. I think generally there is no silver bullet that is going to address all of the economic challenges we face but you have to have a holistic approach. Twenty-first-century infrastructure that is efficient, that can move product, can move digital products as well as hard products, those are essential to having the kind of climate where companies can be successful and create jobs and provide opportunities. But today's infrastructure has to, in my judgment, certainly include some of the traditional basic infrastructure but it also includes a lot of innovation infrastructure. It means STEM education, investments in research and development that can be commercialized to create whole new industries that we haven't even thought of, and looking at how we create the kind of ecosystem, if you will, in regions where the private sector can flourish and I think infrastructure in a broad way is a very important part of——

Mr. BUTTERFIELD. What about broadband infrastructure and the power grid?

Mr. FERNANDEZ. Absolutely. Sure, I mean, smart grid, we have made significant investments as part of the Recovery Act to enable the development of smart grid to more effectively distribute energy but also enable whole new lines of products to be developed around energy-efficient manufacturing, new appliances, etc. So I think there is tremendous opportunities in smart grid, in broadband, wireless technology. Those are all the essential infrastructures that are really growing an effective global economy.

Mr. BUTTERFIELD. And having said all of that, can the private sector be economically profitable without any public assistance whatsoever, in your opinion?

Mr. FERNANDEZ. Well, as I said before, I think there is a strong critical role for the private sector and there is a strong critical role for the public sector, and I think my experience as a mayor and working at the local level is that our economy works best when we have those kind of strong public-private partnerships. There is a role for both sectors to play that are critically important, and we do best when we work together.

Mr. BUTTERFIELD. On the subject of manufacturing, and I have a minute and a half left, although the dominance of the American manufacturing sector has been chipped away for some time, our country remains the world's largest manufacturing economy. According to the manufacturers again, we produce 21 percent of global manufactured products. Japan and China follow at 13 and 12 percent. Our continued dominance shows that America is still a place where we can do and make things, and our financial security along with our long-term national security demand that we continue to do so. For years, even before the recession, we heard about the offshoring and loss of jobs from the United States, but as we continue to recover from the recession, it is the manufacturing sector that has proven to be among the bright spots in a slow recovery.

The manufacturing sector has been growing for the last 19 months, make no mistake about it, and this past January manufacturing activity turned in its best performance since May of 2004. Even more surprising, companies like GE and Ford, among others, have announced that they are moving jobs out of China, Japan and other countries and back to our country. To use the words that the chairman used in her opening statement, they are beginning to insource. These aren't just jobs but the sort of good-paying jobs that we need more of right now and in the long term. Do you know what is driving the growth in the manufacturing sector in just a few seconds? Do you know what is driving the growth?

Mr. FERNANDEZ. I think what is driving it is the ingenuity and productivity of the leadership in our companies and the workers that help build our companies.

Mr. BUTTERFIELD. Thank you.

Mrs. BONO MACK. I thank the gentleman.

The chair recognizes the vice chair, Ms. Blackburn, for 5 minutes.

Mrs. BLACKBURN. Thank you, Mr. Secretary, and a question for you, because I have got some counties that we have some unemployment problems. The countries where you have given grants, is there any statistically significant difference in the unemployment rate between the counties that you have had grants in the last 5 years and those that you have not?

Mr. FERNANDEZ. We have not engaged in any kind of detailed analysis that could answer that question.

Mrs. BLACKBURN. So you don't know if what you are doing is working or not?

Mr. FERNANDEZ. I believe your question is one that we can't answer with the studies we have done but I can tell you that the investments we make have very direct leverage. Our grants are tied to specific partnerships where there is immediate private sector leverage, there is public matched dollars, and they have certainly made an impact on the communities where we make those investments, yes.

Mrs. BLACKBURN. OK. So but you have not had a serious study to look at this to make a determination if the taxpayer is getting their dollar's worth?

Mr. FERNANDEZ. We are confident the taxpayers are getting their money's worth. We report out findings on a 3-, 6-, 9-year basis following our investments. There have been two independent studies that were done to look at the accuracy of the reporting out, one by Rutgers in 1997, another by Grant Thornton in 2008, and they validated the measures that were used by the EDA and by our grantees that report out the economic impact of the grants we made.

Mrs. BLACKBURN. OK. Well, I have got—let us take this as a for instance because I think it concerns me when you all don't do the kind of evaluation of what you are getting for this money, and as I said in my opening statement, you can look at what is happening with unemployment and see something is not working right, and that is what frustrates the American people, and as I mentioned, I have been working with my chambers of commerce and local communities and we are doing job creation listening sessions, and there is a laundry list of things that they think are being done inappropriately.

Let me talk about two of my counties, Wayne and Perry counties. Unemployment has hovered around 20 percent. If you look at your EDA eligibility requirements, then you could say that much of the country is going to qualify for EDA assistance. So tell me what processes are in place to ensure that projects are created in the most severely economically depressed counties. How are you all making that evaluation?

Mr. FERNANDEZ. Well, as you know, the way our grants are made are through a competitive grant system and so as a baseline there has to be some eligibility criteria that are met. But then our decisions are based on the strength of the applicants and the proposals that they make, and as we evaluate those applications, we look at the extent of the——

Mrs. BLACKBURN. Have you ever been to Tennessee, to Wayne or Perry counties?

Mr. FERNANDEZ. I am not familiar with the counties. I have certainly been to Tennessee, yes.

Mrs. BLACKBURN. What part?

Mr. FERNANDEZ. To Memphis, to Nashville.

Mrs. BLACKBURN. OK. All right. Your agency has photos posted on your Web site of international travel to Lyon, to Brussels in November and December of 2010. Your Web site indicates that EDA officials are going to go to Hanover, Germany, April 3 through 8, 2011. So please submit to this committee in writing all past international travel over the past 2 years, the purpose of that international travel including the itineraries and the cost of that international travel and name some positions of the federal status of the staff attending all international trips. I would also like to know if attendees traveled in coach or business class and specific flights. Additionally, please detail with similar information the Hanover, Germany, trip and all planned future international trips, and I would love for you to explain to me the purpose of EDA's participation in these international trips.

Mr. FERNANDEZ. I would be happy to.

Mrs. BLACKBURN. If the EDA is promoting U.S. competitiveness in export abroad, I would say maybe that is the role of the Foreign Commercial Service, and during the State of the Union address, the President singled out export.gov as government waste and duplication, so do you believe one more agency's presence in promoting U.S. exports abroad is necessary? And if so, do you believe the FCS is unable to do its job effectively?

Mr. BUTTERFIELD. Reserving the right to object.

Mr. FERNANDEZ. Well, I would be happy to provide all the information that you requested.

Mrs. BLACKBURN. Thank you. I look forward to it.

I yield back.

Mr. BUTTERFIELD. May I be heard for a point of order, Madam Chairman?

Mrs. BONO MACK. The gentleman may be heard.

Mr. BUTTERFIELD. I have asked the staff if it is appropriate for a member of the subcommittee to posit this type of question to a witness, and I am told that it is an appropriate ask, but I would ask the gentlelady if she would be so kind as to make the same request in writing so there would be some clarity about the request?

Mrs. BLACKBURN. I will be happy to submit the request in writing. I think that as we look at the purpose of the EDA, and I appreciate the ranking member's question, that this is information that we want to know. We are looking at why we are not getting jobs creation in this country. We are hearing from our listening sessions that there is a problem and a disconnect between the Federal Government and local communities, and I would suggest to the gentleman and to the Secretary that we may be looking at one of the disconnects and a place we can go over some redundancy.

Yield back.

Mr. RUSH. Will the gentleman yield, please? Will the ranking member yield?

Mr. BUTTERFIELD. I believe it may still be my time. If it is on the point of order, I yield to the gentleman.

Mr. RUSH. Madam Chairman and members of the committee, it seems to me that this line of questioning should appropriately be addressed in the Subcommittee on Oversight. I think that the energy and time and efforts of this committee should be more focused on looking at policy issues rather than looking at travel itineraries for members of the Administration, and I strongly concur with the position with the ranking member that I think it is just a waste of our time and a waste of the Secretary's time to have his staff dedicated to these purposes. If the author of the request, if she really wanted to be—I am not sure if she is a member of the Oversight Subcommittee but maybe that is the appropriate place where——

Mrs. BONO MACK. If the gentleman will yield?

Mr. RUSH [continuing]. This should actually take place.

Mr. BUTTERFIELD. Yes, I will yield to the chairman.

Mrs. BONO MACK. I appreciate the ranking member yielding to me, and I would just like to say that this committee does have oversight, and I believe the questions are relevant and she has offered to present them to you in writing, which is customary, and I would like to know if the ranking member is comfortable with that.

Mr. BUTTERFIELD. I will continue to reserve my right to object until we can see the written document, and then I will probably withdraw it. Thank you. I yield back.

Mrs. BONO MACK. All right. The chair would like to recognize Ms. Schakowsky for 5 minutes.

Ms. SCHAKOWSKY. Thank you, Madam Chairman.

Our chairwoman has said that what the businesses that she is familiar with and business in general just want government to get out of the way. Secretary, I wanted to ask you if you have ever seen a business lobbyist who was here not to get rid of government or perhaps to get government to weigh in on the side of business. Have you ever seen that?

Mr. FERNANDEZ. I am sorry. The question is, have I seen——

Ms. SCHAKOWSKY. Yes, the assertion was that all that business wants is for government to get out of the way. I am wondering if you, like me, have ever been approached by businesses who actually want something from government, would like something done for business by government. Have you ever seen that?

Mr. FERNANDEZ. Sure.

Ms. SCHAKOWSKY. Let us just be clear and honest about that, that it works both ways, that there are things that the business community through its legion of lobbyists are all on the Hill all the time for things not to get government out of the way but actually to get government involved. I am not objecting to that. I am simply making that point.

And there has also been some suggestions that the—well, I am wondering if you could describe the way in which the President's budget, which does cut $41 billion from spending, how it actually would have more success in job creation in your view or not than what the Majority has suggested in terms of its Continuing Resolution.

Mr. FERNANDEZ. Thank you. The President's budget strikes the right balance, which is, we have got to get our fiscal house in order. He has made a proposal for a 5-year freeze in non-defense discretionary spending, which will save about $400 billion, and in the meantime, though, we have to prioritize the investments that are going to make us strong and create an economy that can compete and compete effectively internationally. And the idea that investments in education and STEM and R&D and 21st century infrastructure, I think those are things that frankly I hear from the private sector as well as are essentially important to provide the right kind of environment where their companies can be successful. So I think the notion that everyone, I think, can find agreement on is that we have to make these kinds of foundational investments that create the conditions where you can have competitive industries that can innovate and grow and provide jobs for our people, and you have to have the right balance so that you are making tough choices on the budget to get our fiscal house in order, and that is the President's proposal and obviously we think it is sound one to move the country forward.

Ms. SCHAKOWSKY. Thank you. Let me just make one other comment about rules and regulations, that going back to what the President had said in his State of the Union address and that you verified, that there is a regulatory review. Let us be clear. We should all be clear that the American people do want some rules of the road and they don't want to have their children suffer from asthma from bad air and from bad water. They want safe food. In fact, 81 percent of Americans say they want safe food. I would imagine that there would be businesses in the States that would want to make sure that there is some regulatory framework to protect them from perhaps unsafe items that are coming from another country. Can you just speak to that in the minute that is remaining?

Mr. FERNANDEZ. Well, I am not sure what I can add to the statement other than that again I think the President's proposal is to have a serious, honest review of the regulations that are currently in place, weed out those that are unnecessary and overly burdensome that really don't maximize the public good, and I think we can strike a balance on the kinds of regulations that actually serve the public well but do protect it while we enable the businesses to grow and the economy to flourish.

Ms. SCHAKOWSKY. Thank you. I yield back.

Mrs. BONO MACK. The gentlelady yields back. The chair recognizes the gentleman from Mississippi, Mr. Harper, for 5 minutes.

Mr. HARPER. Thank you, Madam Chair.

And Mr. Fernandez, thank you for being here. I know you have looked forward to this day for a long time.

Mr. FERNANDEZ. Well, at least since Friday when I was asked to do this.

Mr. HARPER. Yes. I understand. And look, I appreciate the fact that you have a responsibility to present and represent the Administration's views, but when we sit here and talk about the President's budget, you say it strikes the right balance and you mention the 5-year freeze, but that is at current levels, the 5-year freeze, correct?

Mr. FERNANDEZ. Correct.

Mr. HARPER. And so after we have spent the last 2 years running those numbers up, would it not make more sense to you that perhaps we are better off if we roll back, scale back that and then freeze at a lower level? Would that not have a better impact on job creation in this country?

Mr. FERNANDEZ. I think reasonable people are going to have different opinions about that.

Mr. HARPER. And I understand. I am putting you in a little bit of a spit here, and I understand the team concept on how you have to do that. I understand that. But when you talk about that, and I know you didn't mention but the President and the Administration has said that under his plan I believe that by the year 2017 that it would cut the annual deficit in half, I think it my understanding. But when we hear those things and perhaps a 30-second sound bite, when we look at those real numbers, that half is still more than 50 percent of former President Bush's highest year of the deficit, and so what we want to do is, we just want the truth. Whatever that is, let us deal with it and try to work.

There is no doubt we have a common goal here, which is to create jobs and improve the economy. When I look at my State in Mississippi, I haven't found a business yet or an industry yet that says we are underregulated. Have you identified any business that you have worked with that says hey, we need more regulations? Have you found one in your journeys so far?

Mr. FERNANDEZ. Let me just say that I think what I hear the most, honestly, is that the people I work with are looking for the right balance. They want a partnership that is effective and they respect the roles the public and the private sector can play but I think people genuinely want to work together to move the economy forward.

Mr. HARPER. If you were looking across the board as you look at the idea of job creation, is there any particular agency that you hear the most complaints about from the businesses that you talk to, not judging those complaints but is there any one that you hear more of out of than another?

Mr. FERNANDEZ. There is none that I hear more about than any of the others.

Mr. HARPER. You talked about the competitive grant situation, and we just got a little bit of time left, but when you are looking at that, do you have a ratio or an amount that you look at as far as the management costs or the administration costs versus, say, a percentage of what that is as to what is done by grant, the amount of the grant? Is there some rule of thumb that you use or anything of that nature as to how you keep those in balance or in check?

Mr. FERNANDEZ. Just to be clear, the administrative costs to the agency or——

Mr. HARPER. Yes.

Mr. FERNANDEZ [continuing]. To the grantee? We don't look at the agency cost directly because the truth is, it is a pretty modest budget. So the administrative cost to the EDA of any particular grant versus another is going to be really de minimis. What we look at are, is there a strong partnership, is there a good strategy in place, are they building on the assets that are going to enable sustainable economic growth, is there a commitment of leadership from the private sector as well as the public sector in that community around that strategy.

And I should note that, when it comes to EDA, and this was part of the question earlier, it is not free money. A very important part of the way our agency works is that people have to put skin in the game so by statute we have a minimum match requirement of 50 percent, and in many cases, since it is a competitive system, folks come in with more, and it is that kind of leverage bottom-up strategy that I think actually does produce very real results.

Mr. HARPER. And when you are looking at that competitive grant situation, how do you balance or eliminate or disregard, say, political interests that might be a part of who the grantee or the recipient might be?

Mr. FERNANDEZ. Well, we do it in a couple of ways. One is that it is a transparent competitive process. Secondly, the money that is appropriated to the EDA gets disbursed out and allocated across our six regional offices. There are no political appointees in any of those six offices and they make the decisions about where the grant dollars go, and I think the bipartisan support that has been strong over the years for EDA——

Mr. HARPER. Thank you, Mr. Fernandez. I am afraid we are out of time, but thank you very much.

Yield back.

Mrs. BONO MACK. I thank the gentleman and recognize the gentleman from Illinois for 5 minutes, Mr. Rush.

Mr. RUSH. Thank you, Madam Chairman.

There is a global demand for greener, sustainable economies which include a global demand for clean energy technologies. The United States used to dominate the field for the invention and manufacturing of clean energy technologies. Today, our Nation lags behind other nations for clean energy investments, innovation and manufacturing. China spends roughly $12 million monthly, that is per month, on new energy technologies and export expansions. In 2006, U.S. public investment in renewable energy was less than one-fourth of that for the entire year. A venture capitalist who was an early investor in Google sized up America's investments in its energy future in the following way: "America spends more on potato chips than we do on new energy research and development." I mean, we all like potato chips but the price of gas has shot up 20-plus cents in the last week so we might be wise to spend more money on finding an alternative for a such a volatile energy source than we do on our consumption of potato chips.

If we want to stay globally competitive, we want to secure our energy future, we must invest in research and development of clean energy technologies, and President Obama acknowledged this fact, stating, "We can make the investments that will allow us to become the world's leading exporter of renewable energy. We can let the jobs of tomorrow be created abroad by some other nation or we can create those jobs right here in America and lay the foundation for our lasting prosperity, prosperity for our children and for our grandchildren."

I have three questions. What is the Department of Commerce doing to help U.S. companies become leaders in clean energy technology? What is the Commerce Department doing to ensure that the United States is at the forefront of energy and resource efficiency? And lastly, do we have the highly skilled workforce needed to fill these technological and green jobs right now?

Mr. FERNANDEZ. Well, the agenda to drive clean energy and the sustainable development, the green economy, if you will, is broad and covers a lot of departments throughout the Federal Government. Commerce is certainly engaged in it. You know, the work that is happening in the United States Patent and Trade Office around protecting IP is an essential part of the innovations in the green economy. Our export agencies are certainly engaged. EDA, we work with communities, particularly on building the partnerships between the workforce component to have the kind of skills and the capacity to work in those industries, and we certainly are involved in some of the investment decisions through our competitive grant systems that have enabled communities either to build as I mentioned in the opening testimony the incubators around clean technology, other investments in infrastructure for some of the large manufacturing plants that are part of the clean technology economy. So there is a wide range of activities that Commerce is involved in, but overall, I mean, clearly President Obama and this Administration have made clean technology, clean manufacturing a very important centerpiece of the recovery programs as well as ongoing economic development priorities.

The Recovery Act had significant investments that have paid off, frankly, in terms of the tax credits that encourage manufacturing in the green energy-efficient areas. So there is clearly a big commitment and it is a big priority for this Administration.

Mr. RUSH. The President has called for the doubling of exports in the next 5 years. Can you tell us what you believe are the manufacturing sectors with the highest potential for increasing exports and what can we do to improve growth in these sectors and to help them remain globally competitive?

Mr. FERNANDEZ. Well, clearly exports are an essential part of the manufacturing economy and the U.S. manufacturing sector is a major exporter. It is one of the largest export components of the American economy. I couldn't tell you the specific industries but I would be happy to get that information from our colleagues at ITA or somewhere else within the department.

Mr. RUSH. Thank you. I yield back the balance of my time.

Mrs. BONO MACK. I thank the gentleman.

The chair recognizes Mr. Guthrie of Kentucky for 5 minutes.

Mr. GUTHRIE. Thank you, Madam Chairwoman, and thank you, Mr. Secretary, for being here. I appreciate it, and I am glad that you are focused on job creation as well.

One of the struggles that I have seen in my time in Congress is just the astounding array of regulations that are coming, that are prepared, that are being put forth, and businesspeople are concerned. Yesterday, the Kentucky Farm Bureau, not the insurance agent but the farmers from my area were in town and they talked about the Farm Bill in passing. Their biggest concern was what EPA was going to do to the farm, and just concern from making milk a biohazard. I mean, those are different things that are coming forward that we see, and it is the same in manufacturing.

I am from Kentucky, a manufacturing State. Ninety-three percent of our energy is from coal. Coal makes it cheaper. We have a vast if you go and down the Ohio River just across from where you guys are, where you are from, not too far where you from, you see manufacturing plants, and we are really concerned and we are concerned about the job loss so my question is, is the Commerce Department which is the voice of business working with these agencies to at least say I know you have got a plan, I know you are going in this direction but this is what is going to do to American business and American manufacturing? Is there any interagency dialog about what they are doing?

Mr. FERNANDEZ. Well, there is certainly a significant amount of interagency dialog and the Commerce Department among others has opportunities to weigh in on proposals that are coming through the Administration.

Mr. GUTHRIE. And somebody said it, and I will say it tongue in cheek because they said it but it has some truth to it. They said just like we have the Trade Adjustment Act, maybe we should have the Regulation Adjustment Act for dislocated workers for what the regulatory environment is going to be doing, and I mean, that is a real concern out there. I know you know it because you probably hear it from people that are there. But what about the energy prices that we are seeing? I mean, I know we have an offshore drilling ban that was lifted but the permitting process is going forward. It is difficult to get a permit in Appalachia today. I know it is not your area or group, but is there discussion in the Administration about what this is actually going to be doing to our economy, maybe we are seeing some recovery if we see it turn backwards because of high energy prices? I know there is some issues with the Middle East and oil prices. I understand that. But also I think energy prices were rising prior to what we have seen over the last month in the Middle East. If you could just talk about what is happening here, I would appreciate that.

Mr. FERNANDEZ. Well, you are right. That is usually a subject matter that I am not as engaged in as others might be within the Administration, so I would be happy to follow up with you with some responses from of my colleagues.

I can say that having sound, affordable clean energy is important to our economy and that is certainly the kind of investments that the Administration wants to make. But again, I come back to my opening point about how the President and this Administration are genuinely committed to looking at our current regulatory structure, weeding out unnecessary regulations that do get in the way and don't necessary serve the purpose they might have when they were first promulgated and coming up with a reasonable balanced structure that can enable innovation to survive and thrive and grow and protect public interest at the same time.

Mr. GUTHRIE. Thank you, Mr. Secretary.

I yield back.

Mrs. BONO MACK. The gentleman yields back.

The chair recognizes Mr. Pompeo from Kansas for 5 minutes.

Mr. POMPEO. Thank you, Madam Chairman, and thank you, Mr. Fernandez, for coming out today. We had a chance to speak just briefly before this hearing commenced and I have spent until 8 weeks ago my life in the manufacturing world, and I was looking at your prepared testimony in preparation for today. I have to share with you, I had never heard of EDA until that moment in time. I would guess that when I went back to Kansas and talked to manufacturers there, they likely would not have heard of it either, and if I asked them what would be most important to them growing their business, they would not talk to me about rolling the roulette wheel and catching a grant from EDA but rather would talk to me about regulations and taxes and that kind of thing. So I thought I would share that with you before I sort of dug into a couple of specific questions.

So in here you talk about a $1.4 million grant to Nashwauk, Minnesota, that leveraged a $1.6 billion plant. Do I have that right?

Mr. FERNANDEZ. We were part of that plan, yes.

Mr. POMPEO. Is it your testimony that absent your $1.4 million grant, that that $1.6 billion investment would not have been made?

Mr. FERNANDEZ. No. What I would say is that the grant we made was critically important to——

Mr. POMPEO. When you say "critical," that is the key word. So if you had not made your grant, would that project have proceeded?

Mr. FERNANDEZ. It would have made it more challenging.

Mr. POMPEO. One point four million dollars as a part of a—I just—I am skeptical that that was the $1.4 million—you have used the words "critical" or "catalytic" before. I am skeptical that a federal grant of $1.4 million is catalytic to a $1.6 billion investment.

Mr. FERNANDEZ. No, and we try and be careful about that as well. But if I can, let me just——

Mr. POMPEO. And they are critical. Those——

Mr. FERNANDEZ. Yes, absolutely.

Mr. POMPEO [continuing]. Are the justification for your agency's existence.

Mr. FERNANDEZ. Let me answer the question, though, maybe give you a little bit more background on that specific project. You know, the plant is not located in that particular town. That town's entire budget is barely over a million dollars a year but the water lines and the infrastructure that needed to connect up to this new plant went through that little town and they needed to come up with the resources, and it was essential and it was a tremendous opportunity for them to be able to get an EDA grant to fund that. They would have had a very difficult time connecting this infrastructure to the plant because it was their responsibility.

Mrs. BONO MACK. Excuse me, Mr. Secretary. The time is expired. The chair recognizes Mr. Towns for 5 minutes.

Mr. TOWNS. Thank you very much. I want to thank you for having this hearing as well.

We all agree that we need to get our fiscal house in order. We agree. But there are major differences of degree about how to accomplish these goals. Some argue that the Federal Government should simply stop spending money. This notion makes no sense in the short term during which the recovery hasn't fully taken hold nor in the long term if we expect to raise enough revenue to pay down our debts. Completely halting our investments in R&D, education and infrastructure would be devastating in the short and long term. Moreover, this suggested approach by government ignores how much of the rest of the world operates.

As much we might like, we aren't living in a world defined by completely free and open competition. For example, at a hearing in the last Congress on growing U.S. trade and green technology, we learned that many countries place tariff and non-tariff trade barriers on green goods. Denmark, for one, has essentially mandated the use of Danish manufactured wind turbines. In addition, other countries are investing huge resources into new technologies. The United States now ranks 11th among the G–20 countries for the intensity of its investments in clean energy and technology. My question to you: Can you please describe some of the other barriers to access that United States manufacturers face when trying to enter the clean energy market of other countries? What can be done to reduce or to eliminate those barriers?

Mr. FERNANDEZ. You know, let me just—it is probably going to get a little bit beyond my portfolio but let me just say that I would be happy to get more information to you on that. I think the biggest barriers, we are looking for fair trade agreements where we can enable exports from our country to have access to these growing markets. I think in terms of the clean energy, I mean, the barrier here frankly there is uncertainty about the market in the United States, uncertainty about having a comprehensive energy policy and some of those issues that create impediments to private sector and other financial institutions making big investments here, and until we resolve some of those issues, I think that is going to be a drag on our ability to invest more and become more competitive in the clean tech space.

Mr. TOWNS. Well, what is the Commerce Department doing to help ensure that the United States is in the forefront of energy and resource efficiency? That is your pay grade.

Mr. FERNANDEZ. Well the Department of Commerce certainly under Secretary Locke's leadership has been very aggressive about enforcing trade agreements and going after some of the tariff barriers that create an uneven playing field for American companies. The Energy Department and others throughout the Administration have made significant investments in new innovation, in research and development, in commercialization around clean technology opportunities, so we are investing I think in a significant way to grow that part of the economy.

Mr. TOWNS. Do we have people skilled enough to be able to handle these jobs? Do we have people qualified to do it?

Mr. FERNANDEZ. I believe so, yes.

Mr. TOWNS. You don't think we need to do anything special to prepare the workforce needed for these jobs?

Mr. FERNANDEZ. The workforce to support the clean technology industry?

Mr. TOWNS. Yes.

Mr. FERNANDEZ. I think that there is plenty of evidence that one of the challenges we have in our economy is there is a disconnect between the skills of some of the workforce and some of the jobs that are actually available. So yes, we need to do more to improve the linkage in our workforce investments, to build those opportunities to support these innovative new companies.

Mr. TOWNS. Thank you very much.

On that note, I yield back.

Mrs. BONO MACK. The gentleman yields back.

And before I recognize the next colleague of mine, I just want to point out to the newer members that we recognize for questioning in the order of appearance at the hearing, and that is protocol for the committee and it is standard, so to everybody in the room, if it seems that I am skipping over somebody, it is just the order of appearance, and looking down at my young colleagues on the front dais, if I ever had to be behind an offensive line, I would want to be behind all of you guys, hopefully offensive and not defensive line.

The chair recognizes next Mr. Kinzinger of Illinois for 5 minutes.

Mr. KINZINGER. Thank you, Madam Chairwoman, and thank you, sir, for coming out. You are doing a great job. Maybe we will have you back sometime. How do you like that idea?

Mr. FERNANDEZ. I would welcome the opportunity.

Mr. KINZINGER. You know, I think everybody agrees, when we talk about getting government out of the way of small business, we don't mean government disappears completely. We understand that there is a strategic partnership in some ways that needs to occur. I think where the concern is, from our part, is we have just seen a major overstep of that, to go from almost a partnership to—what is the word—a big brother, father role that the government plays. And I think that frankly is negative to what we see in small business. In fact, what I have seen is as I have traveled around the districts is businesses large and small, in many cases they have the capital, they have the capital to invest and expand, but what they are concerned about is when they have to plan 10, 20, 30 years out in determining where to invest assets and determining where to go. They see an environment that just is continually shifting. It is like being on a waterbed. It is never stable. And so as they look out and say well, I can either hang on to the money I have now or I can make a risk, a risk in investing in the future, which frankly those risks and investment in the future is what drives this economy, they see an uncertain environment. So I think that is what is kind of the key is, not that there is no role for government but that the role for management needs to be stable in the long term as people try to plan things out.

One of the other things that I hear a lot, especially, I come from a heavy agricultural and manufacturing district, is, and I have seen too is the Administration's failure to lead in the area of trade. You know, I am happy that we are starting to talk about potentially approving a trade agreement with South Korea. I think that is important, but we have pending trade agreements with Colombia and Panama, and given that 95 percent of the world's consumers live outside of the United States, I think in order to see manufacturing spark back to life, which I would love it to do, we do have to create a level playing field and that level playing field is done through setting up some of these trade agreements.

So as the Administration's representative to business, have you discussed the regulatory environment which we have talked about a little bit but also a lot of that trade burdens and kind of the focus on getting us to where we can be competitive and not lose market share to China and India?

Mr. FERNANDEZ. Sure. You know, the Administration agrees with you that there are a number of pending trade agreements that we think would open up opportunities for American companies to export into a much fairer, freer system so we support a number of those agreements, and one of them is——

Mr. KINZINGER. Are we going to expect to see that in the very near future the Administration take a leadership role then in getting those trade agreements through including Panama, Colombia and South Korea?

Mr. FERNANDEZ. The Congress certainly has a role in moving those forward as well.

Mr. KINZINGER. OK. All right. So from what you are hearing, though, it is not necessarily—because I have heard them lead on or talk about South Korea, which I am appreciative of. I think that is important. But I haven't heard much lately on Colombia. I haven't much on Panama. And again, we are losing not just from the economic perspective but there is a national defense and strategic advantage to having these trade agreements, especially when we deal with enemies like, you know, folks to the east.

Another question, obviously the GAO report that came out found 52 programs and four agencies that fund entrepreneurial efforts, and I have seen little evidence of your department's ability or I guess efforts to really work with some of these other agencies to find out areas of duplicative programs and figure out how to streamline it and make it to where we don't have all this over-administration. We are no longer in an age, unfortunately, where we can afford this kind of waste. I mean, we have kicked the can down the road. We need to cut our spending, and this is an easy area to do it. So what is your plan to provide corrective action to ensure that the EDA is leveraging its assets to promote growth and limit duplicative process and waste?

Mr. FERNANDEZ. I think it is a very fair question, and the work we do, as I mentioned in my opening statement, there is a tremendous amount of interagency collaboration going on right now. While there are a number of programs with the titles of economy development or community development, entrepreneurship, many of them are complementary but what is essential is that we get alignment and leverage so we are not duplicating and wasting taxpayer money. We work very closely with our partners in the SBA and these other agencies to come together and build strategies that do look for that linkage and alignment so that we accelerate the rate of return and don't just create duplication.

Mr. KINZINGER. Thank you.

Mrs. BONO MACK. The gentleman yields back.

The chair recognizes Mr. McKinley of West Virginia for 5 minutes.

Mr. MCKINLEY. Thank you, Madam Chairman.

I was curious about some of the opening remarks that were made about Goldman Sachs. I don't necessarily think they—I think they were bit of a poster child about the problems on Wall Street but their numbers are being used now, and about 700,000 jobs being lost if we continue this mission of being fiscally responsible. But then Chairman Bernanke came out and said that wasn't right, those were gross misrepresentations. I am just curious. Was Bernanke right?

Mr. FERNANDEZ. I didn't watch his testimony so I am not prepared to give you a good answer on that.

Mr. MCKINLEY. Just curious. I have always held the Commerce Department in high esteem because I think it has less of an agenda than some of the other departments, and I have seen in West Virginia the northern district that I represent, we have lost 24,000 manufacturing jobs in the last 10 years, and in the State in the last 25 years we have lost over 100,000 manufacturing jobs to a point now where when we can try and characterize it, that manufacturing at one time with 150,000 manufacturing jobs, now if you put all the remaining manufacturing jobs that are left in West Virginia throughout all three districts, it wouldn't even fill Mountaineer Stadium with 50,000 people. I feel threatened for our economy and I hoping the Commerce Department will really address that.

I am concerned because I spoke with one of our senators he said the fact that we have 15 million people in America out of work, he said but they are getting unemployment insurance. Do you think senators, other people don't get it, that people want a job and it is our responsibility to be more definitive about getting those jobs rather than continuing it? On Saturday will be my 60th day for me to be in Congress. I have been to so many hearings, I have read so many reports, I have heard so much dialog but I haven't seen the plan that is going to put these people back to work. Someplace we have to do that, and it concerns me. Earlier this week in another meeting, another hearing, you were praising him unfortunately. Someone came in with—you were praising the regulatory bodies but this regulatory body had the gall to say that the greenhouse gas emissions regulated under the Clean Air Act is going to create jobs, and in West Virginia we know that it not accurate but yet that is what happens here in Washington is no one outside Washington believes that more government is going to create more private sector jobs. Only in the Beltway am I getting any sense that government is the solution.

So I am curious, given your opening statement that you said it is a fiscally responsible budget to have $1.4 trillion deficits and we are still sitting with 9 percent unemployment, how can you defend, how can the Commerce that I held in high regard, how can you sit and defend that your policies are the right policy, big government is better than reducing expenditures? Can you share that?

Mr. FERNANDEZ. Sure. Again, I think that the challenges we have today didn't happen overnight, and it is our judgment that you have to have a measured response. The President's proposal for deficit reduction based on the freeze on discretionary non-defense money is serious. We are not going to solve the entire fiscal situation in this country just looking at the discretionary part of non-defense part of federal budgets. There is a whole wide range of issues that will be addressed, I am sure——

Mr. MCKINLEY. In the budget, does he have reductions in the entitlement?

Mr. FERNANDEZ. I don't know off the top of my head. I would have to get back to you.

Mr. MCKINLEY. Could you get back to me? I would like to know.

Mr. FERNANDEZ. But I think that there is a very strong recognition that a lot of these tough issues are going to have to be addressed in a bipartisan way, and the Administration is committed to doing that.

Mr. MCKINLEY. Can you provide something giving an indication of what the—has the EDA, with your group, have they done any proactive positions or assistance in West Virginia in the last 2 years in the northern district?

Mr. FERNANDEZ. My light is lighting up——

Mr. MCKINLEY. Proactive, not responding but you are trying to help to lead the charge, and if you can't today, can you send that to me?

Mr. FERNANDEZ. Sir, we have been very active in West Virginia.

Mr. MCKINLEY. I would like it for the northern district of West Virginia, all that employment, 10.3 percent unemployment. If you could send that to me, I would like to have it.

Mr. FERNANDEZ. I would be glad to.

Mr. MCKINLEY. Thank you very much.

Mrs. BONO MACK. Mr. Secretary, per Ms. Blackburn's comments, we now have her letter to you outlining her earlier request for the record. If you could just have your staff grab it from the clerk to your right before you leave and you will also get a copy of that electronically after the hearing, and we would also like to state that we have other questions for the record which we will submit to you, and we would appreciate your prompt responses in writing.

With that, I just would like to thank you very much for your appearance today, and to say to you, I think we want to work together along with Secretary Locke in making "Made in America" work again, and I look forward to it. And as my colleague, Mr. Kinzinger, said, we hope you are back here often in the good spirit that you were here with today, so thank you.

Mr. FERNANDEZ. Thank you.

Mrs. BONO MACK. And at this point we are going to take about a minute break while we change the panels out and then get started again. So thank you again, Mr. Secretary.

And for some reason we are doing it flipped the way we ordinarily go left to right but today we are doing stage right to left, but we have the seven witnesses. Our first witness is Chris Cummiskey, Commissioner of the Georgia Department of Economic Development and Chairman of the Georgia Centers of Innovation Board of Directors. Our second witness is Drew Greenblatt. Mr. Greenblatt is president of the Martin Steel Wire Products of nearby Baltimore, Maryland, and represents the National Association of Manufacturers. Also testifying before us today is no stranger to us all, Douglas Holtz-Eakin. Mr. Holtz-Eakin is president of American Action Forum. Our fourth witness is Gregory Wilson, Special Advisor to the Financial Services Roundtable. Our fifth witness is Ms. Deborah L. Wince-Smith. Ms. Wince-Smith is president and CEO of the Council on Competitiveness. Also testifying is Heather Boushey. Welcome, Heather. She is the Senior Economist at the Center for American Progress. And last but not least, Mr. Rhone Resch, welcome. He is the president and CEO of the Solar Energy Industries Association. Welcome to all of you. You are each recognized for 5 minutes, and to help keep track of the time are those nice little lights in front of you, and I would ask that when you see the red you try to sum up as quickly as you possibly can. There are a lot of us to get through today and votes on the floor eventually. So we are going to start with Mr. Cummiskey. You are recognized for 5 minutes.

STATEMENTS OF CHRISTOPHER CUMMISKEY, COMMISSIONER, GEORGIA DEPARTMENT OF ECONOMIC DEVELOPMENT; DREW GREENBLATT, PRESIDENT AND OWNER, MARLIN STEEL WIRE PRODUCTS, LLC, ON BEHALF OF NATIONAL ASSOCIATION OF MANUFACTURERS; DOUGLAS HOLTZ–EAKIN, PRESIDENT, AMERICAN ACTION FORUM; GREGORY WILSON, SPECIAL ADVISOR, THE FINANCIAL SERVICES ROUNDTABLE; DEBORAH L. WINCE–SMITH, PRESIDENT AND CEO, COUNCIL ON COMPETITIVENESS; HEATHER BOUSHEY, SENIOR ECONOMIST, CENTER FOR AMERICAN PROGRESS; AND RHONE RESCH, PRESIDENT AND CEO, SOLAR ENERGY INDUSTRIES ASSOCIATION

STATEMENT OF CHRISTOPHER CUMMISKEY, COMMISSIONER, GEORGIA DEPARTMENT OF ECONOMIC DEVELOPMENT

Mr. CUMMISKEY. Thank you, Ms. Chairwoman, and Ranking Member. I want to thank the subcommittee for this invitation to speak to you today and for taking the time to address these very important issues.

The topic at hand, innovation in manufacturing, is one that is very close to our hearts in Georgia. We are a State that cultivates innovation and creativity in this very strategic industry. Like most States, we have lost manufacturing jobs during the recent economic downturn but our recovery is coming. Our sector of employment in Georgia has increased for the fourth consecutive month and confidence levels remain high.

This isn't your grandfather's manufacturing we are talking about. We are particularly strong in advanced manufacturing sectors like aerospace and automotive, both part of our strategic industry focus. The Georgia aerospace manufacturing sector accounts for approximately 28,000 workers in the State, and our aerospace exports in 2010 grew 23 percent to an all-time high of $4.4 billion, seventh in the United States. Industry giants like Lockheed, Boeing and Gulfstream are part of our corporate aerospace community.

Georgia's automotive industry began in 1909 with a small Ford plant. Today, Kia has invested approximately $1 billion in its first United States auto facility. Kia is just one of our more than 300 auto- and vehicle-related companies, employing 20,000 workers. Other prominent automotive names are Pirelli Tire, Toyo Tire, ZF Industries and Johnson Controls.

The men and women who comprise Georgia's manufacturing workforce are highly motivated, skilled and eager to embrace new ways of doing things. This is an attitude and an aptitude that we have deliberately cultivated in our workers in response to the challenges of the new world economy. We in Georgia realized very early that we would not be able to compete with other countries, particularly emerging economies, solely on the basis of wages. We are not just about low-cost manufacturing; we are about high-quality manufacturing. We enabled this through three key ways.

First, Georgia stepped up early to ensure we had the most creative approach to workforce development in the Nation. Education and training is the most critical part of the manufacturing innovation process in Georgia. We accomplish this through economic development partnerships with our universities and our 26 technical colleges. Our Georgia Quick Start program was the first of its kind in the United States and has become a national model for customized workforce training. Offered to qualified companies free of charge to the State since 1967, Quick Start is part of the technical college system of Georgia. It is a soup-to-nuts process. Quick Start personnel will travel to a company's home State or home country, see how they do their processes, replicate them through a variety of technologies and then bring them back here. The program gives hands-on training to new hires, trains existing workers on new processes as well as staying with the company after it begins operation to continue to find trends and how to be more efficient. Quick Start has delivered more than 5,800 projects for client companies and prepared more than three-quarters of a million trainees.

Possibly the best example of Quick Start's importance is its role in Kia's decision to locate in Georgia. Quick Start build a $22 million state-of-the-art training facility that has trained each of the currently 2,200 Kia employees and is about to train another 800, helping the company reach its full operational capacity ahead of schedule. The chairman of Hyundai-Kia has called Quick Start's training center a global benchmark, and the training center for Hyundai's new plant in Brazil is being modeled after the one here in Georgia.

The concept has many imitators but we are proud to have instituted the original program in the United States and to see it grow into something that for many companies is the deciding factor in their choice to locate or expand to the State of Georgia. Georgia Quick Start is a powerful solution to develop a skilled workforce for innovative manufacturers.

Another way Georgia is strengthening our manufacturing sector is through out Centers of Innovation program, which is unique in the United States. We saw the need that entrepreneurs and small companies with the potential for high growth were often having difficulty moving products and services into commercialization, so in 2003 then-Governor Sonny Perdue created the State-run program to connect them to Georgia's intellectual capital as universities as well as industry expertise they needed to jump-start their growth. The Center of Innovation for Manufacturing is one of six such centers in Georgia. It provides expertise in advanced manufacturing processes as well as customized training programs with the latest advanced robotics and PLC and CIM equipment, helping manufacturing companies develop a healthy bottom line.

The center's friendly environment for research and development includes the latest prototyping equipment, allowing companies to test new ideas before investing the money. The center has worked with approximately 80 companies in the last 2 years, partnering frequently with Georgia Institute of Technology to design innovative manufacturing processes and equipment and thus expand production.

Suniva, for instance, is a great example of Georgia innovation blossoming from the ground up. This solar manufacturing company grew from successfully commercialized research at Georgia Tech. It manufactures the most efficient, low-cost photovoltaic cells on the market. The company is rapidly expanding its production capacity, and its new plant will open in 2011 with 400-plus-megawatt capacity. Suniva was ranked last year by Wall Street Journal as the number two venture capital-backed clean technology company in the United States and received the Renewable Energy Exporter of the Year award from the Export-Import Bank of the United States. Suniva was assisted along the way by the Georgia Center of Innovation for Energy. It is exactly the sort of company our Centers of Innovation program was created for.

Another fact that sets us apart is our pro-business environment. Over the years, elected officials in Georgia have worked extremely hard to make sure the State regulatory and tax environment is such that it fosters business growth. Am I out of time?

Mrs. BONO MACK. Sum up very briefly. Yes.

Mr. CUMMISKEY. Our corporate income tax rates are incredibly low and conducive to business and our regulatory is very, very limited, which helps us thrive in this environment.

Thank you for your time, and I will be happy to answer any questions at the end of the round of statements.

[The prepared statement of Mr. Cummiskey follows:]

Name: Chris Cummiskey

Organization: Georgia Department of Economic Development

Name & Date of Hearing: "Made in America: Innovations in Job Creation and Economic Growth
Thursday, March 3, 2011, 10am
2322 Rayburn House Office Building

Subcommittee of Jurisdiction: House Subcommittee on Commerce, Manufacturing & Trade

Thank you for this invitation to speak to you today.

The topic at hand – innovation in manufacturing and trade – is one that is very close to our hearts in Georgia. We are a state that cultivates innovation and creativity in this very strategic industry.

Let me outline briefly my intent today. I'd like to give you a quick rundown of Georgia's manufacturing sector, and then brief you on some of the innovative measures we've implemented in order to remain competitive in the global economy.

Manufacturing in Georgia

Georgia's manufacturing sector is very strong. In 2009 (the most recent year for which figures are available), we had three hundred and fifty-seven thousand (357,000) workers in this industry – that's 9.2 percent of our non-farm employment. In 2008, the sector comprised almost 11 percent of Georgia's economy and had an output of 43.3 billion dollars. Last year, manufacturing accounted for 92 percent of Georgia's exports. More than 28.7 billion dollars in manufactured goods were exported, a 21 percent increase from 2009.

This isn't your grandfather's manufacturing we're talking about. We are particularly strong in advanced manufacturing sectors like aerospace and automotive, both part of our strategic industry focus. Georgia's aerospace manufacturing sector accounts for approximately one-third of the over 84,000 aerospace workers in the state, and our aerospace exports in 2010 grew 23 percent to an all-time high of 4.14 billion dollars – seventh in the U.S. Industry giants like Lockheed-Marietta, Boeing and Gulfstream are part of our corporate aerospace community.

Georgia's automotive industry began in 1909 with the establishment of a Ford Motors plant. Today, Kia has invested approximately one billion dollars in its first U.S. auto facility, which is located in Georgia. Kia is just one of our more than 300 auto and vehicle-related companies, employing 20,000 workers all told. Other prominent automotive names are Pirelli Tire, Toyo Tire, ZF Industries and Johnson Controls.

Like most states, we lost manufacturing jobs during the recent economic downturn. But our recovery is coming on strong. Based on the Purchasing Managers Index, which measures productivity, our manufacturing sector has been in expansion mode since November. Sector employment in Georgia has increased for the fourth consecutive month, and confidence levels remain high.

These figures speak to the kind of energy and spirit of innovation that exists in our state. The men and women who comprise Georgia's manufacturing workforce are highly motivated, skilled, enthusiastic and eager to embrace new ways of doing things.

Challenge and solution

This is an attitude....and an aptitude...that we have deliberately cultivated in our workers in response to the challenges of the new world economy. We in Georgia realized very early that we would not be able to compete with other countries, particularly emerging economies, on the basis of wages. We're not about low-cost manufacturing – we're about high-quality manufacturing. We enable that to happen in four ways:

1. Connecting those manufacturing companies to a talented workforce through a workforce development program called **Georgia Quick Start**
2. Easing the process of commercialization for researchers, entrepreneurs and small businesses with high-growth potential, through the **Georgia Centers of Innovation**
3. Creating **trade opportunities through an award-winning partnership** between the state, the federal government, and the private sector
4. Maintaining a **business-friendly environment**

Georgia Quick Start

Georgia stepped up early to ensure we had the most creative approach to workforce development in the nation. Education and training is a critical part of the manufacturing innovation process in Georgia, through economic development partnerships with our universities and in our 26 technical colleges.

Our Georgia Quick Start program was the first of its kind in the U.S. and has become a national model for customized workforce training. Offered to qualified companies free of charge by the state since 1967, Quick Start is a part of the Technical College System in Georgia. It begins working with companies while they are still prospects, determining what it is they need to begin operating at full capacity the day they open their doors in Georgia. Quick Start has delivered more than fifty-eight hundred (5800) projects for client companies and prepared more than three-quarters of a million trainees.

It's a "soup-to-nuts" process. Quick Start personnel will travel to a company's home state or country to study its manufacturing processes "on location," come back to Georgia, and replicate those processes through a variety of technology. The program gives hands-on training to new hires, trains existing workers on new processes and procedures, and provides ongoing training to the company after it begins to operate.

Possibly the best example of Quick Start's importance is its role in Kia's decision to locate in Georgia. Quick Start built a 22-million-dollar, state-of-the-art training facility that has trained each of the current twenty-two hundred (2200) Kia team members hired thus far. And it's about to train another 800, helping the company reach its full operational capacity ahead of schedule. The chairman of Hyundai/Kia has called Quick Start's training center a "global benchmark," and the training center for Hyundai's new plant in Brazil is being modeled after the one in Georgia

For NCR, the Fortune 500 company that opened its global headquarters in Georgia in 2010, Quick Start conducted a project study in Hungary. It built a fully operational simulation of NCR's assembly process, allowing the company to complete its first ATM within 13 weeks of the company's announcement it was coming to Georgia.

The concept has many imitators, but we are proud to have instituted the original program in the U.S. and to see it grow into something that, for many companies, is the deciding factor in their choice to locate or expand in Georgia. Georgia Quick Start is a powerful solution to our need to develop a skilled workforce for innovative manufacturers.

Georgia Centers of Innovation

Another way Georgia is strengthening our manufacturing sector is through our Centers of Innovation program, which is unique in the U.S. We saw that entrepreneurs and smaller companies with the potential for high growth were often having difficulty moving products and services into commercialization. So in 2003, then-Governor Sonny Perdue created this state-run program to connect them to Georgia's intellectual capital at its universities and technical colleges, as well as the industry expertise they needed to jump-start their growth.

The Center of Innovation for Manufacturing is one of six such centers in Georgia. It provides expertise in advanced manufacturing processes, as well as customized training programs with the latest advanced robotics and PLC and CIM equipment, helping manufacturing companies develop a healthy bottom line. The Center's friendly environment for research and development includes the latest prototyping equipment, allowing companies to test new ideas before investing money. The Center has worked with approximately 80 companies in the last two years, partnering frequently with the Georgia Institute of Technology to design innovative manufacturing processes and equipment and thus expand production.

Suniva, for instance, is a great example of Georgia innovation blossoming from the ground up. This solar manufacturing company grew from successfully commercialized research conducted at Georgia Tech. It manufactures the most efficient, low-cost photovoltaic cells on the market. The company is rapidly expanding its production capacity, and its new plant will open in 2011with 400-plus megawatts capacity. Suniva was ranked last year by the Wall Street Journal as the number two venture-capital-backed clean technology company in the U.S., and received the "renewable energy exporter of the year" award from the Export-

Import Bank of the U.S. Suniva was assisted by the Georgia Center of Innovation for Energy, and is exactly the sort of company our Centers of Innovation program was created for.

Award-winning trade partnership

Georgia is also supporting its manufacturers through an award-winning U.S. Export Assistance (USEAC) partnership that is arguably the strongest in the country. This 13-year-old partnership leverages programs at all levels of government – federal, state and city-county – as well as academic programs. The Georgia Department of Economic Development led the two-year drive to form this partnership and has continued to play a pivotal role. The result has been an integration of services that is demonstrated through the export successes of Georgia's small and medium-sized companies, which have exported more, and exported faster, because of the multi-agency teamwork of the USEAC. For its leadership in this alliance, the department won the President's E-Start award for Export Services in 2007.

Pro-business environment

Another factor that sets us apart is our pro-business environment. Over the years, elected officials in Georgia have worked extremely hard to make sure the state regulatory and tax environment is such that it fosters business growth and success. To that end, single factor apportionment for Georgia's corporate income tax has likely been the most successful change in the tax code. Most states calculate state corporate income tax based on varying percentage of a company's payroll, property and sales. Georgia, however, is one of just 12 states that use only a single factor, gross sales receipts from inside the state, to calculate corporate income tax. This tax structure is a significant advantage for manufacturers that ship products outside of the state. Georgia was the first state in the Southeast to adopt this formula, in 2005. Combined with Georgia's low six percent corporate income tax rate and our right-to-work status, in our experience, it is a powerfully persuasive factor for companies considering our state for location or expansion.

Georgia also attracts manufacturing companies that need to bring in supplies and quickly move products to global markets. Our logistics system, anchored by the world's busiest, most efficient airport and the country's fastest-growing port, is second to none. A healthy sign for manufacturing in Georgia is the record year experienced by the Port of Savannah in 2010, with nearly 20 percent growth in its TEUs. In fact, the port's exports outpaced its imports, comprising almost 53 percent of the port's total volume. The Port of Brunswick, which primarily handles automotive products, had a 52 percent increase in its business in the first half of its fiscal year.

Hartsfield-Jackson Atlanta International Airport serves, at last count, 151 U.S. destinations and more than 80 international destinations in 52 countries. More than 80 percent of the nation is within a two-hour flight of Georgia, or within a two-day truck haul. This kind of global access is what makes Georgia's 32 Fortune 1,000 companies believers in our state.

What can the federal government do to contribute to the pro-business environment of a state like Georgia?

The corporate world moves quickly, and we need to be able to match that speed. The federal regulatory environment is often quite challenging in that respect. For instance, it can take a minimum of nine months to get an air permit (as it did with Kia), and longer than that if a company locates in a non-attainment area. Our agency has an engineer on contract to help companies with the permitting processes, but we may well be an exception. Overall, the slow-moving regulatory environment makes our country less competitive in the global marketplace. Because one-size-fits-all federal mandates are not always helpful to states, we suggest allowing states to adopt regulatory procedures that work best for them.

In summary, we think it's in Georgia's interest, and the interest of our citizens, to take an innovative approach to growing our advanced manufacturing and help the industry achieve its maximum potential for success. We are constantly examining our competitive package to see how we can be creative, and strategically attract and retain manufacturing in Georgia.

Thank you.

Mrs.BONO MACK. Thank you.

Mr. Greenblatt, you are recognized for—yes?

Mr. GREENBLATT. Chairman Bono Mack, in the witness's defense, our timer is not working.

Mrs. BONO MACK. Then I apologize.

Mr. CUMMISKEY. That is OK. I will get over it.

Mrs. BONO MACK. I apologize.

Mr. Greenblatt, you are recognized for 5 minutes. When the light turns yellow, I will make some funny faces at you, I guess, or something.

STATEMENT OF DREW GREENBLATT, PRESIDENT AND OWNER, MARLIN STEEL WIRE PRODUCTS, LLC

Mr. GREENBLATT. Good morning. My name is Drew Greenblatt. I am the president of Marlin Steel Wire. We are based in Baltimore, Maryland. I appreciate the opportunity to testify today on behalf of the National Association of Manufacturers. We represent some 11,000 factories in all 50 States, all industries, all sizes.

The title of today's hearing raises an issue that is close to my heart. Marlin Steel Wire produces custom wire baskets like this and wire forms like this, precision sheet-metal fabrication assemblies, all manufactured 100 percent in the U.S.A. and we sell them all over the world. We export to over 34 countries including this week, Holland, Japan, Sweden, Ireland and Canada. Twenty-five percent of our employees are mechanical engineers or designers. Innovative and dedicated employees have helped expand sales and jobs since I bought the company in 1998. We achieved record sales 4 years in a row.

Manufacturers are seeing signs of economic recovery but we have a long way to go. Manufacturing lost 2 million jobs in the recession, and unemployment remains unacceptably high. Meanwhile, our competitors over in Europe, Asia and South America aggressively seek new customers and new opportunities. Their countries strategize for success in manufacturing.

Manufacturers believe the United States must also embrace a comprehensive approach, one that we outlined last year in our policy guide, Our Manufacturing Strategy for Jobs in a Competitive America.

First, we want to be the best country in the world to headquarter a company. Second, we want to be the best country in the world to do the bulk of our R&D, our research and development. Third, we want to be a great place to manufacture good and exports.

We start with the goal that the United States 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. This week, my company shipped wire baskets for General Motors' assembly line in Canada, where the corporate tax rate is less than half of what we pay. It is easier for my Canadian competitor since his taxes are lower. He has no health insurance. This is bad for me. This is bad for my workers. It means less jobs in the U.S.A. A pro-manufacturing tax policy must first acknowledge that when Congress raises taxes, it makes manufacturing in the United States less competitive. Congress should lower the corporate rate to 25 percent or even lower like Canada at 18 percent without imposing offsetting tax increases. Congress must pass permanent lower taxes for the over 70 percent of manufacturers that are S corporations and file as individuals like Marlin.

Our health care costs also are constantly increasing, double digits, year in, year out. We provide all of our employees with health insurance. The cost problem has not been solved by recent legislation. Congress needs to revisit the solutions they proposed, and it is a problem and it is holding us back.

Our second goal is that the United States should be the best country in the world to innovate, performing the bulk of their company's global research and development. We want those R&D jobs here. The R&D tax credit is important to achieve this goal. Congress extended it recently. However, it has passed and expired more than a dozen times. A little more permanence and certainty in all tax policy would be a good thing.

Finally, our last goal is for the United States to be a great place to manufacture both to meet the jobs of the American market and serve as an export platform for the world. This means more U.S.A. middle-class jobs. Manufacturers rely on overseas markets. Ninety-five percent of the world's consumers are overseas, and most of our exports are manufactured goods. One of Marlin's main core niches is selling custom stainless-steel material-handling baskets to Japanese automakers. As a matter of fact, this week we shipped to Mazda. Korean automakers have steadily increased their market share, offering a similar promising market. The U.S.-Korean free trade agreement if enacted will help Marlin Steel compete on a level playing field. I want to sell to Hyundai. I want to sell to Samsung. I want to sell to Kia.

Rising energy costs also continue to hold back growth and job creation. Soaring oil prices have again stirred alarm.

Mrs. BONO MACK. Mr. Greenblatt, excuse me. You are down to 30 seconds.

Mr. GREENBLATT. Thank you. Even as the recovery takes hold, manufacturers temper our optimism with caution, whether it is the soaring price of oil or the Administration's aggressive regulatory agenda. We believe the best way to ensure jobs and economic growth is to enact a strategy with comprehensive and consistent policies that allow manufacturers to compete in the global marketplace.

[The prepared statement of Mr. Greenblatt follows:]

Comments of the National Association of Manufacturers
Before the
Subcommittee on commerce, Manufacturing and Trade
Committee on Energy & Commerce
U.S. House of Representatives
March 3, 2011

Good morning, Chairman Bono Mack, Ranking Member Butterfield, members of the subcommittee. My name is Drew Greenblatt, and I am president of Marlin Steel Wire Products, LLC, based in Baltimore, Maryland. I appreciate the opportunity to testify today on behalf of the National Association of Manufacturers (NAM), the nation's largest manufacturing trade association. We represent some 11,000 member companies and affiliates in all 50 states, comprising businesses in all industry sectors and of all sizes.

We heartily support your committee's emphasis on job creation, because manufacturing means jobs. Manufacturing also means opportunity, innovation, security and economic growth. To compete on a global stage, manufacturing in the United States needs policies that enable companies to thrive and hire locally. Growing manufacturing jobs will strengthen the U.S. middle class and help America rebound from the deep recession.

Last year, the NAM produced a policy guide and call to action to accomplish those goals – our "Manufacturing Strategy for Jobs and a Competitive America." This strategy provides clear recommendations for strengthening America's manufacturing sector in the face of intense global competition.

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. 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.

Of course, the title of today's hearing – "Made in America: Innovations in Job Creation and Economic Growth" – raises issues that are close to my own heart. Marlin Steel Wire is a leading manufacturer of custom wire baskets, wire forms and precision sheet metal fabrication assemblies – all produced entirely in the United States. Our customers come from the pharmaceutical, medical, industrial, aerospace and automotive industries all over the world...In all, we export to 34 countries. Twenty-five percent of Marlin Steel's employees are mechanical engineers or designers. The innovative ideas from the engineering team propel success at Marlin Steel.

Like so many other manufacturers, my company succeeds through innovation, investment and the hard work of our dedicated employees. Even as Marlin Steel Wire has invested in automation to improve productivity and quality control, we have also added employees.

When I bought the company in 1998, we did about $800,000 in sales with 18 workers. Last year was our most successful one as a business, as we did $3.9 million in sales, exporting to more than 30 countries. Today, Marlin Steel Wire employs 25 people. Manufacturing does mean jobs! We pay well. Also, each of our employees has great health insurance and we pay for 100% of their college education. Our parking lot is double and triple parked and more than half of my employees own their own home. Manufacturing creates solid, middle-class jobs.

For many manufacturers in the United States, the economy is showing definite signs of improvement. In 2010, manufacturing output in real terms rose 6.6 percent, the fastest increase since 1997. This indicates a good pace of recovery, but nevertheless, output remains still 9 percent below the 2007 peak – indicating how serious the recent manufacturing recession really was. We should be doing much better.

Manufacturing also added about 138,000 factory jobs in 2010, the most since 1997. And, as you may have seen, earlier this week the Institute for Supply Management issued its latest ISM Manufacturing Report on Business, indicating that manufacturing growth had turned in its best performance since 2004.

But there's still a long way to go. Manufacturing lost more than 2 million jobs in the last recession, our recent gains in manufacturing employment only made up 6.2% of our losses, unemployment in the rest of the economy remains unacceptably high, and recovery is not just a matter of letting the business cycle takes its course.

The recovery of U.S. business occurs even as our competitors in Europe, Asia and South America aggressively seek new customers, markets and opportunity. Countries know that a strong manufacturing sector is a key to jobs, innovation and prosperity. They are strategizing for success in manufacturing and to improve their global competitive positions.

The National Association of Manufacturers believes the United States must also embrace this comprehensive approach. We must recognize that global competitiveness depends on a broad, interconnected set of policies on taxes, trade, energy, regulation and innovation.

We have collected these policies in the "Manufacturing Strategy for Jobs and a Competitive America." The strategy sets three broad 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 (R&D); and
- to be a great place to manufacture goods and export products.

These are goals that should have broad, bipartisan support. In fact, in his State of the Union address, President Obama declared, "We have to make America the best place on Earth to do business." Manufacturers agree. Now the challenge is to put the right policies in place to make that goal a reality.

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.

Marlin Steel's tax rate is higher than its global trading partners like Canada, where companies pay perhaps half as much in taxes – 18 percent compared to our approximately 40 percent. The United States now imposes the highest or second-highest statutory corporate income tax in the world among developed nations, even as our competitors reduce their rates to improve their economic climate. Congress must reduce the corporate tax rate to 25 percent or lower without imposing offsetting tax increases.

More than 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. Our tax system must promote fair rules for taxing active foreign income of U.S.-based 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.

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 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 – companies that create new jobs right here at home. Our nation's immigration rules must recognize the value 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 economic recovery that began in 2009. The growth of Marlin Steel Wire is based on our aggressive strategy of seeking new customers around the globe; as I mentioned earlier, we now ship our products to more than 30 countries.

Manufacturers need a level playing field. In today's global marketplace, manufacturers in Maryland are no longer just competing against Texas companies that compete against Georgia companies. 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 to ensure the regulatory environment in the U.S does not put manufacturers at a disadvantage.

To do this, manufacturers need an 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.

Again, speaking from my own experience, one of Marlin Steel's core niches is selling custom stainless steel material-handling baskets to Japanese automakers. As we all know, Korean automakers have steadily increased their market share, and I want to sell our custom wire baskets to the Korean automakers as well as the Japanese like we did this week to Mazda. The U.S.-Korea Free Trade Agreement, if enacted, will help Marlin Steel compete on a level playing field with Korean wire basket suppliers.

In addition to leveling the playing field on trade, policies must help small and medium-sized manufacturers through technical aid and financial assistance programs that promote expanded exports.

Recent turmoil in the Middle East and the associated soaring price of crude oil reinforces – yet again – the need for aggressive development of America's domestic energy resources. Manufacturers support a comprehensive energy strategy that embraces an "all of the above" approach to energy security 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. The Department of Interior on Monday issued its first new deepwater drilling permit in the Gulf of Mexico since last year's oil spill. This is a good first step, but there are still 14 deepwater permits pending review and approval. Offshore drilling is a significant part of the U.S. economy both in terms of generating jobs as well as creating a domestic supply of oil and gas. A recent study found that 125,000 jobs could be lost by 2015, while we stand to lose 680,000 barrels of oil by 2019 if the permitting delays continue to linger.

Manufacturers are reliant on our nation's vast interconnected network of roads, railways, airports, inland waterways and seaports that support and supply every sector of the economy. While many of our members are predominantly reliant on motor carriers to deliver finished products to their customers, manufacturers rely on air freight to deliver time sensitive and high-value cargoes, railroads for raw materials and finished products, inland waterways for efficient and bulk-sized movements and seaports for export to overseas markets. The NAM believes that a renewed federal commitment to our nation's transportation infrastructure will help ensure our nation's manufacturing competitiveness. Transportation infrastructure can carry the weight of our economy safely, efficiently, and at a competitive cost to shippers and consumers alike. It underlies the very core of our economic prosperity.

While appropriate investment in our transportation infrastructure is critical, it is equally important that we not dramatically increase the cost of freight movement through ill-conceived Administration proposals like the attempt to further limit hours of service for truck drivers.

Regulatory Environment

With the 112th Congress, several committees in the House of Representatives have began serious scrutiny of the impact of overregulation on business and job creation. This subcommittee, for example, recently examined the burdens that result from the Consumer Product Safety Commission's implementation of the Consumer Product Safety Improvement Act. That's a major area of concern for many of our NAM members, and I thank you on their behalf.

Speaking more broadly, employers across the U.S., especially manufacturers, face considerable uncertainty that stifles economic growth and discourages hiring. For laws that affect manufacturers, there are often scores of burdensome 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.

President Obama recently issued an executive order instructing Executive Branch agencies to review existing regulations with a focus on removing unnecessary and redundant rules. He also instructed the agencies to give more weight to the need for economic growth and the concerns of small business.

Manufacturers welcome the stated intentions and await the regulatory relief that reflects them. Recent history provides some reason for skepticism. 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.

Some of the most economically threatening regulatory proposals come 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.

Conclusion

Chairman Bono Mack, members of the committee, thank you again for the opportunity to testify today on the role that manufacturing plays in America's economy, innovation and job creation. For many manufacturers in the United States, the recovery is taking hold. Orders are up, we are investing, and companies have plans to hire. But our optimism is cautious. Whether it's the soaring price of oil or the Administration's aggressive regulatory agenda, manufacturers recognize many risks to recovery.

We believe the best way to ensure continued economic growth and employment is by enacting a comprehensive and consistent set of policies that allow manufacturers to compete in the global marketplace – a strategy. Our recommendations are found in the "Manufacturing Strategy for Jobs and a Competitive America," and I respectfully ask to submit a copy for the record.

###

Mrs. BONO MACK. I thank the gentleman.

Before we move on, we are going to do a highly technical fix to this. We are going to slide that clock down to the center and that is our technological answer to it.

Dr. Holtz-Eakin, you are recognized for 5 minutes.

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

Mr. HOLTZ-EAKIN. Thank you, Chairman Bono Mack and Ranking Member Butterfield and members of the committee. It is a privilege to be here today. You have my written statement. Let me briefly make three key points.

The first is the obvious, that jobs are the central consideration at this point in time. The second is that we need to shift the policy focus from so-called stimulus efforts toward genuine pro-growth policies that will enhance the trend in growth rate of the U.S. economy and thus provide those workers with the jobs they need. And then the third is some suggestions that such an agenda would begin with controlling spending to take off the table a looming sharp rise in the deficits and debt, tax reform that would make our Nation the best place to headquarter a company and to enhance our international competitiveness. The third would be the jurisdiction of this committee and trade, enhance our engagement in opening markets abroad. And the fourth, a regulatory review to really temper the large-scale increase in regulation we have seen in a wide variety of policy areas in recent years.

Jobs is obvious. Despite the recent news that we have seen this week, a good ADP report, very good Institute for Supply Management report, this morning's report on lower UI claims, it still remains the case that with so many Americans out of work, it is far more likely that we see the unemployment rise before permanently declining than simply getting better on a sustained basis. So we have to keep a focus on this.

Related to that, it is true that the economy is growing. It has been growing for six straight quarters. But that pace of growth, under 3 percent, is far too slow to sustain the kinds of job increases we need to get the 7 million workers who are out of work back into jobs and to provide for our children a standard of living that is better than the one that we have inherited. This is in fact typical of economies recovering from a financial crisis. We need to recognize that there will not be any quick fixes and instead focus on the kinds of policies that will allow us to grow more rapidly on a sustained basis and thus accelerate the possibilities even in the midst of a tough recovery.

For such an agenda, I have lots in my written testimony. Here I want to just talk about two. First is the absolutely essential problem of taking on the projected debt in the United States. If one looks at any reasonable projection, either the Administration's budgets or those by the Congressional Budget Office, one sees that over the next decade we face perilous times. Despite the fact that either such projection would actually count on a recovery to full employment, a fact that a financial crisis will be a distant memory, would presume that we are no longer fighting overseas operations in Iraq and Afghanistan, and that we would be raising well above historically typical levels of taxes, 19, 20 percent of GDP. Despite all of that, deficits are projected to be over a trillion dollars 10 years from now. Something close to $900 billion of that will be interest on previous borrowing. In the interim, the United States will have crossed the technical line for downgrade as a sovereign borrower, and we will have debt-to-GDP ratios that are associated with the typical levels where financial crises occur. In short, we are on a path to disaster. The President's own Fiscal Commission described this as a national moment of truth where we had to put aside political budgetary gains and deferring of tough decisions to take on this problem.

If you are a businessman trying to make a decision about the future, this is a recipe for either higher interest rates or higher taxes, or both, and there can be no more pro-growth move by this Congress and this country than to take off the table those kinds of threats and allow businesses to make investments in their workers and in their technologies and plants in order to grow more rapidly.

So I think that it is imperative that this be the top agenda item. The only way to do it is to control spending. This is not a revenue problem in all those projections, and I would deeply and professionally disagree with the kinds of reports that have been mentioned earlier in this hearing from either Mark Zandi, who was one of my assistants on the McCain campaign, for the record, and not a chief policy advisor, and Goldman Sachs. Those reports are fundamentally flawed in two ways. First are technical. They make assumptions about the pace at which spending is cut down and the way it impacts the economy, which overstate their impact, and the second is just fundamental. There is no way in their analyses for forward-looking expectations to enter. There is no one in their analysis who is looking to next year or even 10 years from now. They are fundamentally myopic analyses. Everyone in this room gets up every day and tries to see the future, are we coming out of this recession, can we see better times ahead, and they are doing their analysis on the assumption that no one looks past next week. They are deeply flawed and overstate the impacts.

The last thing I want to close with is trade. The United States has given up its historic leadership in trade. It has been on the sidelines far too long with three pending trade agreements, some of which are crucial and irrational not to ratify and this committee has the jurisdiction to push that agenda forward. I would encourage them to do so. Thank you.

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

Testimony on:
Made in America: Innovations in Job Creation and Economic Growth

Douglas Holtz-Eakin
President, American Action Forum*

March 3, 2011

Introduction

Chairman Bono Mack, Vice-Chairman Blackburn, and Ranking Member Butterfield thank you for the privilege of appearing before the Committee today. In this short statement, I wish to make the following points:

- The U.S. workers and economy as a whole will benefit from pro-growth policies;
- Pro-growth policies are distinct from the notion of "stimulus" that has been prominent in the recent debate; and
- Central aspects of a pro-jobs and growth agenda are controlling federal spending growth, improved tax policy, enhanced global trade, and a lighter regulatory burden.

Let me discuss each in turn.

The Need for Pro-Growth Policy

According to the National Bureau of Economic Research the recession began in December 2007. Their data show that there were 142.0 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 135.3 million jobs, for a total job loss of 6.7 million attributed to the recession. These numbers are quite close to those using the Bureau of Labor Statistics non-farm payroll data, which showed a loss of 6.8 million.

---

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

There are glimmers of promise. Since December 2009, 945,000 payroll employment jobs have been added. However at the same time, there are 14.5 million unemployed persons in the economy and many more discouraged workers. Since the start of the recession the labor force has fallen by nearly 500,000.

For these reasons, the current unemployment rate of 9.0 percent likely understates the real 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.

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, but I tend to be skeptical of claims of large-scale effectiveness.

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 for six consecutive quarters and employment is up from its trough in December 2009. There is substantial and widespread evidence of an ongoing economic expansion. Accordingly, this is <u>not</u> the time for counter-cyclical "stimulus".

The pace of expansion remains solid and unspectacular averaging under 3 percent annual growth. 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 is 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

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

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

Households are caught in a double bind of badly damaged balance 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 where it stood in 2007. The expansion thus far has yielded modest income growth.

It would be unrealistic, 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. 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. Using the 2011 Budget 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.

The President has now released his budgetary proposals for Fiscal Year 2012. While CBO has yet to have the opportunity to provide a non-partisan look at their implications, my reading of the budget is that it is simply a repeat of last year's dismal plan.

The fiscal future outlined above represents a direct impediment to job creation and growth. The United States is courting downgrade as a sovereign borrower and a commensurate increase in borrowing costs. 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.

Some suggest that we can stave off such a crisis 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. No tax regime since World War II has come close to raising 25 percent of GDP, during a period that has seen an incredible variety of tax rates.

Pro-Growth Policies Versus Stimulus

The foundation of economic growth is the act of foregoing current consumption in order to save; using those savings to invest in innovation, skills, new plant and equipment, and new technologies; and thus expanding the size of the economic pie for every American. A pro-growth approach to policy design emphasizes strong incentives to save, protection of the returns to innovation and technological advance, and minimal interference in the ability to access markets, hire workers, and deploy new investments.

In contrast, conventional Keynesian counter-cyclical policy – "stimulus" in political parlance – emphasizes policies to induce households to spend or directly takes this responsibility on the federal budget. These policies emphasize consumption at the expense of saving, are oriented toward propping up legacy firms and activities at the expense of innovation, and de-emphasize the role for the private sector.

The two approaches differ in another important way. The heart of stimulus – spending increases and temporary tax cuts – are activities that should be reversed over the longer term. History suggests that Congresses and Administrations have been very good at "doing" stimulus, and very poor at "undoing" it when needed. In contrast, pro-growth policies are permanent signals to households, entrepreneurs, investors, and innovators. One virtue of making pro-growth policy changes at a time of weak economic performance is that there is "no regrets" – it is simply accelerating a policy that one would like to pursue in any event.

A Pro-Growth Policy Agenda

Controlling Federal Spending. The federal government needs to reduce spending growth, and control its debt. No sensible growth strategy can be built around greater federal spending, or greater government spending more generally. The projections of sharp growth in federal spending, deficits and debt raises the prospect of higher interest rates, higher taxes, or both. This constitutes a serious impediment to confidence among businesses and entrepreneurs to locate in the United States and inhibits those that do from being willing to grow, expand and hire.

Accordingly, the top issue for a pro-growth policy agenda to create jobs in America is to control federal spending. The House of Representatives has taken an important first step in doing so with the passage of H.R. 1. Unfortunately, recent reports have suggested that it is instead a <u>threat</u> to U.S. economic growth. I concur with Federal Reserve Chairman Ben Bernanke that these analyses are mistaken.

The first thing to note is that while Members are aware that a reduction of $61 billion in <u>budget authority</u> does <u>not</u> translate into an immediate $61 billion cut in <u>outlays</u>, many analysts appear to not understand these budgetary facts. Indeed, on average, a $1 cut would translate into only 52 cents during the current fiscal year.

In gauging the <u>maximum</u> possible growth impact, one could assume that a full $32 billion in reduced spending would occur in Fiscal 2011 (i.e., before September 30) even though there are only 7 months left. For simplicity, suppose that outlays fall by $16 billion in the 2nd quarter, $16 billion in the 3rd quarter, and – to really gauge the upper bound – another $16 billion in the 4th quarter of calendar 2011.

What happens? If one thought that the growth rate in 2011 would be 3.0 percent, it would fall to 2.7 percent. That is, the upper bound impact is 0.3 percentage points. Still, this continues to <u>overstate</u> the likely impact because:

- The calculation assumes full dollar-for-dollar reduction in GDP as spending declines. This is too large, especially because;
- Not all outlay reductions are actual cuts in the purchases of goods and services to contribute to measured GDP. Instead, some are transfers payments to states or individuals that will have a more muted impact;
- Not all of the budget authority cuts are from new spending. Instead, some are rescissions of the authority for <u>spending that never occurred and might never occur</u>; and
- Most importantly this is a static calculation that assumes no beneficial offset in private sector spending because of the improved budget outlook and prospect of lower future taxes and interest rates. Put differently, the criticisms <u>ignore the rationale for making these beneficial cuts to begin with: to clear the way for private sector jobs and growth</u>.

Far from being either a mistake or a muted misstep, this is a step toward exactly the right strategy. As summarized in a recent paper by Ike Brannon at the American Action Forum the research indicates that the best strategy to both grow and eliminate deficits is to keep taxes low and reduce public employee costs and transfer payments.[2]

Improved Tax Policy. With households and governments facing the task of repairing their balance sheets, America's hope for economic growth lies with business-sector spending and net exports. What's needed now is a tax policy that has incentives for businesses and entrepreneurs to locate in America and spend at a faster rate on innovation, workers, repairs, and new plants and equipment.

The place to start is the corporate income tax, which harms our international competitiveness in two important ways. First, the 35 percent rate is far too high: when combined with state-level taxes, American corporations face the highest tax rates among our developed competitors.[3] The rate should be reduced to 25 percent or lower.

Second, the United States remains the only developed country to tax corporations based on their worldwide earnings. Our competitors follow a territorial approach in which, say, a German corporation pays taxes to Germany only on its earnings in Germany, to the U.S. only on its earnings here, and so forth. If we were to adopt the territorial approach, we would place our firms on a level playing field with their competitors.

Proponents of the worldwide approach argue that because it doesn't let American firms enjoy lower taxes when they invest abroad, it gives them no incentive to send jobs overseas. Imagine two Ohio firms, they say: one invests $100 million in Ohio, the other $100 million in Brazil. The worldwide approach treats the profits on these two investments equally, wisely giving the company that invests in Brazil no advantage over its competitor.

But this line of reasoning ignores three points. First, because firms all over the world will pay lower taxes than the two Ohio companies, the likeliest outcome of the scenario is that both firms will fail, unable to compete effectively with global rivals. Second, when American multinational firms invest and expand employment abroad, they tend also to invest and expand employment in the United States. In the end, healthy, competitive firms grow and expand, while uncompetitive firms do not, meaning that our goal should be to make sure that American companies don't end up overtaxed, uncompetitive, and eventually out of business. And finally, because

[2] See http://americanactionforum.org/news/repairing-fiscal-hole-how-and-why-spending-cuts-trump-tax-increases

[3] Some defend the high corporate tax rate by arguing that the effective corporate tax rate is much lower. This misses an important point. Every country's effective tax rate is also lower than its statutory rate. A recent study by two economists at the University of Calgary (http://www.cato.org/pubs/tbb/tbb_64.pdf)concludes that the marginal tax rate in the U.S on new investment is 34.6 percent, higher than any other country in the OECD.

the U.S. is the holdout using a worldwide approach, it is at a disadvantage as the location for the headquarters of large, global firms. As the U.S. loses the headquarters, it will lose as well the employment, research and manufacturing that typically is located nearby.

The corporate tax should be reformed further. At present, companies must depreciate their capital purchases over time. Instead, they should be allowed to deduct immediately the full cost of all investments, which would provide a dramatic incentive for spending. We should also consider phasing out the tax-deductibility of the interest that companies pay on their borrowing. Because this interest is deductible and the companies' own dividends are not, firms have an incentive to borrow excessively. Removing that incentive—making a firm's tax liability dependent not on its financial decisions but on its real economic profitability—would discourage financial engineering and focus corporations on their core mission.

A more competitive corporate-tax system would be a good start in our effort to encourage private-sector growth. But a lot of private-sector economic activity in the U.S. isn't affected by the corporate tax at all. Activity that takes place in sole proprietorships, partnerships, and other "pass-through entities"—organizations whose income is treated solely as that of their investors or owners—is instead affected by the individual income tax. Congress' Joint Committee on Taxation projects that in 2011, $1 trillion in business income will be reported on individual income-tax returns.

It's important to note that nearly half of that $1 trillion—$470 billion—will be reported on returns that face the top two income-tax rates. A conservative estimate is that more than 20 million workers would be employed by firms directly affected by those two tax rates. Tax reform should avoid higher marginal tax rates in favor of lower rates and a broader base. Marginal tax rates and the taxation of dividends and capital gains directly affect companies' decisions about innovation, investment, and savings.

Americans—from homeowners to small businesspeople to the millions of unemployed—are in desperate need of faster and prolonged economic growth. Congress should therefore evaluate tax proposals based on whether they're likely to trigger and support that growth. Tax policy can play a key role in spurring an economic recovery—but not without sustained reform of both the corporate and individual income-tax systems.

Enhanced Global Trade. It will not be news to the members of this committee, who have jurisdiction over trade issues, that the past four years have been ones of virtual stagnation on U.S. involvement in global trade – a far cry from the postwar tradition of U.S. leadership on reducing barriers to multi-lateral trade. The Doha Round of multilateral trade liberalization is moribund, in no small part due to the absence of U.S. leadership. No new bilateral trade bills have been negotiated or passed into law, and the three holdovers from the previous administration—Panama, Columbia, and South Korea—await an uncertain fate, if and when they are submitted to the Congress.

While the U.S. has sat on the sidelines, the rest of the world has not. A plethora of bilateral and multilateral free-trade-agreements have been passed over the past four years. South America, the Pacific island countries, Africa, and Asia have all seen robust new agreements expanding trade in their regions. In addition, the European Union has been enthusiastically seeking to expand their economic ties with other developed countries and free trade regions as well, especially in Asia. Europe has taken the sensible attitude, backed by a wealth of economic research, that expanding markets is a route to faster growth in anemic economies in both the near term and over the long run. The conspicuous absence of the U.S. in trade agreements – at the same time that the President has set a goal of doubling exports in the next five years – does not assist economic growth in the short run and makes it more difficult for U.S. firms to establish a market presence in new areas in the long run.

Lighter Regulatory Burden. Regulations have an unmistakable cost. It includes the direct cost by businesses having to spend to comply with the new rules (similar in concept to the dollars of tax payment) as well as the economic activity – the jobs, investment, and expansion given up as a result of the regulation (similar to the distortions produced by marginal taxes). These regulatory costs have the potential to impede growth.

Given the necessity of growth at this juncture, it is imperative that only those that generate benefits in excess of their economic and administrative costs be enacted, or remain on the books. I believe that many regulations are overly broad and cost US businesses too much money for the benefits ascribed to the regulations. Putting actual numbers on both the costs and the benefits can be a difficult task, but there is no substitute for good-faith efforts and a willingness to trim back regulatory overreach.

There is no excuse, however, for conflating what is a cost and what is a benefit of a regulation. When a regulation will force businesses to hire 100 additional workers to comply, it is a cost. Recently, in its newly-proposed regulations governing boilers and process heaters, the Administration has suggested that this is actually a "stimulative effect" that goes down as a <u>benefit</u>:

> "[I]n periods of high unemployment, an increase in labor demand due to regulation may have a stimulative effect that results in a net increase in overall employment."

> "Regulated firms demand labor workers to operate and maintain pollution controls within those firms."

> "Increased demand for pollution control equipment and services: When a regulation requiring emission reductions is promulgated, affected sources must immediately place orders for pollution control equipment and services. Filling these orders will require a scale-up in manufacturing of pollution control equipment, performance of engineering analyses and significant expenditures for assembly and installation of such equipment. <u>These activities will be job-creating during the period before firms must comply with the rule, at which point all pollution control equipment must be installed and operating.</u>" [Emphasis added.]

This is unadulterated nonsense.

Conclusion

At this juncture, the United States needs a keen focus on enhancing the rate of economic growth. Workers and economy as a whole will benefit from pro-growth policies, which are quite distinct from the notion of "stimulus" that has been prominent in the recent debate. Finally, central aspects of a pro-jobs and growth agenda are controlling federal spending growth, improved tax policy, enhanced global trade, and a lighter regulatory burden.

I look forward to answering your questions.

Mrs. BONO MACK. Thank you.

Mr. Wilson, you are recognized for 5 minutes.

STATEMENT OF GREGORY WILSON, SPECIAL ADVISOR, THE FINANCIAL SERVICES ROUNDTABLE

Mr. WILSON. Thank you, Chairman Bono Mack, Ranking Member Butterfield and members of the committee. My name is Greg Wilson. I serve as a Special Adviser to the Financial Services Roundtable and its new Financial Stability Industry Council. On behalf of the roundtable, I am pleased to be invited to discuss the potential impact of new U.S. financial regulations on the economy and the implications for innovation and jobs. The Roundtable is a trade association of the largest, diversified financial services firms in the United States.

Mrs. BONO MACK. Excuse me, Mr. Wilson. Would you please just pull the microphone—we can hear you clearly but I guess the TV audience cannot. Perhaps a little closer.

Mr. WILSON. I have got a green light here. Here we go.

Mrs. BONO MACK. Thank you.

Mr. WILSON. So we need to be very mindful about the impact of the Dodd-Frank Act. So let me go over some solutions. What can we do as the Administration, the Congress and the financial services industry to make sure there is no negative impact of the new financial rules?

Let me start with the Administration. President Obama should be commended for two recent actions but his actions need to be expanded and applied to the financial services sector. First, ensure that the President's new Council on Jobs and Competitiveness chaired by GE's Jeff Immelt also focuses on the financial services industry, not just manufacturing and trade.

Second, ensure that the President's new order on regulation "promoting economic growth, innovation, competitiveness and job creation" applies to the new Financial Stability Oversight Council and other financial regulators. Secretary of Treasury Geithner, this should be his major responsibility under the new Dodd-Frank Act and his role as chair of the council.

Let me turn to what Congress can do, and I want to pick up on some of the statements in your opening remarks, Madam Chairman. I think there are some immediate initiatives that can be taken. In the consulting world, we would call these quick wins. First, demand that an economic impact assessment be made for all the critical regulations and rules coming out of particularly Title I of the Dodd-Frank Act, which affects the largest, most systemically important institutions and has the biggest potential impact on our economy, as I lay out in table one in my testimony on page 10.

Second, legislate new requirements for full economic impact assessments for all future financial regulations. You could this bill on the suspension calendar in the next 30 days and begin to have a good bipartisan initiative to get to the facts and the diagnostics that I think need to be on the record as the Dodd-Frank Act rolls forward.

Third, analyze the full impact of the new, more stringent restrictions for financial activities and practices on economic growth as required by Dodd-Frank. This is the only time in Dodd-Frank that the words "economic growth" are used. You won't find words like "innovation" and "jobs" anywhere particularly in the first title of Dodd-Frank.

Fourth, ensure that the oversight council and the Office of Financial Research actually establish industry advisory councils as the Dodd-Frank already permits in order to have a more balanced dialog between regulated firms and regulators. I think this will result in more balanced outcomes and be good. The Secretary of the Treasury already has that in his sights and on his timeline. He just needs to follow through and appoint those committees.

Fifth, hold the Treasury Secretary strictly accountable in the annual oversight council report for the impact on economy and jobs. Title I uses the words "efficiency" and "competitiveness" and that is the closest you are going to get in Dodd-Frank. Again, you won't find the words "innovation" and "jobs", even though they may be implied. So that is close enough for government work from my perspective. Even better, you could go back and amend the Dodd-Frank Act to put the words "innovation" and "jobs" in there as part of this mandate to review going forward.

Finally, Congress should review the regulatory burden of 187 separate regulatory reports going to 16 different agencies to make them more streamlined and useful in the spirit of the new GAO report on government inefficient.

Mrs. BONO MACK. I know the light is again not working but that concludes your time. Do you need to sum up with a sentence or two?

Mr. WILSON. No, just that I have other remarks in there about what the financial services industry should be doing on its own and is starting to do, but thank you for your time.

[The prepared statement of Mr. Wilson follows:]

STATEMENT OF

GREGORY P. WILSON

SPECIAL ADVISER

THE FINANCIAL SERVICES ROUNDTABLE

"MADE IN AMERICA: INNOVATION IN JOB CREATION AND ECONOMIC GROWTH"

BEFORE THE

SUBCOMMITTEE ON COMMERCE, MANUFACTURING, AND TRADE

COMMITTEE ON ENERGY AND COMMERCE

UNITED STATES HOUSE OF REPRESENTATIVES

WASHINGTON, D. C.

MARCH 3, 2011

Statement by Gregory P. Wilson
The Financial Services Roundtable
Executive Summary

Congress needs to carefully consider the full impact of the new Dodd-Frank Act on innovation, the economy, and jobs. While well intentioned, the net cumulative impact on our economy could be negative. For example, if the sum total of all new rules has just a 5 or 10 percent negative impact on lending as it could potentially, then there would be roughly $250 billion to $500 billion less lending available for our economy.

There are several immediate initiatives that the Administration, the Congress, and the industry can take to ensure a more balanced and effective regulatory outcome.

Administration

- Ensure the President's new Council on Jobs and Competitiveness also applies to the financial services industry, not just manufacturing and trade
- Ensure that the President's new Executive Order on Regulation - "promoting economic growth, innovation, competitiveness, and job creation" - applies to the new Financial Stability Oversight Council and other financial regulators

Congress

- Demand economic impact assessments for critical Dodd-Frank Title I rules
- Legislate new requirements for full economic impact assessment for all future financial regulations and put on Suspension Calendar within next 30 days
- Analyze full impact of new "more stringent" restrictions for financial activities and practices on economic growth as required by Dodd-Frank
- Mandate the Oversight Council and Office of Financial Research establish Industry Advisory Committees as the Dodd-Frank Act permits to ensure balanced deliberations between regulators and regulated firms and more effective outcomes
- Hold Treasury Secretary strictly accountable in annual Oversight Council reports for impact on economy and jobs - "efficiency" and "competitiveness" as required by Dodd-Frank
- Streamline current financial regulatory reporting burdens (e.g., 185 reports to 16 agencies)

Financial services industry

- Develop new recommendations for financial market competitiveness consistent with prudential standards for consumer protection and financial safeguards
- Conduct industry diagnostic of Dodd-Frank Act to assess impact on innovation, economy, and jobs
- Develop new research, metrics, and ways of communicating financial services industry impact on the economy and jobs

Chairwoman Bono Mack, Ranking Member Butterfield, and Members of the Subcommittee. My name is Greg Wilson. I serve as a special adviser to the Financial Services Roundtable and its new Financial Stability Industry Council. On behalf of the Roundtable, I am pleased to be invited to discuss the potential impact of new U.S. financial regulations on the economy and the implications for innovation and jobs.

The Roundtable is a trade association of the largest, diversified financial services firms in the United States, which have a market capitalization of $1.7 trillion and assets under management of over $90 trillion. Roundtable member companies provide fuel for America's economic engine and directly account for 2.3 million jobs. The financial services industry at large represents 8.3 percent of our nation's gross domestic product (GDP).

Some of the Roundtable's core beliefs are that large, integrated financial holding companies are critical to the nation's sustained economy growth, providing much of the fuel for our economy and job creation. Moreover, dynamic companies and competitive markets should govern the delivery of financial services to meet the needs of all consumers, subject of course to prudent risk management and regulation that is both balanced and effective.

Personally, my entire career has revolved around the issues of financial services policy and regulatory issues, having served on the staff of the old Committee on Banking, Finance, and Urban Affairs - now the Committee on Financial Services - and as a political appointee in the Administrations of Presidents Ronald Reagan and George H.W. Bush at the U.S. Treasury Department. Since then, I have been a partner at McKinsey & Company serving both public and private sector clients, and have just authored a new book, *Managing to the New Regulatory Reality: Doing Business under the Dodd-Frank Act.* So I will try and give this Subcommittee a perspective on the importance of innovation to our economy and jobs from a financial services perspective as a complement to other witnesses on this panel.

In my testimony today, I first want to provide a brief background to set the contents for my remarks. Then I will address several initiatives where the Administration, the Congress, and the financial services industry can play a vital role to ensure that U.S. financial companies and markets remain competitive, vibrant, and innovative. In turn, this should help to ensure that the United States remains the leading financial capital and marketplace within a larger, global world of competing financial centers. The Roundtable is fully engaged - and the financial services industry needs to be fully empowered - to play its critical role of financial intermediation, investment, and protection.

BACKGROUND

The obvious background to my remarks is the worst financial crisis in our lifetime, followed by the worst recession I can recall. The Bush Administration and the 110th Congress responded to the great financial panic of 2008 with the Emergency Economic Stabilization Act of 2008 to stop the bleeding. Roughly eighteen months later, the Obama Administration and Congress responded with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), the most comprehensive regulatory reform legislation I can recall in my professional career. The Financial Crisis Inquiry Commission issued its report in early 2011, which will set the stage for continuing debate on causes of the crisis as well as for additional reforms. Moreover, the Departments of Treasury and Housing and Urban Development have just issued a report to Congress, *Reforming America's Housing Finance Market*, describing several options to re-boot housing finance and hopefully ensure sustainable finance to creditworthy homeowners in the future without the need for another round of massive taxpayer assistance.

Moreover, there are several complicating factors, some of which Congress is just now starting to address. We have a pending fiscal and potentially significant sovereign debt crisis looming in this country at the national, state, and even municipal levels. We suffer under a tax system that is as complex and complicated as it is costly, putting the United State at a competitive disadvantage internationally as an attractive place to invest and do business. We have a monetary policy with few real policy levers left to pull, with short-term interest rates stuck near zero. We have huge, global, macro economic imbalances that the Group of Twenty Leaders are struggling to address, but which are proving difficult to resolve in a meaningful way beyond rhetorical flourishes from time to time. We struggle with a credible and coherent trade policy, just as inflation is creeping into global commodity markets and international energy markets are roiled by turmoil in North Africa and the Middle East that is spreading and no one knows where it will end.

As if these factors did not create enough negative and uncertain pressures on our economy, no one knows what the full economic impact of the Dodd-Frank Act will be on our economy and our society. No one today knows the full impact of the new law on responsible innovation and future job creation. No one knows for sure what the secondary and tertiary unintended consequences will be. No one - not the Administration, not the Congress, and not the private sector.

At the international level, the debate has been engaged on both the costs and benefits of global regulatory reform, among such groups at the new Financial Stability Board (FSB), the Basel Committee of Banking Supervisors (BCBS), the International Monetary Fund (IMF), and the Institute of International Finance

(IIF), representing the private sector. Yet, that important debate is only just beginning in earnest this year here at home. That debate is healthy and needs to be encouraged among the Administration, the Congress, and the private sector. Facts need to be put on the table, and new metrics to measure the real economic impact of regulation on the economy and job creation need to be developed. Respectfully, Congress needs to enhance its oversight role of the recent Dodd-Frank Act in particular and other financial services laws in general to determine their true economic impact.

My hypothesis is that the cumulative effect of the 250 or so new regulations mandated by the Dodd-Frank Act will be a net negative drag on our economic growth and job creation in the future, which will take effect over the next several years. I hope I am wrong. I can't prove my hypothesis for you today - no one can at the moment. However, it is a hypothesis that others ought to debate and analyze as a starting point about the real economic impact of financial reform, necessary as it is. Hopefully, with a concerned Administration, a watchful Congress, and an engaged private sector, we can avoid any negative effects on our economy over time, even if we have to make some regulatory reform course corrections through new legislation or revised rules.

If the financial crisis was a wealth-destroyer, and the recession a job-killer, then the Dodd-Frank Act is a formidable regulatory game-changer for the foreseeable future.

Presently, the Roundtable is focused on implementation of the Dodd-Frank Act. The Roundtable is committed to make the regulatory changes that follow from the Dodd-Frank Act work for the American economy. At the same time, the Roundtable remains concerned that certain regulations must be implemented with the restraint required by the Act, in a commercially reasonable manner, and that they not go beyond the original intent of Congress.

Unfortunately, while understandable politically and well-intentioned by its sponsors and supporters, we do not have a clear assessment or comprehensive view of what the Dodd-Frank Act will to financial intermediation and financial protection that is vital for our economy and jobs. We don't fully know what the cumulative impact will be on our economy of higher and higher capital and liquidity requirements, other new prudential requirements, and designating certain large financial institutions - banks and nonbanks - for closer systemic supervision by the new Financial Stability Oversight Council and Federal Reserve. We don't know what the new Bureau of Consumer Financial Protection, with its noble goals of better consumer disclosure and financial literacy, will have on the cost and availability of credit to consumers and others. We don't know what the combined effect of Dodd-Frank and whatever G20 policies to which President Obama commits the United States will have on the competitiveness of all financial firms doing business in our markets. We don't know what such action will have in terms of ensuring that the United States is an attractive market to invest and raise capital. We still don't know what it will do to the cost of capital or the ability of firms to earn a healthy return on top of their cost of capital.

All financial intermediaries by definition are in the business of taking risks, but we don't have a clear picture of what the Dodd-Frank Act collectively will do to increase or decrease prudential risk-taking by firms in the future. As an economic imperative, we need strong, healthy financial companies that can innovate responsibly and take measured risks to grow our economy and create and better jobs new jobs.

This continuing uncertainty itself about the likely economic impact of our regulatory reforms, in turn, is likely to have a negative effect on both our economy as well as the historic U.S. leadership role in global financial markets. Our historic U.S. role unquestionably has been damaged severely by the crisis. Yet, it is not too late to ensure that the final outcome of the Dodd-Frank Act is balanced and effective, that our economy and jobs are protected from regulatory excess, and that we fully understand the economic consequences of our actions over time.

At the same time, we need to ensure that we do everything humanly possible to mitigate the impact of the next financial crisis. Unfortunately, there will be more financial crises, notwithstanding the best intentions of the Dodd-Frank Act.

FUTURE ACTIONS TO AVOID A NEGATIVE IMPACT ON THE ECONOMY AND JOBS

So what can we do as a nation, and more specifically what can the Administration, the Congress, and the financial services industry do to ensure a good outcome without the negative economic impact for our country?

Let me offer several practical and actionable starting points for your consideration as you and other Congressional committees engage this year on these issues. Admittedly, most of these suggestions fall within the jurisdiction of my former committee, but they are important to understand and get on the record as Congress conducts its critical oversight and legislative responsibilities.

What the Administration can do

President Obama should be commended for two recent actions, actions that need to be expanded and applied to the financial services especially in the wake of the Dodd-Frank Act.

First, President Obama appointed Jeff Immelt, GE's Chairman and CEO as the Chairman of his new Council on Jobs and Competitiveness. Mr. Immelt was quoted recently in the *Financial Times* as saying that the United States needs to be a country that "builds things" to revive the economy and create jobs,[1] and he is absolutely right.

At the same time, we need to ensure that the United States also is a country that "finances things" and encourages "investments in things" as competitively as any financial center on the planet. If we are united in "winning the future," as President Obama has declared, then we need to make sure that we fully understand the impact of the Dodd-Frank Act on innovation, the economy, and jobs. At the same time, we need to be mindful of the economic imperative of U.S. financial market competitiveness to meet the needs of consumers wherever they may reside or do business.

Looking backwards, the Dodd-Frank Act was understandably crafted with a bias toward financial stability and consumer protection. Looking forward, we need to embrace broader and equally critical policy objectives such as ensuring a strong and vibrant financial sector to support our economy and the needs of all consumers. We need policy objectives and rules that are balanced and effective, and not overly tipped in the direction of financial stability solely for the sake of financial stability.

Our shared national aspiration should be to ensure that the U.S. financial marketplace is the most attractive, secure, well governed, and welcoming one in the world to finance, invest, protect assets, and raise capital. If we can achieve that simple aspiration, then we will be ensuring a financial system fully and prudently enabled to support manufacturing, commerce, trade, innovation, growth, and jobs.

This may sound like a heretical point so soon after the worst financial crisis in history and enactment of the Dodd-Frank Act. Yet, we still need competitive, world class financial institutions and markets to finance "things" like manufacturing and exports, to grow and create new jobs and stimulate economic growth.

---

[1] "Obama gives GE chief key jobs role," *Financial Times*, January 22, 2011, p. 1.

Our current economic predicament of stubbornly high unemployment as well as an uncertain economic future demands a greater balancing of the ideal of financial stability and the reality of our precarious economic position as a nation. We need financial institutions that are well governed, ethically run, and prudently regulated for capital, liquidity, and risk. Good management is the first line of defense, followed by capable supervisors as the second line of defense. However, as a practical matter, we also need those same companies to be able to compete fairly to serve their clients - from retail consumers and Main Street businesses to corporate America and governments - to provide a strong, unsurpassed financial foundation for sustained economic recovery and growth.

Second, President Obama issued an important new Executive Order on January 18, 2011 - "Improving Regulation and Regulatory Review." While the President didn't mention financial services in that context, it nevertheless should be applied to all segments of our economy and not just some industries. To be comprehensive and complete, the President can publicly instruct his direct reports to fully implement both the letter and the spirit of his January 18th Executive Order.

For example, President Obama should direct Treasury Secretary Geithner to apply Section 1 of his new Executive Order - "promoting economic growth, innovation, competitiveness, and job creation" - to all of the rules, decisions, and actions the new Financial Stability Oversight Council that he chairs. This means Title I of the Dodd-Frank Act in particular, which affects the largest financial institutions in the country, including those financial holding companies with assets greater than $50 billion as well as nonbank financial companies ultimately.

These actions include not only the pending notice of proposed rulemaking for the designation of nonbank financial companies for regulation by the Federal Reserve, our new financial stability regulator, but also the new rule coming later this year on new prudential standards, which are required to be "more stringent" and "increase in stringency" based on a risk-based assessment yet to be crafted by the Council and overseen by the Board of Governors.

For good measure, Secretary Geithner can also use his bully pulpit as Council chair to encourage his fourteen other fellow Council members to start using their offices now to consider and promote the spirit of the President's Executive Order, even if the order doesn't strictly bind them.

Moreover, President Obama should specifically instruct his Directors of the National Economic Council (NEC) and the Office of Management and Budget (OMB) to take every opportunity within their purview to ensure that both the letter and spirit of his new Executive Order are implemented faithfully with the goal of "promoting economic growth, innovation, competitiveness, and job creation" for the financial services industry as well as all other industries in our economy.

What Congress can do

Let me turn next to what Congress can do. First, Congress can use its considerable power of oversight to ensure a balanced and effective outcome for all Dodd-Frank Act and other rules, just as this Subcommittee is doing. The House Financial Services and Oversight Committees are starting this process as well, as is the Senate Banking Committee.

Relentless, fact-finding oversight should be encouraged and structured in such a way so we are always asking and probing on the impact of financial reforms on the economy and jobs. Congress may need to rely more heavily on its own Congressional Budget Office (CBO) for economic impact analysis or outside expertise than it ever has in the past. Congress also can use its oversight powers over Treasury's new Office of Financial Research (OFR) to ensure that it is doing the kind of economic impact assessment that has never really been done in the past, but needs to be done in the future, not just in the name of financial stability - a term left undefined by Congress and the regulators - but from a broader national economic perspective.

The new requirements in Title I - the Financial Stability Act - are perhaps the most potentially impactful for our economy. They cover all basic aspects of financial intermediation, from capital and liquidity, to new prudential standards for credit exposures and reporting, to new recovery and resolution planning. At a minimum, they affect the top 35 bank holding companies by assets (those companies with total assets greater than $50 billion), and this number will expand once the Council designates nonbank financial companies for regulation and supervision by the Federal Reserve. Just the top 35 financial holding companies institutions alone affect a significant portion of our economy as highlighted in the following table, suggesting that the extensive new regulation coming under Title I could have a significant impact on our economy given these numbers for the top 35.

So, given these numbers, Congress needs to ensure that any actions taken by the Oversight Council are carefully considered, especially in the light of our fragile economic economy and the role these financial institutions play in our economy. This is not an issue of big companies versus small companies, or whether big companies are bad. Financial institutions of all size have an important role to play in our economy. Big companies are simply large, and they can have a significant impact on our economy. New regulations imposed only on that unique class of institutions, as contemplated by Title I, also potentially can have a serious impact on the economy by extension.

Table 1 - Impact of Top 25 Financial Holding Companies on the Economy

Indicator	**Share of top 35 FHCs as a percent of total bank holding companies reporting to Federal Reserve (%)**	**Total ($)**
Total Assets	87%	$13.9 Trillion
Total Risk-based Capital	86%	$1.3 Trillion
Total Loans and Leases	81%	$5.4 Trillion
Total Commercial and Industrial Loans	77%	$735.0 Billion
Total Domestic Real Estate loans	73%	$2.5 Trillion
Total Agricultural Loans	42%	$13.7 Billion

For example, the top 35 financial holding companies in Table 1 made over 80 percent of all total loans and leases in 2010, or $5.4 trillion, using fourth quarter data. If we assume that the net cumulative impact of all new Dodd-Frank Act rules - capital, liquidity, leverage, and everything else in Title I - was a negative hit of 5 or 10 percent less lending, which seems reasonable under my hypothesis, then we would lose roughly $250 billion to $500 billion in lending to our economy. Let me repeat, $250 billion to $500 billion in less lending potentially to all kinds of customers - if the Title I rules have this kind of impact, which reasonable people can debate. If these numbers have any validity, then we simply can not afford that kind of economic impact, especially given our weak economy today. So Congress needs to keep these numbers in Table 1 in mind as financial stability regulations are being written that will impact all companies ultimately captured by Title I.

Now, with respect to specific Congressional actions, here are six practical and immediate initiatives to consider:

1. **Economic impact assessment of all Title I rules.** Title I of the Dodd-Frank Act contains some of the most potentially impactful provisions for our economy that need to be fully analyzed and understood. Through both its oversight and legislative functions, the Congress can play an important role to ensure that the kind of economic impact assessment needed is fully considered by the Council and the regulators before the rules go into effect and impact the

real economy.

Specifically, the Council already has issued two proposals on the designation of nonbank financial companies to be subject to Federal Reserve regulation and supervision and the so-called Volcker rule, named after former Federal Reserve Chairman Paul A. Volcker. Both rules should have an economic impact assessment attached to them, so Congress has a full appreciation of their potential effects on innovation, the economy, and jobs.

The same applies to the new Basel III minimum capital, leverage, and liquidity rules that have been blessed by the G20, the Financial Stability Board, and the Basel Committee itself. The U.S. rules to implement these minimum requirements have not been proposed yet, nor have the additional "more stringent" requirements on top of these new minimums as required by Sections 115 and 165 of the Dodd-Frank Act.

The Roundtable believes increased capital standards, beyond what is required for safety and soundness, will directly retard the growth of credit availability and increase its cost, which will make it harder and more costly for businesses to borrow, thus making job creation more difficult. Similarly, overly strident liquidity requirements will reduce the amount of loans available, as they are comparatively illiquid assets, and negatively impacting economic growth.

Congress will need to have a firm understanding of the economic impact of these rules as well before they are finalized. For the record, I am attaching two recent Roundtable letters on these topics in an Appendix to my testimony for the Committee's attention; these letters describe the concerns of Roundtable member companies in greater detail.

2. **Legislative economic impact assessment.** More importantly, to show its renewed concern for the impact of financial regulation on innovation, the economy, and jobs, the Congress should quickly pass new legislation in the next 30 days to ensure that all future financial rules are subject to a more rigorous, real world economic impact assessment and more rigorous cost-benefit analysis than has been the practice in the past. All new rules should contain an equally dynamic analysis of the rule's potential impact on innovation, competitiveness, growth, and employment, in line with the President's new Executive Order I discussed previously.

   To paraphrase House Speaker Boehner, we simply don't need any more job-killing rules at this point in our fragile economic recovery. Based on my experience as a former Congressional staffer, this would be a simple one or two paragraph amendment to the Dodd-Frank Act and should be able to pass the House easily and overwhelmingly on the suspension calendar before the Memorial Day recess at the latest.

3. **Impact of "more stringent" financial restrictions on economic growth.** Section 120 empowers the Council to recommend "more stringent" regulation financial activities and practices as well as "new and heightened" standards and safeguards if the Council is worried about a variety of factors related to systemic risks. Section 120 is the also the only place in Title I where the words "economic growth" appear. There is a specific criterion that these new or heightened standards and safeguards "shall take cost to long-term economic growth into account. . . ." Congress should hold the Council fully accountable any time it makes such a recommendation under Section 120 and demand that the Secretary deliver a rigorous economic impact assessment to Congress every time a new Section 120 recommendation is issued to the primary regulators, who are the ultimate enforcers.

4. **Professional Advisory Committees.** Section 111 of Title I of the Dodd-Frank Act - the Financial Stability Act of 2010 - authorizes the Treasury Secretary, as Oversight Council Chairman, to appoint technical and professional committees to assist the Council. Congress should encourage the Secretary to go ahead and appoint these committees, as the Council's October 2010 timeline indicates. He should do it now.

   These committees could be patterned after the Federal Reserve's Federal Advisory Council (FAC), with diverse industry participation. These advisory committees can help to ensure that issues such as the impact of new financial regulation on the industry and its ability to support the economy are fully considered and debated between regulators and regulated firms on a formal, regular, and ongoing basis as market developments and supervisory practices change over time.

5. **Annual Oversight Council report to Congress**. Section 112 of the Dodd-Frank Act mandates that the Secretary of the Treasury report annually to the Congress on the Council's activities. Buried new the end of that provision is the requirement that the Secretary offer his recommendations to "enhance the integrity, efficiency, competitiveness, and stability of U.S. financial markets." Congress should hold the Secretary fully accountable for fulfill this Congressionally mandated requirement. While the words "innovation" and "jobs" are nowhere to be found in Title I, Congress should signal the Secretary and the Council that it will take its oversight responsibilities seriously in the context of this specific provision. Such action will help to ensure that we achieve a balanced and effective outcome, carefully weighing the competing policy objectives of financial stability and financial market competitiveness and their subsequent impact on the economy and employment.

6. **Streamline current regulatory reporting.** The Roundtable recently completed a survey of its members and found that they file more than 185 separate reports to at least 16 different federal agencies. The frequency varies, and these do not include "special requests" like recent stress test reporting. This substantial reporting burden will only increase under the Dodd-Frank Act in the coming years. Congress should investigate this reporting burden and oversee regulatory efforts to streamline reporting and make it more efficient and useful to both regulators and the industry. I would be happy to provide the Roundtable's survey to the Subcommittee separately.

As a final suggestion, I want to call to your attention 10 ideas for possible legislative changes to improve the Dodd-Frank Act that Congress should consider. From my perspective, many of these proposed changes would be beneficial to the economy in the long run. While early changes to the Dodd-Frank Act may have to wait given other priorities and agendas, Congress nevertheless needs to consider early thinking given our current environment. More importantly, Congress should analyze and hold hearings on all of these ideas as the year progresses. These 10 ideas were recently published by another colleague of mine, Jim Sivon, a founding partner of Barnett- Sivon, & Natter, in his firm's monthly newsletter, *Our Perspectives.* Not all of these ideas have been formally endorsed by the Roundtable, but they deserve serious attention by Congress in my view given the potential impact of the new law on the economy. Jim's article is attached to my testimony as an addendum.

What the financial services industry can do

Third, the financial services industry can play an important role as well. As I argue in my new book, *Managing to the New Regulatory Reality: Doing Business under the Dodd-Frank Act,* the industry needs to do several things differently and better in the future.

For starters, the industry can go back to the recent financial market competitiveness reports by Mayor Michael Bloomberg and Senator Schumer, the Financial Services Roundtable, U.S. Chamber of Commerce, the Bush Administration, and others, and resurrect those recommendations that not only make sense in our new regulatory reality but also can strengthen our economy. As the Bloomberg-Schumer report correctly noted in 2007, getting the legal, regulatory, and talent/skills (e.g., immigration) regimes right from a business investing perspective is a critical ingredient for the health and productivity of our financial markets. The same goes for corporate tax, ease of doing business and business certainty, and political stability - if we really want to see both our markets and our economy thrive and prosper.

Next, the financial industry can start its own diagnostic of the Dodd-Frank Act through the lens of the President's new Executive Order - "promoting economic growth, innovation, competitiveness, and job creation." Provisions such as the so-called Volcker rule, swap market changes, artificial size limits that know no G20 equivalent, price controls on interchange fees, "heightened" prudential standards, and resolution planning are good starting points. For good measure, an independent review of the dated 1956 Bank Holding Company Act and the 1978 International Banking Act would be in order as well.

Finally, the financial services industry needs to learn and fully embrace a new way of communicating with policymakers and regulators, speaking not just in the language of quarterly earnings and shareholder value creation, but more importantly in the new language of the impact of financial laws and regulations on economic growth and job creation. New research and analysis will be required as will new metrics.

To these ends, the Financial Services Roundtable created a new Financial Stability Industry Council last year to monitor the actions of the Oversight Council and offer its collective expertise wherever and whenever required to ensure that the Title I policies and regulations are as balanced and as effective as possible for the economy. This Industry Council is chaired by Brian Rogan, the Chief Risk Officer of BNY Mellon; its new Executive Director is Don Truslow, who was the Chief Risk Officer at Wachovia before it was acquired by Wells Fargo.

This Industry Council comprises most of the large financial holding companies already covered by Title I, and expects to increase in size at the Oversight Council designates new nonbanks in the future. Its members have met twice since last year and have established five substantive subcommittees that cover the full range of issues embedded in Title I. Each subcommittee is composed of industry experts, who can be a vital resource for the Oversight Council and the financial regulators.

SUMMARY

In summary, the Administration, the Congress, and the financial services industry have a common interest and an important responsibility to ensure that the Dodd-Frank Act policies and regulations are as balanced and as effective as possible, and fully consider their impact on innovation, our economy, and employment. The new attention by the Administration on U.S. competitiveness in manufacturing and trade is a critical national priority and welcomed. We also have other critical economic imperatives that need immediate attention, such as stopping runaway government spending and reversing our wealth-destroying national debt.

Yet, as a nation, we can't afford to ignore the equally vital imperative for responsible innovation and competitiveness for all financial firms doing business in U.S. markets. If we do these elements, then we put our own needed economic recovery - and future economic growth and standing as a global financial power - at even greater risk.

The Financial Services Roundtable and its new Industry Council are committed to playing a constructive and leadership role, and stand ready to work with the Administration and the Congress to achieve the aspiration I mentioned above - a financial system second to none. Looking forward, we have regulatory choices ahead of us that will have a direct impact on our economy and its ability to innovate and produce more and better jobs. If we are successful in implementing the Dodd-Frank Act by working constructively together for balanced and effective outcomes, then our economy and employment should prosper.

Thank you for your attention, and I look forward to your questions.

Our Perspectives:

Barnett Sivon & Natter P.C.
ATTORNEYS at LAW
WASHINGTON, DC

Ten Proposed Changes to the Dodd-Frank Act*

Jim Sivon

November, 2010

In the aftermath of the elections, some members of Congress have signaled an interest in reopening the Dodd-Frank Act. Below you will find my ten proposed changes, listed in ascending order. If you send us your list of suggested changes to `newsletter@bsnlawfirm.com`, we will compile a consolidated list and publish it in a future edition of this newsletter.

Number 10. Merge the SEC and CFTC. The Dodd-Frank Act eliminated any remaining rationale for two separate agencies. In fact, the continued existence of two separate agencies only complicates the reforms to the derivatives markets that the Act seeks to achieve.

Number 9. Replace the Office of Financial Research with an SRO Charged with Data Standardization. The Office of Financial Research has the potential to become a vacuum for data. Economists may welcome this, but excessive data mandates actually could reduce the ability of the Oversight Council to identify and control systemic risks. The real problem is not a lack of data, but a lack of standardized data that can be effectively analyzed. An SRO formed for the purpose of promoting data standardization is the better answer.

Number 8. Prioritize Regulations and Revise Rulemaking Deadlines. The Act requires federal financial regulators to issue hundreds of regulations over the course of the next two years. Congress should prioritize this regulatory work load and revise rule-making deadlines accordingly. Otherwise, regulators, the industry and consumers will face regulatory overload.

Number 7. Repeal the Push-Out Requirement (Section 716). This provision is fundamentally at odds with the Act's goal of reducing systemic risk. It forces institutions to "push out" derivative activities to subsidiaries at the same time the Act, through its provisions on resolution plans, encourages institutions to reduce the number of separate legal entities.

*The information contained in this newsletter does not constitute legal advice. This newsletter is intended for educational and informational purposes only.

Number 6. Repeal the Regulation of Interchange Fees. This is nothing more than price regulation. There is a substantial body of evidence that indicates that price regulation is counter productive. This provision should be repealed.

Number 5. Give the Oversight Council a Veto over FASB. The Act permits the Oversight Council to veto a regulation issued by the Bureau of Consumer Financial Protection if two/thirds of the members of the Council determine that the regulation would put the safety and soundness of the banking system or the stability of the financial system at risk. The Oversight Council should have the same authority over accounting standards issued by FASB. Accounting standards adopted by FASB both prior to and during the crisis exacerbated the scope and depth of the crisis.

Number 4. Prevent the Bureau of Consumer Financial Protection from Creating New Laws. Despite industry opposition to the creation of the Bureau, the Bureau could help to restore trust in the industry by standardizing consumer protections and simplifying disclosures. That said, the Bureau has virtually unlimited power to restructure financial markets and dictate the design of financial products and services. This is a power that Congress should reserve for itself and not delegate to an administrative agency. The Bureau should be limited to enforcing laws passed by Congress, and not be authorized to write new laws.

Number 3. Enact a Common Set of Principles to Guide the Deliberations of the Oversight Council. The Oversight Council is intended to serve as a forum for greater coordination and cooperation among federal financial regulators. Unfortunately, each federal financial regulatory agency is charged with different, and potentially competing, statutory objectives. Congress should design a common set of objectives to guide all federal financial regulators. This would help to ensure that regulators pursue complementary policies.

Number 2. Require the Oversight Council to Establish Advisory Committees. Identifying the "next big thing" that could threaten the stability of financial markets and cause substantial harm to the economy is not an easy task. Regular, off-the-record, exchanges with an industry advisory committee and a separate consumer/user advisory committee could serve as "canaries in the mine" for the Council. The Act permits the establishment of such committees, but does not require them. They should be required.

Number 1. Provide for the Appointment and Confirmation of an Independent Chair for the Oversight Council. One of the hallmarks of U.S. financial regulation has been its insulation from political influence. To help maintain this standard, the Oversight Council should be chaired by an independent member appointed by the President and confirmed by the Senate for a set term.

Jim Sivon is a partner with the law firm of Barnett Sivon & Natter, P.C.

THE FINANCIAL SERVICES ROUNDTABLE

Financing America's Economy

January 26, 2011

The Honorable Timothy F. Geithner
Secretary
United States Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

The Honorable Ben S. Bernanke
Chairman
Board of Governors of the Federal Reserve System
20th Street & Constitution Avenue, N.W.
Washington, D.C. 20551

The Honorable Sheila C. Bair
Chairman
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

Mr. John G. Walsh
Acting Comptroller of the Currency
Office of the Comptroller of the Currency
250 E Street, S.W.
Washington, D.C. 20219

Mr. John E. Bowman
Acting Director
Office of Thrift Supervision
1700 G Street, N.W.
Washington, D.C. 20552

Mr. William C. Dudley
President
Federal Reserve Bank of New York
33 Liberty Street
New York, New York 10045

Re: Basel III capital and liquidity requirements

Ladies and Gentlemen:

The Financial Services Roundtable (the "Roundtable") is composed of large, integrated financial services companies who finance most of the nation's economy and are critical to its sustained growth. The Roundtable strives to be the premier executive forum for the leaders of the financial services industry and to provide a positive industry perspective on legislative and regulatory policy. The Roundtable believes that the competitive marketplace should largely govern the delivery of products and services and that regulation should mitigate systemic risk and enhance financial stability.

The Roundtable appreciates the opportunity to provide its comments regarding the proposed Basel III capital and liquidity regulatory standards. The Roundtable's standing within the financial services industry provides it with a unique perspective on these standards and their potential impact on both the industry and the global economy. Our membership fully supports the Basel III goals of increasing the quantity and enhancing the quality of loss-absorbing capital, while bolstering liquidity by promoting adequate liquidity reserves and a proper balance between short- and long-term funding. However, the Roundtable contends that certain provisions and aspects of the proposed standards overstate the capital and liquidity risks faced by financial institutions and understate the ability of those institutions to absorb losses. Consequently, these new requirements as proposed could have a negative impact on an already weak economic recovery and much needed longer-term growth.

Therefore, in establishing these new capital and liquidity standards, it is also necessary for US regulatory authorities to carefully assess the associated macroeconomic impact of compliance. Financial services institutions play a vital role in providing credit and capital to US consumers and companies both large and small. By definition, achieving compliance with the more restrictive capital and liquidity standards will constrict the amount of credit financial institutions have available to lend and thereby create a drag on US economic output. Therefore, regulatory authorities cannot make an informed decision on the proper balance between lost output and increased safety without sound quantitative data. The Basel Committee on Banking Supervision (the "Committee") conducted a quantitative impact study of the new standards, but the sample size of respondents was relatively small and the results have not been widely disseminated. This approach stands in stark contrast to previous reform efforts during which the Committee conducted multiple quantitative impact studies and published the results. We urge regulatory authorities to fully consider the quantitative impact study before implementing the new standards and request that the Committee publish the results.

The Roundtable strongly contends that the paramount goal of the regulatory standards for US financial institutions should be to ensure the safety and soundness of those institutions and the US financial system as a whole. While harmonization of international regulatory standards is another worthwhile goal, we also strongly contend that the proposed standards should and must account for certain country-specific institutions, financial products and markets, as we further outline below. These new capital and liquidity standards, in their current form, would create a competitive disadvantage for US financial services institutions relative to their international counterparts. While we recognize that these new capital and liquidity standards are the product of extensive multilateral negotiations between international financial regulatory authorities, we do not believe a major outcome of harmonization should be to damage the fundamental competitiveness of US financial services institutions.

For the aforementioned reasons, the Roundtable respectfully requests certain modifications to the proposed capital and liquidity standards. The modifications we request herein would leave the principles and primary components of the standards intact while recognizing certain financial market institutions, products or experiences that are unique to US financial services companies. Without these modifications, we contend the proposed standards materially overstate the capital and, in particular, the liquidity risks of US financial services institutions. As a consequence of enacting the proposed standards in their current form, the US economy will experience an unnecessary and permanent loss of output and US financial services companies will find it difficult or impossible to compete with many rival international companies.

The Roundtable contends the following modifications would significantly improve the efficacy of the proposed capital and liquidity standards, and we respectfully request your consideration of our recommended changes. We address first our concerns in regard to the liquidity standards, followed by those related to the capital standards.

Liquidity

Recommendation 1. Include, without limit, the debt and mortgage-backed securities obligations of US government sponsored enterprises in the definition of high quality liquid assets and, accordingly, reduce the haircuts those securities receive in the liquidity ratios.

The consultative document[1] underlying the proposed standards states that the Liquidity Coverage Ratio ("LCR") is designed to ensure a financial institution maintains a sufficient stock of high quality liquid assets that can be converted to cash to meet its liquidity needs for a 30-day time horizon under an acute liquidity stress scenario. After numerous comment letters protested the treatment of US government sponsored enterprise ("GSE") mortgage-backed securities ("MBS") and debt, the Committee agreed[2] to reduce the LCR haircut on these and certain other 20% risk-weighted securities to 15%. However, these securities are classified as "Level 2" liquid assets for the purpose of the LCR, subjecting them to a cap that limits them to no more than 40% of an institution's total stock of liquid assets.

This cap is inappropriate for two reasons. First, US GSE debt and MBS exhibit all of the characteristics of high quality liquid assets, including low credit and market risk, AAA credit ratings, low correlation with risky assets and direct purchases of these securities by the US government. Second, the cap unfairly disadvantages US financial services institutions relative to foreign competitors that receive higher LCR credit for securities rarely found in US financial institution portfolios, such as certain covered bonds and debentures of foreign public sector entities.

The current Basel III treatment of US GSE securities would likely have particularly dire consequences for the US economy. US financial institutions hold a very large share of their liquid securities portfolios in GSE securities and the proposed cap would force these institutions to sell a significant share of their holdings. This forced selling would restrict funding for the US housing sector, which accounts directly for approximately 15% of US GDP and indirectly for much more. US homeowners would inevitably face higher mortgage rates and limited access to funds for housing. Therefore, we urge US regulatory authorities to further lower the haircut applied to US

[1] "International Framework for Liquidity Risk Measurement, Standards and Monitoring", Basel Committee on Banking Supervision, Bank for International Settlements, December 2009.

[2] See "Annex" to July 26, 2010 Bank for International Settlements press release entitled "The Group of Governors and Heads of Supervision reach broad agreement on Basel Committee capital and liquidity reform package".

GSE securities in both the LCR and the Net Stable Funding Ratio ("NSFR") and to eliminate the cap on US GSE securities as Level 2 assets.

Recommendation 2. Include available borrowing capacity at the Federal Home Loan Banks in the numerator of the LCR and increase the credit for Federal Home Loan Bank advances in the denominators of both the LCR and the NSFR.

The Federal Home Loan Bank ("FHLB") system serves as an important source of funding for many US banks and a vital source of liquidity for the US mortgage finance system. Throughout the recent financial crisis, the FHLBs served as a reliable source of funding as advances (secured funding) to member banks peaked during the period that many US banks experienced impaired access to the debt capital markets; total FHLB system advances reached their record level (more than $900 billion) in the second half of 2008.

The FHLB system is unique to the United States, however, and consequently did not receive due consideration by the Committee when constructing the proposed standards. As currently proposed, the LCR would not allow US banks to include available borrowing capacity at the FHLBs and the NSFR does not classify outstanding short-term advances as "stable funding", despite the fact that these advances are secured with high quality collateral and consistently rolled over if required. Consequently, the LCR and NSFR significantly overstate the amount of liquidity risk at US banks. The Roundtable urges US regulatory authorities to rectify this inequity by allowing banks to include their available FHLB borrowing capacity in the LCR numerator. For the same reasons, we strongly advocate that FHLB advances, regardless of tenor, receive a 100% Available Stable Funding ("ASF") factor in the NSFR denominator and a 0% run-off factor in the LCR denominator.

Recommendation 3. In regard to the LCR treatment of committed liquidity facilities, eliminate the logical inconsistency inherent in the assumptions by recognizing the realities demonstrated by the recent financial crisis.

The LCR currently has two serious problems in regard to the draw down assumptions on committed liquidity facilities. The first problem is a logical inconsistency. That is, banks are required to assume that they would lose all of their ability to draw upon their committed lines from other banks while, at the same time, also assume that their committed lines to other banks will be 100% drawn. This assumption is both a logical and practical impossibility. Second, the LCR assumptions specify that committed liquidity facilities extended to non-financial corporate customers and other non-retail legal entities would be drawn 100% immediately. This assumption is both extreme and inconsistent with the actual experience of US banks during the recent financial crisis.

Recommendation 4. Provide empirical support for the assumptions in the liquidity standards.

The unrealistic draw down assumptions are an example of a broader problem in the Basel III liquidity standards— assumptions have no empirical support and are starkly inconsistent with the actual experience of US financial institutions in stress situations. The recent financial crisis featured all of the hallmarks of a severe stress scenario, including the deepest economic recession since the Great Depression, extended periods of severe financial market disruptions and the collapse of major financial institutions. And yet, many of the assumptions in the liquidity standards bear neither a resemblance to the actual experience of US financial institutions during the crisis nor support from a quantitative impact study or other empirical data.

The deposit run-off assumptions in the LCR are another prominent example of this problem. The Basel III liquidity ratios assume that all banks, in aggregate, lose deposits. Again, there is no empirical support for this assumption and it ignores the reality that there were both winners and losers in the recent financial crisis. Therefore, it is impossible for this assumption to be correct across the financial system.

Capital

The Roundtable agrees with the Committee that it is important to back financial institution risk exposures with a robust and high quality capital base. That is, financial service institutions and their investors should have confidence that the regulatory process has adequately identified inherent risks and that an institution's capital base is sufficient to absorb the losses that may materialize from these risks. The Roundtable also supports the Committee's objective of focusing on the ability of different capital types to support financial institutions as going concerns.

The following is a list of the primary areas of concern the members of the Roundtable have in regard to the Basel III capital standards. In general, where the Roundtable differs from the Committee is in the proposed standards' overly conservative treatment of the loss-absorbing capacity of various capital types and in the use of assumptions that have no empirical backing or historical precedent.

Recommendation 5. Coupon/dividend deferral

We believe that the ability to defer coupon or dividend payments on capital instruments is sufficient to ensure loss absorption, but the proposed standards go one step further by requiring Tier 1 "going concern" capital to be cancelable (not just deferrable). Since many capital instruments with coupon/dividend deferrals suffered losses during the recent financial crisis, the Roundtable contends that there is no need to fix something that is not broken and would urge regulatory authorities to retain the current capital treatment of coupon/dividend deferral features.

Recommendation 6. Goodwill and intangibles

Another prominent area in which the Roundtable differs from the Committee is in its treatment of goodwill and certain other intangibles. The most prominent of these items is mortgage servicing rights ("MSRs"). Due to the central role and structure of the housing market in the US economy, MSRs are valuable assets that hold a prominent place on the balance sheets of many large US banks and financial institutions. MSRs generate tangible cash flows, the value of which is readily measurable using market inputs, even under times of stress. While the Roundtable supports the Committee in its objective of adjusting an institution's capital base for any balance sheet items with uncertain values in times of stress or insolvency, MSR values are demonstrated through regular trading and independent surveys also provide external valuations. The proposed standards would limit recognition of MSRs to no more than 10%, and no more than 15% when aggregated with certain other items (e.g., deferred tax assets), of an institution's Tier 1 common equity. The Roundtable urges the regulatory authorities to exercise their discretion in retaining the current treatment of MSRs. With regard to deferred tax assets ("DTAs"), the Roundtable recommends that the Committee include in capital such DTAs that are expected to be utilized within the next twelve months, with the residual subject to the proposed limitation.

Recommendation 7. Cyclicality

The Roundtable strongly supports the Committee's efforts to more clearly define the goals and key inputs used in estimating risk-weighted assets, particularly where the choice of inputs and their weights may materially affect the cyclicality of capital. At issue is how to estimate the probabilities of default by asset class in a cyclical downturn or stress scenario. The consultative document[3] considers two different approaches, specifically using 1) the highest average historical probability of default by asset class, and 2) the average of historical probabilities of default by asset class, akin to the "through the cycle" approach widely discussed in the Basel II development process.

The Roundtable recognizes that each approach has pros and cons which result in a trade-off between the level of risk sensitivity and the cyclicality of capital levels. The first approach results in overly conservative probability of default estimates that would likely distort capital allocations away from asset classes, such as residential mortgages. The second approach would cause cyclical fluctuations in the probabilities of default for various asset classes. Faced with the choice between the two approaches, the Roundtable would opt for the second while urging regulatory authorities to adopt a methodology that does not require equal weights among the probabilities of default experienced in the various years of an economic cycle.

[3] "Strengthening the Resilience of the Banking Sector", Basel Committee on Banking Supervision, Bank for International Settlements, December 2009.

Recommendation 8. Leverage ratio

The Roundtable also contends that the proposed Basel III leverage ratio, like the LCR, contains numerous assumptions that are overly conservative, arbitrary and inconsistent with the empirical evidence from the recent financial crisis. Specifically, the proposed standard would impose an as yet unspecified uniform credit conversion factor for most off-balance sheet items. We urge US regulatory authorities to work with financial services institutions to perform a more detailed quantitative analysis of the data from the period of the recent financial crisis so that the leverage ratio can properly reflect tail risk exposures without resorting to arbitrary or punitive methods. In addition, Roundtable members will be focused on the interplay between the Basel III leverage ratio and existing leverage rules already in effect for US financial institutions.

Recommendation 9. Capital conservation buffer

Under the Basel III capital standards, banks would be required to maintain a capital conservation buffer to absorb losses stemming from a severely stressed economic or financial environment. The Roundtable urges that regulators consider the size of the buffer and the sanctions for breaching it in tandem. Moreover, we contend that US regulators should retain the discretionary authority to decide whether and how to impose sanctions on a case-by-case basis if and when a financial institution's capital ratios fall below the capital conservation buffer level. In other words, sanctions should only be mandatory if an institution's capital ratios fall below some clearly and previously specified threshold level less than the capital conservation buffer level. Finally, we strongly contend sanctions should be limited to restrictions on capital distributions, as opposed to operational restrictions similar to those proscribed by prompt corrective action regulations.

Conclusion

In conclusion, before formally implementing any new capital or liquidity standards, the Roundtable respectfully requests that regulatory authorities take an appropriate amount of time to fully consider the interplay between and quantitative impact of the large number of international and national regulatory changes that are occurring simultaneously. The Basel III reforms come at a time of great change for financial industry regulations including, for US financial services institutions, the Dodd-Frank Wall Street Reform Act. A deliberate approach to regulation would benefit all by minimizing unintended consequences for our economy, while promoting a level playing field among US institutions and international competitors.

For instance, we strongly support, as the Committee has recommended, an observation period before finalizing and a phase-in period before implementing certain new standards. This applies particularly to the NSFR, which the Committee acknowledged will require a number of structural changes.[4] A deliberate approach

[4] See "Annex" to July 26, 2010 Bank for International Settlements press release entitled "The Group of Governors and Heads of Supervision reach broad agreement on Basel Committee capital and liquidity reform package", specifically page 7.

would also enable US regulatory authorities to ensure proper alignment between and thoughtful treatment of similar but distinct or unresolved provisions in the Basel III reforms and US law. As an example, the Roundtable contends that the timing of the phase-out of trust preferred securities as Tier 1 capital should be consistent under both Basel III and the Dodd-Frank Wall Street Reform Act. A further example is the definition of the more stringent capital standards required of systemically important financial institutions ("SIFIs"); we urge US regulatory authorities to consider these requirements in the broader context of the entire capital regulation framework, adopting a thoughtful approach that doesn't necessarily resort to subjective tools (e.g., a generic capital surcharge).

In summary, the Roundtable strongly supports the primary goal of the Basel III reforms—to strengthen international capital and liquidity regulations with the intent of promoting a more resilient financial services sector. We greatly appreciate your careful review of the specific provisions we have highlighted as needing modification. Once you have had a chance to review our proposed recommendations, we would welcome the opportunity to meet with you in person to discuss balanced and effective standards in more detail. While a number of reform matters remain unresolved, it is clear that all parties would benefit from an on-going dialogue about these issues. We stand ready to discuss these issues with you.

Respectfully submitted,

Steve Bartlett

Steve Bartlett
CEO and President

THE FINANCIAL SERVICES ROUNDTABLE

Financing America's Economy

RICHARD M. WHITING
1001 PENNSYLVANIA AVE., NW
SUITE 500 SOUTH
WASHINGTON, DC 20004
TEL 202-589-2413
FAX 202-628-2507
EMAIL: rich@fsround.org
www.fsround.org

February 25, 2011

Financial Stability Oversight Council
Attention: Lance Auer
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Re: RIN 4030-AA00; Authority to Require Supervision and Regulation of Certain Nonbank Financial Companies

Dear Mr. Auer:

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") gives the Financial Stability Oversight Council (the "Council") the authority to determine that a nonbank financial company should be supervised by the Federal Reserve Board (the "Board") and subject to enhanced prudential standards. The Council has proposed a rule that sets forth the criteria the Council will consider, as well as the process the Council will follow, in making such a determination. The Financial Services Roundtable (the "Roundtable") appreciates the opportunity to submit these comments on the proposed rule.[1]

I. The Council Should Clarify Key Features of the Determination Process, Reissue the Rule for Public Comment, and Not Finalize the Rule or Make Any Determinations Pursuant to Section 113 Until All Voting and Non-Voting Members of the Council are in Place

The proposed rule is intended to achieve two objectives. It is intended to "lay out the framework" the Council will use to determine if a nonbank financial company poses a threat to the financial stability of the United States.[2] It also is intended to "implement the process" the Council will follow in considering whether to subject a firm to supervision by the Board.[3] In its current form, however, the proposed rule lacks sufficient detail to achieve either of these objectives. The "framework" that is described in the preamble to the proposed rule does not appear in the rule itself. Nor does the framework provide any insight into what may constitute

---

[1] The Roundtable represents 100 of the largest integrated financial services companies providing banking, insurance, and investment products and services to the American consumer. Member companies participate through the Chief Executive Officer and other senior executives nominated by the CEO. Roundtable member companies provide fuel for America's economic engine, accounting directly for $92.7 trillion in managed assets, $1.2 trillion in revenue, and 2.3 million jobs.
[2] Authority to Require Supervision and Regulation of Certain Nonbank Financial Companies, 76 Fed. Reg. 4555, 4559 (proposed Jan. 26, 2011) (to be codified at 12 C.F.R. pt. 1310).
[3] Id.

a threat to the financial stability of the United States. Moreover, the processes and procedures that do appear in the rule are primarily a restatement of the terms of the Dodd-Frank Act and leave many questions about the determination process unanswered.

The lack of detail in the proposed rule stands in sharp contrast to President Obama's recent Executive Order on Improving Regulation and Regulatory Review.[4] Section 1 of that Order states that regulations issued by federal agencies should "promote predictability and reduce uncertainty." The proposed rule does not meet this principle. Its skeletal structure does not provide stakeholders, including nonbank financial companies, financial markets, Congress and the general public, with sufficient understanding or insight into the determination process.

Additionally, the absence of detail in the proposed rule raises serious concerns with the Council's compliance with the requirements of the Administrative Procedures Act ("APA"). There is a long history of case law which establishes that the rulemaking must be based on reasonable decision-making. Specifically, the notice of proposed rulemaking must show the agency's views "in a concrete and focused form so as to make criticism or formulation of alternatives possible."[5] The agency must explain its reasoning,[6] explore possible alternatives "within the ambit of the existing [s]standard,"[7] and respond to relevant and significant arguments or comments made in the rulemaking process.[8] In her testimony before the Senate Banking Committee, FDIC Chairman Sheila Bair indicated that the Council "has begun developing measures of potential risks posed by" nonbank financial companies.[9] These measures do not appear in this proposed rule, and therefore the rule should be republished with more detail and clarity.

Based on the principles stated in the President's Executive Order, the apparent non-compliance with APA requirements, and our desire for greater clarity around the determination process, we recommend that the Council reissue the rule for public comment and address the matters described in the balance of this letter. Without the additional details recommended below, we are concerned that the determination process may not be developed and applied in a transparent, effective and consistent manner.

The publication of a new rule would permit the Council to address the merits of the comments received in response to the ANPR.[10] The preamble to the proposed rule summarizes those comments

---

[4] See http://www.whitehouse.gov/the-press-office/2011/01/18/improving-regulation-and-regulatory-review-executive-order. We have concluded that the Council is subject to this Executive Order since the proposed rule is classified a "significant regulatory action" as defined in Executive Order 12866, and President Obama's Executive Order is a supplement to Executive Order 12866.
[5] Home Box Office v. FCC, 567 F.2d 9, 36 (D.C. Cir. 1977).
[6] *See*, e.g., Am. Petroleum Inst. V. EPA, 216 F.3d 50, 57-8 (D.C. Cir. 2000); National Tank Truck Carriers Inc. v. EPA, 907 F.2d 177, 184 (D.C. Cir. 1990).
[7] Motor Vehicle Mfrs. Ass'n v. State Farm Mut. Auto Ins. Co., 463 U.S. 29 (1983).
[8] Auto. Parts & Accessories Ass'n v. Boyd, 407 F.2d 330, 338 (D.C. Cir. 1968).
[9] *Implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act" Before the S. Comm. On Banking, Housing and Urban Affairs*, 112th Cong. (2011) (statement of Sheila Bair, Chairman, Federal Deposit Insurance Corporation).
[10] Advanced Notice of Proposed Rulemaking Regarding Authority to Require Supervision and Regulation of Certain Nonbank Financial Companies, 75 Fed. Reg. 61653 (proposed Oct. 6, 2010) (to be codified at 12 C.F.R. Chp. XIII).

but provides no insight into the Council's evaluation of those comments. Addressing the merits of those comments would serve as an additional guide to the manner in which the Council intends to make determinations pursuant to section 113 of the Dodd-Frank Act.

Republication also would allow the Council to address more fully the costs and benefits of the rule. The costs are widely acknowledged but the Council has not publicly weighed them against the purported benefits in a rigorous transparent manner or indicated whether, how or when it will do so.[11] The Council only mentions costs in the rule proposal when it justifies its failure to conduct a regulatory flexibility analysis by asserting that it "does not expect the rule to directly affect a substantial number of small entities."[12] Although the rule may not have a significant direct economic effect on small entities, it certainly will have a significant direct economic effect on those entities designated for supervision by the Board and significant indirect effects on the competitive structure of industries that include small entities, and on the U.S. economy as a whole.[13] After all, designation is only supposed to be used to mitigate "a threat to the financial stability of the United States," so its effects will necessarily have a broad impact. Accordingly, we recommend that the Council conduct a thorough cost/benefit analysis with public participation.

Finally, we do not believe that the Council should finalize this rule or make any determination pursuant to section 113 of the Dodd-Frank Act until existing vacancies on the Council are filled. Section 111 of the Dodd-Frank Act provides that the Council shall consist of voting and non-voting members who have certain areas of responsibility or expertise. In identifying these members, it is evident that Congress intended the Council to have a deep and working knowledge of all sectors of the financial services industry and financial markets. At present, however, three key positions on the Council remain unfilled: a voting member who has insurance expertise, the Director of the Office of Financial Research, who is a non-voting member, and the Director of the Federal Office of Insurance, also a non-voting member. These vacancies deprive the Council of valuable insights and input. Given the potential significance of this rule and section 113 determinations, the Council should have the benefit of the input and insights from all voting and non-voting members.

II. Matters That Require Clarification

A. The Rule Should Include a General Explanation of the Determination Procedure

The proposed rule and the preamble accompanying the rule identify several steps in the process that the Council will follow in determining whether a nonbank financial company will be subject to supervision by the Board. These steps include: (i) the potential creation of metrics to measure the risk profile of industry sectors, (ii) the collection of data from individual firms, (iii) a "screening" process, (iv) a "consideration" notice, (v) a "proposed" determination notice, (vi) a "final" determination, and (vii) an annual reevaluation of a determination. As proposed, however, the rule provides little detail on the timing and interaction of these various steps. For

[11] *See*, e.g., "Identifying and Regulating Systemically Important Financial Institutions: The Risk of Under and Over Identification and Regulation", (Jan. 16, 2011), available at http://www.brookings.edu/~/media/Files/rc/papers/2011/0116_regulating_sifis_elliott_litan/0116_regulating_sifis_elliott_litan.pdf.

[12] 76 Fed. Reg. 4561.

[13] *See*, e.g., Brookings paper cited above at p. 16 - "the designation of [systemically important financial institutions] under the new law will have critically important effects not only on the designated institutions but on entire industries and indeed on the economy."

example, it is not clear what the relationship is between the "screening" process that is described in the preamble and the "consideration" notice that is described in the rule.

To help make this process more transparent and comprehensible, we recommend that the authority and purpose section of the proposed rule be expanded to include a general explanation of the determination process. This explanation would serve as a basic guide to stakeholders. Ideally, it would (i) set out the chronological order of actions that may be taken by the Council, or its staff; (ii) identify who is responsible for what actions at key points in the process; and (iii) indicate when and how a company may interact with the Council or its staff during the process.

B. The Rule Should Define "Material Financial Distress" and "Financial Stability"

The Dodd-Frank Act requires that any determination by the Council be based upon a finding that "material financial distress" at the company, or the nature, scope, size, scale, concentration, interconnectedness, or mix of the activities of the company, could pose a threat to the "financial stability" of the United States.[14] These findings of "material financial distress" and "financial stability" are central to any determination by the Council. Yet, the proposed rule does not provide any guidance on the meaning of these key terms or clarify how the risk metrics developed by the Council or any data collection requests relate to these findings.[15]

We recommend that the definitions section of the proposed rule be revised to define these important terms. Greater clarity around the meaning of these terms would help nonbank financial companies better appreciate the connection between any risk metrics proposed by the Council as well as any data requests that may be made by the Council or the Office of Financial Research.

In defining these key terms, we urge the Council to take into consideration systemic risk definitions under consideration by other G-20 countries. This will help to ensure that the Council's view of systemic risk is consistent with the views of other nations where appropriate.

Additionally, we note that the Board separately has invited public comment on proposed definitions of the terms "significant nonbank financial company" and "significant bank holding company," and in doing so has stated that any firm defined as a "significant bank holding company" or "significant nonbank financial company" will not be subject to any additional supervision or regulation by virtue of that definition.[16] We recommend that this rule similarly clarify the impact of those definitions.

---

[14] Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. 111-203, § 113(a)(1) (2010).
[15] The preamble to the proposed rule states that the analytical framework (described in the preamble) incorporates these concepts. However, the preamble does not explain how it does so. 76 Fed. Reg. 4561.
[16] Definitions of "Predominantly Engaged in Financial Activities" and "Significant" Nonbank Financial Company and Bank Holding Company, 76 Fed. Reg. 7731, 7736 (proposed Feb. 11, 2011) (to be codified at 12 C.F.R. pt. 225).

C. The Proposed Analytical Framework Should be Incorporated into the Rule

The Dodd-Frank Act lists several factors the Council must consider in determining if a nonbank financial company should be subject to supervision by the Board.[17] In the preamble to the proposed rule, the Council proposes an analytical framework for the application of these factors.[18] That framework, however, is not contained in the rule itself. If the Council plans to utilize this framework, we recommend that it be incorporated into the rule. The framework provides stakeholders with some – albeit limited – guidance on how the statutory criteria will be applied by the Council in making determinations pursuant to section 113 of the Dodd-Frank Act.

At the same time, we believe it is important for the rule to state that the analytical framework is intended as a mechanism for the Council to evaluate *all* of the statutory factors in the Dodd-Frank Act and that it will not be used to place any special weight on one factor over another or provide that any single factor can lead to a designation. As we noted in our comment letter on the ANPR, the financial stability of the United States is influenced by many factors, including the operations of financial markets, the activities and practices of individual financial companies, and governmental policies. Moreover, section 113 of the Dodd-Frank Act requires the Council to consider all statutory factors in making determinations. Alternatively, if the Council intends to apply the framework in a manner that distinguishes among the statutory factors (e.g., treating some as increasing the propensity for systemic risk or others as mitigating against systemic risk), we believe it is incumbent upon the Council to explain such distinctions in the rule.

Additionally, we recommend that the rule explicitly state that the analytical framework is intended to be applied in a manner that is consistent with comparable international efforts in order to reduce concerns about regulatory arbitrage. This statement, which currently appears in the preamble to the proposed rule, is a logical addition to the rule if the analytical framework is placed within the rule. It affirms the importance of international coordination and would complement other sections of the proposed rule that require consultation with foreign regulatory authorities. Those other sections of the proposed rule direct the Council to consult with the appropriate foreign regulatory authorities for U.S. nonbank financial companies and foreign nonbank financial companies that have cross-border activities in the determination process regarding those companies. Those provisions reinforce comparable language contained in the Dodd-Frank Act regarding the coordination with foreign/home country regulatory authorities and standards and should be retained in the final rule.

D. The Risk Metrics Developed by the Council should be Subject to Public Comment

If the Council uses metrics to measure risk for purposes of making determinations under section 113 of the Dodd-Frank Act, we believe the Council would benefit from public input on the original design of the metrics and any subsequent changes in that design. Public input would help to ensure that any metrics used by the Council are consistent with best practices. Public input on this

[17] Pub. L. 111-203, § 113(a)(2) (2010).

[18] The framework places the statutory factors into six broad categories (size, lack of substitutes for the financial services and products the company provides, interconnectedness with other financial firms, leverage, liquidity risk and maturity mismatch, and existing regulatory scrutiny). It further divides these categories into two groups. One group (size, lack of substitutes, and interconnectedness) is intended to assess the potential for spillovers from a company's distress to the broader financial system or real economy. The other group (leverage, liquidity risk and maturity mismatch, and existing regulatory scrutiny) is intended to assess how vulnerable a company is to financial distress. See 76 Fed. Reg. 4561.

feature of the determination process also is consistent with Section 2 of the President's Executive Order on Improving Regulation and Regulatory Review, which states, in part, that "... regulations shall be based, to the extent feasible and consistent with law, on the open exchange of information and perspectives among ... experts in relevant disciplines [and] affected stakeholders in the private sector." Therefore, we recommend that the rule provide for the publication of any metrics developed by the Council and invite public comment on their merits.[19]

E. The Rule Should Clarify the Nature and Timing of Data Requests

The proposed rule provides that in making determinations the Council may request information from State and Federal financial regulators and from individual nonbank financial companies.[20] We recommend that the rule clarify the nature and timing of potential data requests.

More specifically, the rule should: (i) specify the types of data that may be requested and the timing for such requests; (ii) provide for a company to be informed if the Council seeks information about the company from a State or Federal regulatory body; (iii) provide for the Council to explain to the company if a data request relates to a potential designation or some other function of the Council; and (iv) clarify that proprietary information will remain confidential.[21]

Additionally, as we stated in our comment on the ANPR, we urge the Council to rely to the greatest extent possible on existing data and not require companies to create new data systems. Only if existing data is substantially inadequate should additional data requirements be imposed on nonbank financial companies.

F. The Rule Should Explain the Proposed "Screening" Process

The preamble to the proposed rule states that the Council expects to "screen" nonbank financial companies using the six categories to identify those companies whose material financial distress, or the nature, scope, size, scale, concentration, interconnectedness, or mix of activities, could pose a threat to the financial stability of the United States.[22] We recommend

---

[19] While not directly related, we believe that this process of considering comments with respect to the development of such metrics can also helpfully inform both the Council's recommendations under section 115 and the actions of the Board of Governors under section 165 for companies subject to enhanced supervision and prudential standards. These sections provide that such supervision and standards shall "increase in stringency, based on the considerations" set forth in section 113 and that such enhanced prudential standards may "differentiate among companies on an individual basis or by category, taking into consideration their capital structure, riskiness, complexity, financial activities (including the financial activities of their subsidiaries), size, and any other risk-related factors that the Board of Governors deems appropriate." The Council's work in connection with this proposed rule can and should assist in developing metrics that can inform proper calibration by the Board of Governors as it tailors standards that are appropriately progressive in stringency.

[20] 76 Fed. Reg. 4565 (proposed 12 C.F.R. § 1310.20)

[21] The preamble to the rule invites public comment to the Office of Management and Budget on the data collection requirements imposed by the rule and estimates that the annual reporting burden associated with these requirements is 500 hours. Given the absence of any detail in the proposed rule over the scope and timing of the proposed data requirements it is difficult to comment on the burden associated with the requirements. It would be helpful if the Council would explain the basis for the estimated reporting burden. 76 Fed. Reg. 4562.

[22] 76 Fed. Reg. 4561.

that the rule clarify (i) when this screening process will be applied; (ii) how it will relate to any risk metrics utilized by the Council and any data requests made by the Council or the Office of Financial Research; (iii) what individuals or entities may assist the Council in conducting such screening; and (iv) how the screening process will relate to the consideration notice.

As we state below, we view the consideration notice as a positive feature in the proposed rule. The "screening" process also may be a useful tool for the Council and industry. However, it is difficult to comment on this feature of the process without additional information on how it would be designed and applied.

G. The Proposed Consideration Notice is a Positive Feature, but Requires Further Clarification

The proposed rule establishes a notification procedure for companies under consideration for designation. These companies are provided an opportunity to submit materials that addressing whether material financial distress at the company, or the nature, scope, size, scale, concentration, interconnectedness, or mix of the activities of the company, could pose a threat to the financial stability of the United States.[23] We support this proposed feature of the rule. It serves as an additional point of contact between a company and the Council and will help inform the Council in making determinations under section 113 of the Dodd-Frank Act. Nonetheless, we believe that even this feature of the rule would benefit from further detail.

Specifically, we recommend that the rule require that (i) the consideration process be initiated by a majority vote of the Council meeting in executive session; (ii) Council staff consult with the primary regulatory agency and assess existing regulatory oversight for U.S. and foreign nonbank financial companies prior to the Council determining that such company be considered for designation; (iii) Council staff inform a company prior to any such vote and meet with representatives of the company; (iv) notice be provided to a company explaining the basis for subjecting the company to the consideration process including the basis for finding that existing regulatory oversight is inadequate to protect the U.S. economy; (v) a company be given no less than 60 days to respond to the notice; (vi) the Council notify a company when it is no longer under consideration; and (vii) the entire consideration process be confidential. Our rationale for these recommendations follows.

We propose that the consideration notice be initiated by a vote of the Council because it will be a formal step in the determination process. On the other hand, since this is a preliminary step in the determination process, we believe a majority vote is sufficient rather than the supermajority required in proposed or final determinations.

We propose that Council staff consult with the primary financial regulatory agency, if any, for a U.S. nonbank financial company and a foreign nonbank financial company prior to the Council determining that such company be considered for designation, for the purpose of providing the Council with a better understanding as to what other regulatory oversight is in place that would render further

[23] 76 Fed. Reg. 4565 (proposed 12 C.F.R. § 1310.21(a)).

regulatory action by the Council and the Federal Reserve redundant and unnecessary. An assessment of the adequacy or inadequacy of existing regulatory oversight with respect to the individual company should be part of the finding provided to companies as well. Reaching this conclusion would save the Council and the company considerable time and resources avoiding further pursuit of the designation review process.

We propose that Council staff meet with representatives of a company prior to a Council vote on a consideration notice in order to help both the Council and the company better understand the basis for such an action and to serve as an opportunity for an open exchange of information between the Council and the company. Understanding the complexities of the structure, operations and risk profile of a company before beginning the consideration process would better inform the Council in producing better decisions. Companies should be given sufficient notice to prepare for such a meeting and have the opportunity to bring written materials to the meeting. Also, we recommend that there be a minimum time period between the meeting and Council action on a related consideration notice.

We recommend the inclusion of a statement of the basis for the consideration notice in the notice itself in order to ensure that the company understands the Council's rationale for the notice and to ensure that the company's response to the notice is responsive to the Council's concerns. Also, we recommend that a company have 60 days, rather than 30, to respond to a consideration notice because a proper response may require some original data collection or analysis on the part of the company.

We propose that the Council formally notify a company when it is no longer subject to consideration so the company can redirect relevant personnel and resources.

Finally, we believe it is critical that the entire consideration process be confidential. By design, this step in the process is not determinative; yet its disclosure could have an impact on the company's business operations as investors and markets react to the information. To help ensure this result, we strongly recommend that the rule specifically state that the consideration process will be treated as the equivalent of a confidential supervisory review by federal banking agencies and that the process is a preliminary action by the Council and any company subject to the process may not be subject to a final determination.

H. For Examinations conducted by the Federal Reserve during the Designation Process, Companies under Consideration Should Receive Copies of Examination Results and be Given an Opportunity to Respond to such Results

The proposed rule permits the Council to request the Federal Reserve Board to examine a nonbank financial company if the Council is unable to determine whether the company poses a threat to U.S. financial stability based on other information, including discussion with the company itself.[24] Once the examination is complete, we believe the examiners should provide the company with an opportunity for an "exit interview," and orally advise the company of the preliminary exam results. Moreover, we believe the company should receive copies of all written results from the examination and be given an opportunity to respond to the results of the examination before a final determination is made by the Council. These procedures would

[24] 76 Fed. Reg. 4564 (proposed 12 C.F.R. § 1310.10(e)).

allow for a better exchange of information between the company and Council staff, and thus result in more accurate determinations by the Council.

I. All Votes of the Council Related to Designations Should be Held in Executive Session, and Designated Companies Should be Given Sufficient Notice before the Council Announces such Designation

The proposed rule requires a vote of the Council on all proposed and final determinations.[25] We recommend that all discussions and decisions by the Council regarding the designation of nonbank financial companies should be held in executive session and not be disclosed to the public. Decisions regarding proposed and final determinations naturally will involve a discussion of proprietary and sensitive business information. We also recommend that the Council provide sufficient advance notice to a designated company before publicly disclosing that company's designation under section 113. This will provide newly designated companies with the time needed to prepare and file any necessary public disclosures.

J. The Evasion Standard Should Not Prevent a Company from Taking Actions to Reduce its Risk Profile

The proposed rule permits the Council to subject a nonbank financial company to supervision by the Board if the Council determines that the company is organized or operates in a manner as to evade the application of Title I of the Dodd-Frank Act.[26] The proposed rule should clarify that this anti-evasion provision is not intended to prevent companies from taking organizational or operational steps that reduce their risk profile. Indeed, one of the stated purposes of Dodd-Frank is to prevent or mitigate risks to the financial stability of the United States, and this anti-evasion provision should not be implemented in a manner that is at odds with that purpose.

K. The Rule Should Clarify the Reevaluation and Rescission Process

The proposed rule states that the Council shall annually reevaluate determinations and rescind determinations.[27] We recommend that the rule clarify this process by (i) identifying the grounds for reevaluation and rescission; and (ii) permitting a company to petition for reevaluation and rescission based upon changes in the company's risk profile or business model.

III. Conclusion

The authority of the Council to determine whether a nonbank financial company should be subject to Board supervision and enhanced prudential standards is one of the Council's most important powers. Such a determination will have a material impact on the company, its

[25] 76 Fed. Reg. 4563 (proposed 12 C.F.R. § 1310.10(b)).
[26] 76 Fed. Reg. 4564 (proposed 12 C.F.R. § 1310.12).
[27] 76 Fed. Reg. 4566 (proposed 12 C.F.R. § 1310.23(a)).

customers, and the markets in which it operates and the U.S. economy as a whole. The recommendations made in this letter are intended to ensure that this process is applied in a transparent, effective and consistent manner.

Sincerely,

Richard M. Whiting

Richard M. Whiting

Mrs. BONO MACK. Thank you very much.

Ms. Wince-Smith, you are recognized for 5 minutes, and I will give you a 1-minute warning.

STATEMENT OF DEBORAH L. WINCE–SMITH, PRESIDENT AND CEO, COUNCIL ON COMPETITIVENESS

Ms. WINCE-SMITH. Thank you, Chairman Bono Mack, Ranking Member Butterfield and members of the subcommittee. I appreciate the opportunity to testify today.

The U.S. manufacturing sector is a key engine of innovation, wealth generation, job growth and national security. America cannot retain its geopolitical leadership and economic vitality without a robust, vibrant, deep industrial basis driven by the design and production of high-value goods coupled to high-value services.

The Council on Competitiveness is celebrating its 25th anniversary year. We are a nonpartisan group of CEOs, university presidents and labor leaders formed at the time when were concerned about the trade and technology challenges with Japan. Our unique membership looks at the issues that impact the Nation, not what is in the interest of any one sector or constituency.

Recognizing the challenges facing American manufacturers in the global economy and the imperative for job creation and job retention, the council formally launched the U.S. Manufacturing Competitiveness Initiative last year, building on our pioneering work on innovation capacity, energy security and sustainability. We are very pleased that this initiative is led by one of our dynamic CEOs in America, Sam Allen, the chairman of John Deere.

Our end goal, which will be presented at a national manufacturing strategy summit on December 8th, is to really give a comprehensive roadmap of what the government, the private sector and broader constituencies in our society need to do to take us to what we call the third millennium manufacturing opportunity. Just yesterday, we took a first step in this journey with the announcement of a first-ever public-private partnership where four large American enterprises—Deere, Lockheed Martin, GE, and Proctor and Gamble—are teaming to bring the power of modeling and simulation technology into the hands of our small- and medium-sized manufacturers, and this is a public-private partnership sponsored with support from the Economic Development Administration but with over $2 million in commitment from the private sector.

Today, I really want to highlight Ignite 1.0, the voices of American CEOs on manufacturing competitiveness. This is the first of four reports we will be issuing this year, and I want to emphasize four points that have come from the voices of over 40 American CEOs. The first is that creative destruction of businesses and jobs is at the very core of competition. Policymakers have to stimulate new business creation and job creation by ensuring that we have the most vibrant and dynamic enabling conditions, the optimal capital cost structure, regulatory environment and access to the markets of the future. Let us not forget 95 percent of all consumers in the years ahead will live outside the United States.

Two: Global economic competition is not a zero-sum game. Our global trading partners, yes, they are our competitors but they are also our partners.

Three: Freedom of movement is a central driver of national competitiveness. Movement of capital, labor, scientists, engineers and ideas is critical. No great nation looks inward.

Four: Manufacturing is much broader and diverse and has a higher multiplier in the economy than at any other previous time in history. It is an extended values system and it goes beyond just the making of the thing.

Our CEOs have conveyed an unwavering belief that the United States has the resources, the capabilities and the will to be the most competitive manufacturing nation in the 21st century. While they have applauded recent agreements in the areas of tax policy and global trade, we have so much more to do. Let us not compete on the cost of capital or who has the best regulatory system. Let us level the playing field there and compete on ideas, talent and the game-changing innovation in industries that will reshape our world. Thank you very much.

Mrs. BONO MACK. You will have one minute.

Ms. WINCE-SMITH. Well, let me just conclude by saying that if we don't take the leadership on manufacturing, the rest of the world will and it is ours to lose.

[The prepared statement of Ms. Wince-Smith follows:]

Compete.
Council on Competitiveness

Deborah L. Wince-Smith

President & CEO
Council on Competitiveness

Testimony before the House Energy & Commerce Committee's Subcommittee on Commerce, Manufacturing, and Trade

"Made in America: Innovations in Job Creation and Economic Growth"
March 3, 2011

Summary

The U.S. manufacturing sector is a key engine of innovation, wealth generation, job growth and national security. America cannot retain its position of leadership in the global marketplace without a robust and vibrant industrial base. The following testimony will address the barriers facing domestic manufacturers, and avenues to advance the global competitiveness of this critical sector of the American economy. In a recent report released by the Council on Competitiveness and Deloitte, the input and perspective of nearly 40 CEOs on manufacturing competitiveness were recorded. These executives, representing organizations whose annual revenues approach $1 trillion and employ 2.2 million workers worldwide shared the following insights on the needs of U.S. manufacturers in the near-term and long-term:

1. Lawmakers should strive to develop an achievable set of goals that ensures the U.S. is the most vibrant and attractive place to invest and do business; and the greatest place in the world to innovate, make things, prosper and grow.

2. Creative destruction of businesses and jobs is at the very core of competition, and as such, policymakers should stimulate new business creation, new job creation, and foster the most dynamic environment possible, instead of trying to restore jobs or industries that have become uncompetitive.

3. Higher productivity will always be necessary to stay competitive on the global stage. This creates a healthy economy as long as businesses are innovating, and public policy is stimulating new business creation, new job creation, and attracting investment to drive this development.

4. Global economics is not a zero-sum game. A job created somewhere else in the world is not the loss of a job in the U.S. Our global trading partners must also grow their economies in order for the U.S. to grow its own economy.

5. Freedom of movement is an essential driver of national competitiveness today. Movement of capital, laborers, scientists, engineers, and ideas is a critical element of a competitive and dynamic nation.

6. Manufacturing is much broader, more diverse, and has a higher multiplier on the economy than at any previous time in history.

****

Chairman Bono Mack, Ranking Member Butterfield and members of the subcommittee, thank you for the opportunity to provide testimony today and share my thoughts on this important issue. I believe strongly that America's competitiveness is inextricably linked to our ability to innovate and translate new ideas into new products, services, industries and jobs. Decisive leadership on this front is critical for the long-term economic health of our country.

History of the Council

To contextualize my remarks, I want to share a brief history of the Council on Competitiveness, which is celebrating its 25th Anniversary this year. Begun in 1986, the Council is a community of U.S. leaders who work together to ensure economic growth, national security and a better quality of life for all Americans. Our unique membership – corporate CEOs, university presidents, labor leaders and national lab directors – collaborate to establish action agendas and deliver strategic, operational and innovative solutions that drive our nation's competitiveness in the global economic arena.

By maintaining our reputation as an established and forward thinking non-partisan organization, the Council has worked successfully with every Administration in its 25 year history. Policymakers listen to and adopt our recommendations because they understand that our only special interest is America's enduring prosperity. Recent examples of collaboration with the federal government include the COMPETES Reauthorization Act and the HPC Midwest Pilot project, announced yesterday.

We are very excited about the HPC Midwest Pilot project, which is a new public-private effort being coordinated by the Council to provide access to advanced modeling and simulation capabilities to manufacturers of all sizes across the country. Advanced modeling and simulation can enable manufacturers to reduce costs, increase speed to market, and innovate next generation products and technologies.

U.S. Manufacturing Competitiveness Initiative (USMCI)

Recognizing the challenges facing American manufacturers more generally, the Council formally launched the U.S. Manufacturing Competitiveness Initiative (USMCI) in June of 2010. Building on the pioneering work of prior Council efforts around innovation and energy sustainability, the USMCI is led by Sam Allen, the Chairman & CEO of Deere & Company; Michael Splinter, the Chairman, President & CEO of Applied Materials; Shirley Ann Jackson, the President of RPI; James Quigley, the Chief Executive officer of Deloitte Touche Tohmatsu; Susan Hockfield, the President of MIT; William Hite, the General President of the United Association of Plumbers and Pipefitters; and George Miller, Director of Lawrence Livermore National Laboratory.

We feel that America cannot maintain its position of leadership in the global economy without a robust, innovative and resilient U.S. manufacturing base. Manufacturing is, and will continue to be an essential path for creating high-value jobs, attracting investments and spurring innovation in America for years to come.

Much of the Council's work on manufacturing competitiveness is focused on the development of a comprehensive National Manufacturing Strategy, slated for release on December 8, 2011 at our National Manufacturing Summit. Our Manufacturing Strategy envisions a vibrant, diversified and technologically advanced manufacturing sector that will create high-paying American jobs, stimulate long-term economic growth and prosperity, embrace energy sustainability, and improve our ability to meet national defense mission needs. An overview of the USMCI is attached for your review.

Ignite 1.0 -- Voice of American CEOs on Manufacturing Competitiveness

The United States is at a significant tipping point. The decisions we make now will impact our children, our grandchildren and their children. The stakes have never been higher. We must continue to make critical strategic investments in our future while addressing huge deficits and a national debt that threatens to strangle our ability to invest, create jobs and grow the economy. There are tough choices to be made, and the report that I have submitted to the record, ***Ignite 1.0 – Voice of American CEOs on Manufacturing Competitiveness,*** begins to shine a light on what these CEOs believe some of those choices should be.

Developed from a series of interviews with nearly 40 CEOs over the past several months, Ignite 1.0 and its recommendations will directly inform our National Manufacturing Strategy, and serve as a cornerstone in our broader efforts to bolster U.S. manufacturing. In keeping with the Council's unique and inclusive perspective, Ignite 1.0 will be the first of four reports that we will release in 2011. Ignite 2.0 will summarize a series of interviews with university presidents and national lab directors, and be released in June. Ignite 3.0

will summarize interviews with labor leaders and be released in September, and Ignite 4.0 will summarize interviews with Chief Technology Officers and be released prior to our Manufacturing Summit in December.

The perspectives in Ignite 1.0 represent the voices of leaders whose companies boast total global revenues approaching $1.0 trillion annually. Moreover, these firms employ over 2.2 million people, with over half of that revenue and those employees being U.S. based.

The CEOs interviewed represent organizations ranging in size from large multi-national manufacturing organizations like:

- Applied Materials
- Deere & Company
- Dow Chemical Company
- DuPont
- PepsiCo
- Bayer Corporation
- Honeywell
- Procter & Gamble
- Ford Motor Company
- Chrysler Corporation
- Lockheed Martin Corporation.

Small and medium manufacturers were also interviewed because they provide the backbone of American manufacturing and job creation, with input shared by leaders from companies like:

- Timken
- ACE Clearwater Enterprises
- Bishop-Wisecarver
- Click Bond
- NanoMech, a start-up nano-technology manufacturer.

Policy recommendations received from these executives spanned the following topic areas:

- Tax Policy and Deficit Reduction
- Energy Policy
- Trade Policy
- Regulatory and Legal environment
- Science, Technology and Inspirational Goals
- Infrastructure Investments
- Access to Talent, and
- U.S. Education in Science and Technology

Though the thoughts and opinions of the participating CEOs were diverse - depth of passion for a globally competitive U.S. - and the importance of a robust and innovative manufacturing base to our economic future emerged as common themes. Participants made it exceedingly clear that these factors were directly correlated to our short-term and long-term prospects for job creation, security, and prosperity.

Most participants conveyed an unwavering belief that the U.S. had the resources, the capabilities and the will to be the most competitive manufacturing nation in the 21st century, given a new approach to setting public policy. Many also indicated that this new path needed to focus on national competitiveness and the challenges facing manufacturers of all sizes, in order to remain one step ahead of global competition.

Key Insights:

Specifically, executives shared the following insights, featured in our report:

1. In lieu of a single and concrete U.S. industrial policy, lawmakers should strive to develop an achievable set of goals that ensures the U.S. is the most vibrant and attractive place to do business, the greatest place in the world to innovate, make things, prosper and grow.

2. Creative destruction of businesses and jobs is at the very core of competition, and as such, policymakers should stimulate new business creation, new job creation, and foster the most dynamic environment possible, instead of saving jobs or industries.

3. Productivity is a good thing. Higher productivity will always be necessary to stay competitive on the global stage. But productivity will result in greater efficiency, which means less labor will be required to perform a given task. This creates a healthy economy as long as businesses are innovating and expanding, and public policy is stimulating new business creation, new job creation, and attracting investment to drive this development.

4. Global economics is not a zero-sum game. A job created somewhere else in the world is not the loss of a job in the U.S. Our global trading partners must also grow their economies in order for the U.S. to grow its own economy. Similarly, U.S. businesses must grow both domestically and abroad.

5. Freedom of movement is an essential driver of national competitiveness today. Movement of capital, laborers, scientists, engineers, and ideas is a critical element of a competitive and dynamic nation.

6. Manufacturing is much broader, more diverse, and has a higher multiplier on the economy than at any previous time in history. Manufacturing includes all facets of research, development, production, sales, distribution, logistics, customer service, marketing, and support. It extends from the making of physical products to the production of software, an increasingly important component integrated across the manufacturing spectrum into increasing numbers of physical products. Properly understanding the breadth of today's manufacturing and its multiplier effect on the domestic economy is essential to enacting public policy that ensures that the United States will be competitive in the long-term.

Uncertainty and Opportunity

Another theme from the interview process was concern over continued uncertainty in policy, legislation and regulation development. While, executives applauded recent agreements in the areas of tax policy and global trade, interviewees stated that uncertainty remained high, and many opportunities still exist for business and policy leaders to collaborate on creating long term competitiveness policies which limit uncertainty.

Respondents suggested that this uncertainty directly impacted both short and long-term decision making, as near-term uncertainty makes long-term planning difficult and risky. To mitigate uncertainty, interviewees proposed several specific short and longer term recommendations:

Tax Policy

1. Institute overall tax reform and provide long term clarity and stability in corporate tax policies.
2. Enhance and make R&D tax incentives permanent.
3. Diminish the cost of repatriating earnings.
4. Develop more globally competitive corporate tax rates.

Energy Policy

1. Outline a comprehensive energy policy that encourages reinvestment in current infrastructures, pursues energy efficiency and conservation, and balances investment across a diverse portfolio of all fuel sources – including solar, wind, and nuclear – while tapping critical U.S. assets in coal, natural gas, and offshore oil.
2. Immediately begin planning to increase the use of nuclear power.
3. Increase collaboration with businesses when drafting new regulations to ensure that they are cost-effective, attainable, and employ available technologies.
4. Improve and modernize the U.S. electric grid to increase short and long term reliability and develop the infrastructure needed to facilitate the inclusion of the significant amounts of energy expected and to deliver considerable energy from alternative sources.
5. Incentivize the use of cleaner and more abundant fuels, like natural gas, to supplement the transition away from of oil and coal.

Trade Policy

1. Develop a new trade promotion and fast-track authority.
2. Create a more comprehensive and competitive export trade control process.
3. Ensure U.S. rights under existing trade agreements are enforced, and ensure compliance with WTO rules and regulations.
4. Create pro-business relationships with all trading partners, especially emerging market countries, and aggressively pursue closure of a commercially meaningful WTO Doha Agenda.

Regulatory and Legal Environment

1. Collaborate with government and business leaders to create policies enabling appropriate evaluation to be conducted through a lens of global competitiveness in place of a U.S centric view.
2. Develop a benchmarking process to analyze the impact of regulations from a holistic global competitiveness perspective.
3. Diminish the cost and complexity of regulatory compliance.

Science, Technology and Inspirational Goals

1. Establish a consortium of business, university, labor, and public sector leaders to establish daring long term goals with a 15 to 20 year development horizon and then work collaboratively to craft policy, investment, and development programs - as well as education and other physical, technology, and intellectual infrastructures - that support progress towards those goals.
2. Strengthen intellectual property protection, particularly in emerging markets, and ensure investments in science, technology, and innovation provide maximum long term return to the U.S.

Infrastructure Investments

1. Improve ports, railroads, roads, nuclear facilities, the electric grid, and IT infrastructures. Priority should be given to projects that improve export capabilities and efficient movement of goods in, out, and throughout the U.S.
2. Increase incentives for infrastructure projects within the private sector and encourage more private-public partnerships.

Access to Talent

1. Reform visa and green card processes that create backlogs which block access to talent.
2. Benchmark visa best practices from other countries that are successfully attracting and retaining top science, technology, engineering, and mathematics (STEM) talent.
3. Create opportunities for scientists and engineers born outside the U.S. to become an integral part of U.S. competitive capabilities instead of focusing primarily on border protection.

U.S. Education in Science and Technology

1. Focus educational curricula on developing STEM skills. Develop flexible education tracks that foster STEM literacy through community colleges, vocational trade schools, work training programs, etc.

2. Empower performance-based legislation such as the America COMPETES Act, the Elementary and Secondary Education Act, Investing in Innovation, and Race to the Top and Teacher Incentive funds.
3. Develop federally funded programs that promote and market manufacturing as a high-value and vital industry with rewarding long term career opportunities for high school and college students in the U.S.
4. Subsidize state universities' efforts to attract higher caliber students to STEM programs and increase the number of graduates.

Many suggested that resolving these policy questions would afford businesses the opportunity to make long-term investments in the labor force, improve manufacturing processes, develop new products, and implement cutting edge technology with greater certainty and security. In the near-term, this means advancing U.S. manufacturing competitiveness and stimulating domestic job growth.

Concluding Comments

CEOs representing companies of all sizes stressed that international business can contribute to a strong, successful and globally competitive economy, and can fuel job growth in the U.S. in a variety of ways. Executives from both large and small manufacturing firms indicated that economic strategies and policies must acknowledge the challenges and opportunities provide by a highly complex and integrated global marketplace. A market where 95 percent of middle class consumers will live and work outside the United States.

Many executives also noted the need for business and government to work more closely together to make America more attractive for investment. It was noted that closer public-private collaboration would also increase the ability of U.S. based manufacturers to expand globally while providing quality, advanced manufacturing employment opportunities for American workers.

Members of the subcommittee, the time for change is now, and the window of opportunity in which to take effective action is narrow. Today, the U.S. remains the world's largest manufacturing economy, and the domestic manufacturing sector is critical to the healthy recovery of the U.S. economy and its long-term economic prosperity. To ensure America's manufacturing future, however, effective and strategic change is required. A decline in American manufacturing is not inevitable, but to retain our position of leadership in the global marketplace, America must continue to out innovate, out produce and out compete emerging manufacturing powers, and we need the help of Congress to realize this vision.

Thank you.

Compete.
Council on Competitiveness

1500 K Street, NW
Suite 850
Washington, D.C. 20005
T 202 682 4292
F 202 682 5150
Compete.org

3rd Millennium Manufacturing: U.S. Manufacturing Competitiveness Initiative

For American Jobs, Growth and Security

Manufacturing is Critical

Manufacturing competitiveness is one of the great challenges and opportunities of our time – one that will determine the legacy America bequeaths to its children and grandchildren. Jobs, investment, game changing innovations, economic prosperity, improved standards of living and national security depend on the creativity and commitment of our nation to lead a new era of manufacturing at home and abroad. This new era of manufacturing excellence will render traditional production models obsolete, and instead favor new and innovative manufacturing processes which will come to define 3rd Millennium Manufacturing.

3rd Millennium Manufacturing spans ideas, products and services; well beyond the production of only goods as in the 20th century. The 3rd Millennium Manufacturing ecosystem represents a complex and highly integrated globalized value web. This web includes cutting-edge science and technology, innovation, talent, sustainable design, systems engineering, supply chain excellence and a wide range of smart services; in an energy efficient, sustainable and low carbon environment.

3rd Millennium Manufacturing demands new thinking, new policies, new organizations and deeper collaboration to attract, expand and retain manufacturing investment. If the United States loses the know-how to manufacture things, then we will lose the know-how to develop and design things, and then we will lose our ability to innovate, attract investments, improve our standard of living and protect our national interests.

Initiative Goal

We will prepare and deliver a comprehensive 3rd Millennium National Manufacturing Strategy to private sector leaders, the Administration, Congress, Governors and other key stakeholders at a National Manufacturing Summit convened in Washington, D.C., December 7-8, 2011. The strategy will provide the Council with a framework for developing ongoing implementation and monitoring efforts in 2012 and beyond.

Challenges and Opportunities

Manufacturing, long a cornerstone of U.S. competitiveness, faces intense competition from all corners of the globe. In 2009, Global Insight estimates that United States manufacturing output was 19.9 percent of global total and China's was 18.6 percent. They further estimate that China will surpass the United States in 2011 and for the first time in 110 years, America will be the world's second largest producer of manufactured goods.

Global manufacturing executives viewed the United States as the 4th most competitive manufacturing economy, behind China, India, and South Korea in a recent survey conducted by the Council and Deloitte. These same executives believe that the United States will slip to 5th place by 2015 as Brazil continues to increase its economic power.[1]

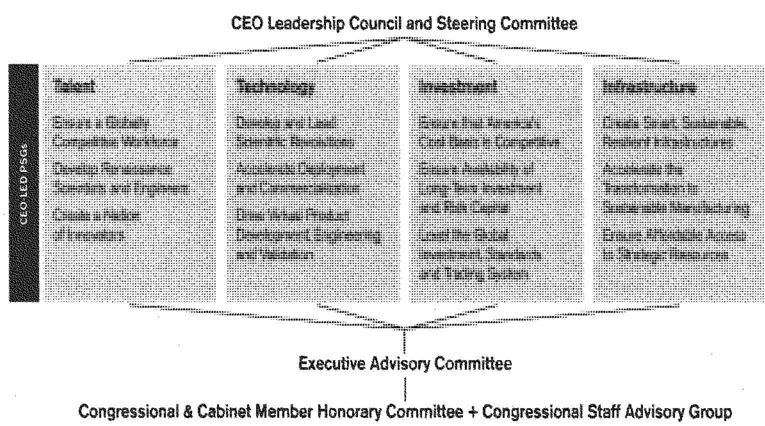
There are enormous opportunities to create a new century of American manufacturing leadership. The digital, biotechnological, and nanotechnology revolutions are rewriting the rules of production and services. These ground-breaking technologies will unleash vast opportunities for innovation. They enable new business formation and job creation. They also serve as platforms for new industries and new markets.

Demand for manufactured goods is being reshaped by new forces. Huge markets are emerging around the world. By 2030, 5 billion people could be middle class, up from 1.8 billion in 2009. And 80 percent of these middle class consumers will live outside the developed world we know today.[2] These consumers will demand a wide range of products and services.

Initiative Organization

A CEO-Level Leadership Council and Steering Committee, comprised of chief executives from industry, academia, organized labor and national laboratories, will frame the critical questions, provide the strategic direction, and develop a comprehensive set of actions to ensure a vibrant manufacturing base for America's future.

Members of the Steering Committee will organize and lead Policy Solution Groups (PSGs) to develop recommendations that address specific elements of the manufacturing ecosystem—including talent, technology, investment and infrastructure. Each PSG will study discrete issues and produce an interim and final report for the Steering Committee—that will, in turn, summarize key findings and policy recommendations.



[1] Council on Competitiveness and Deloitte Touche Tohmatsu, *2010 Annual Global Manufacturing Competitiveness Index.*
[2] *The Expanding Middle: The Exploding Middle Class and Falling Global Inequality*, Goldman Sachs, 2008.

Executive and Expert Advisors
An equally diverse and expert Advisory Committee is helping to shape the substantive aspects of the initiative, as well as providing ongoing counsel and support to the Steering Committee and Council staff.

Distinguished Member and Affiliate Partners
The Council cultivates partnerships with leading national organizations on issues of mutual concern. In bridging the interests and insights of many, the Council brings multi-disciplinary analysis and systems thinking to its work.

Public Sector Engagement
The Council works closely with policymakers from across the Administration and Congress to foster holistic and integrated policy solutions. Congressional staffs from both parties serve as advisors to the Council to ensure that recommendations are aligned with priorities and timelines.

2011 Key Dates

Jan - Oct	CEO-Led Policy Solution Group Dialogues
Feb 17	Release *Voice of American CEO's on Manufacturing Competitiveness* and *Ignite 1.0, Recommendations for 3rd Millennium Manufacturing*
Jun 13-14	Steering Committee Meeting hosted by Allen Mulally, President and CEO, Ford Motor Co.
Dec 7-8	National Manufacturing Summit in Washington, D.C. and release of *Ignite 2.0, Comprehensive National Manufacturing Strategy*

About the Council

Since 1987, the Council has brought forth creative solutions to America's most pressing competitiveness challenges. Composed of leaders from industry, academia and organized labor, the Council is unique in its ability to build synergies and consensus across a wide span of organizations and interests. By leveraging its exceptional convening power, the Council attracts the best minds, at the right time to the right issues. Not representing a singular interest, the Council operates at the level of the national interest, taking a systems approach in framing the problem and developing solutions. The Council proactively engages all perspectives and forges critical partnerships with stakeholders in the public and private sectors.

CEO-Level Leadership Council and Steering Committee

LEADERSHIP COUNCIL
Council Board

Samuel R. Allen
Chairman and CEO
Deere & Company

Michael R. Splinter
Chairman, President and CEO
Applied Materials, Inc.

Shirley Ann Jackson
President
Rensselaer Polytechnic Institute

Edward J. McElroy
Chief Executive Officer
ULLICO Inc.

Charles O. Holliday, Jr.
Chairman Emeritus
Council on Competitiveness

Deborah L. Wince-Smith
President and CEO
Council on Competitiveness

Industry Lead
James H. Quigley
Chief Executive Officer
Deloitte Touche Tohmatsu

Academia Lead
Susan Hockfield
President
Massachusetts Institute of Technology

Labor Lead
William P. Hite
General President
United Association of Plumbers and Pipefitters

National Laboratories Lead
George H. Miller
Director
Lawrence Livermore National Laboratory

STEERING COMMITTEE

Paul Alivasatos
Director
Lawrence Berkeley National Laboratory

Michael R. Anastasio
Director
Los Alamos National Laboratory

David Arkless
President, Global Corporate and Government Affairs
Manpower, Inc.

Dan E. Arvizu
Director
National Renewable Energy Laboratory

Neil Z. Auerbach
Founder and Managing Partner
CMEA CApital

Thomas R. Baruch
Founder and Managing Director
CMEA Capital

Gene D. Block
Chancellor
University of California, Los Angeles

William H, Bohnett
President
Whitecap Investments LLC

Richard H. Brodhead
President
Duke University

Curtis R. Carlson
President and CEO
SRI International

Jean-Lou A. Chameau
President
California Institute of Technology

Nancy Conrad
Chairman
The Conrad Foundation

Scott E. DePasquale
Partner
Braemer Energy Ventures

William W. Destler
President
Rochester Institute of Technology

Daniel DiMicco
Chairman, President and CEO
Nucor Corporation

Steven E. Downie
President, CEO and Chairman
Ktech Corp.

Ron Gaiser
Chairman and CEO
Ecotech Builders, Inc.

Alice P. Gast
President
Lehigh University

Pierre L. Gauthier
President – United States
Alstom Inc.

E. Gordon Gee
President
The Ohio State University

Peter T. Halpin
Chief Executive Officer
World Resources Company

Paul J. Hommert
President and Laboratories Director
Sandia National Laboratories

Eric D. Isaacs
Director
Argonne National Laboratory

Richard B. Jarman
President and CEO
National Center for Manufacturing Sciences

David L. Joyce
President and CEO
GE Aviation

Mohamed Farid Khamis
Chairman and CEO
Oriental Weavers Carpet Company

Anthony J. Maddaluna
President, Global Manufacturing
Pfizer Inc.

William W. McCraken
Chief Executive Officer
CA Technologies

Alan Mulally
President and Chief Executive Officer
Ford Motor Company

Keith D. Nosbusch
Chairman and CEO
Rockwell Automation, Inc.

Terence M. O'Sullivan
General President
Laborer's International Union of North America

Harris Pastides
President
University of South Carolina

G. P. "Bud" Peterson
President
Georgia Institute of Technology

James M. Phillips
Chairman
NanoMech, LLC

Luis M. Proenza
President
University of Akron

Mayo A. Shattuck III
Chairman, President and CEO
Constellation Energy

Lou Anna K. Simon
President
Michigan State University

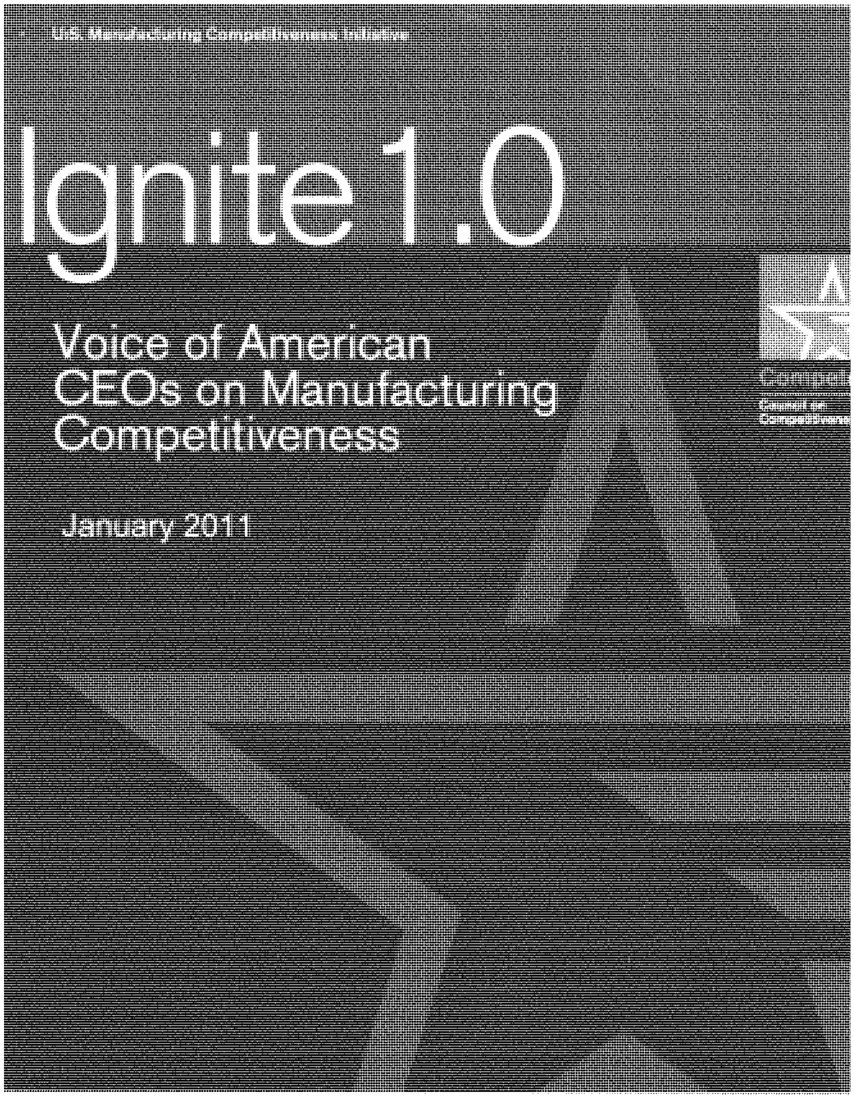
David J. Skorton
President
Cornell University

Jack Stack
Founder and CEO
SRC Holdings, Inc.

Samuel L. Stanley
President
Stony Brook University, Southampton

Robert J. Stevens
Chairman, President and CEO
Lockheed Martin Corporation

Erik Straser
General Partner
Mohr Davidow Ventures


U.S. Manufacturing Competitiveness Initiative

Ignite 1.0

Voice of American CEOs on Manufacturing Competitiveness

January 2011

Contents

From Our Leadership

The Council launched its 3rd Millennium Manufacturing Initiative in June 2010 to tackle the challenges facing manufacturing and drive the dialogue, policies, and programs necessary to ensure the long term health of American manufacturing. Our vision is a reinvigorated, vibrant, diversified, and technologically advanced manufacturing sector that produces American jobs, economic growth, prosperity, energy sustainability, and an improved ability to meet national security needs.

This report, IGNITE 1.0, provides the first set of recommendations informed by interviews with manufacturing CEOs and other senior executives. In June, we will release IGNITE 2.0 which will include insights and recommendations from university leaders, and in September, we will release IGNITE 3.0, which will provide thoughts and recommendations from labor leaders. Beyond these three reports, there is much more to be done. America needs a fresh and proactive strategy with a well articulated and optimistic message.

Using the three sets of interviews, research, analysis, and a series of strategic dialogues with our Steering Committee, Executive Advisory Committee, and federal government partners, the Council will develop and present a comprehensive and in-depth 3rd Millennium National Manufacturing Strategy. We will explore the entire manufacturing ecosystem and full product life-cycles, ranging from design and engineering to production, remanufacturing, and disposal. The strategy will be presented to private sector leaders, the Administration, Congress, Governors, and other key stakeholders at a national manufacturing summit convened in Washington, DC in December 2011 and will provide the Council with a framework for developing ongoing implementation and monitoring efforts in 2012 and beyond.

Modern manufacturing is complex, involving socio-economic and technical issues which require deep collaboration between government, industry, academia, and labor leaders to effect real change. We need to identify, understand, and vigorously support necessary and sometimes radical changes and new policies if we are to regain and retain our position of global leadership. If the United States loses the know-how to manufacture things, then we will lose the know-how to develop and design things, and then we will lose our ability to innovate, attract investments, improve our standard of living, and protect our national interests.

Lastly and most importantly, we are especially grateful to all of the CEOs for their willingness to share their valuable thoughts and insights with the Council. We also want to thank our colleagues at Deloitte for all their support in conducting the interviews and preparing this report.

Samuel R. Allen
Chairman and CEO
Deere & Company

Michael R. Splinter
Chairman, President and CEO
Applied Materials, Inc.

Shirley Ann Jackson
President
Rensselaer Polytechnic Institute

Edward J. McElroy
Chief Executive Officer
ULLICO Inc.

Charles O. Holliday
Chairman Emeritus
Council on Competitiveness

Deborah L. Wince-Smith
President and CEO
Council on Competitiveness

James H. Quigley
Chief Executive Officer
Deloitte Touche Tohmatsu

Susan Hockfield
President
Massachusetts Institute of Technology

William P. Hite
General President
United Association of Plumbers and Pipefitters

George H. Miller
Director
Lawrence Livermore National Laboratory

Summary of Recommendations

Tax Policy

1. Institute overall tax reform and provide long term clarity and stability in corporate tax policies.
2. Enhance and make R&D tax incentives permanent.
3. Diminish the cost of repatriating earnings.
4. Develop more globally competitive corporate tax rates.

Energy Policy

1. Outline a comprehensive energy policy that encourages reinvestment in current infrastructures, pursues energy efficiency and conservation, and balances investment across a diverse portfolio of all fuel sources – including solar, wind, and nuclear – while tapping critical U.S. assets in coal, natural gas, and offshore oil.
2. Immediately begin planning to increase the use of nuclear power.
3. Increase collaboration with businesses when drafting new regulations to ensure that they are cost-effective, attainable, and employ available technologies.
4. Improve and modernize the U.S. electric grid to increase short and long term reliability and develop the infrastructure needed to facilitate the inclusion of the significant amounts of energy expected and to deliver considerable energy from alternative sources.
5. Incentivize the use of cleaner and more abundant fuels, like natural gas, to supplement the transition away from of oil and coal.

Trade Policy

1. Develop a new trade promotion and fast-track authority.
2. Create a more comprehensive and competitive export trade control process.
3. Ensure U.S. rights under existing trade agreements are enforced, and ensure compliance with WTO rules and regulations.
4. Create pro-business relationships with all trading partners, especially emerging market countries, and aggressively pursue closure of a commercially meaningful WTO Doha Agenda.

Regulatory and Legal Environment

1. Collaborate with government and business leaders to create policies enabling appropriate evaluation to be conducted through a lens of global competitiveness in place of a U.S centric view.
2. Develop a benchmarking process to analyze the impact of regulations from a holistic global competitiveness perspective.
3. Diminish the cost and complexity of regulatory compliance.

Science, Technology and Inspirational Goals

1. Establish a consortium of business, university, labor, and public sector leaders to establish daring long term goals with a 15 to 20 year development horizon and then work collaboratively to craft policy, investment, and development programs - as well as education and other physical, technology, and intellectual infrastructures - that support progress towards those goals.
2. Strengthen intellectual property protection, particularly in emerging markets, and ensure investments in science, technology, and innovation provide maximum long term return to the U.S.

Infrastructure Investments

1. Improve ports, railroads, roads, nuclear facilities, the electric grid, and IT infrastructures. Priority should be given to projects that improve export capabilities and efficient movement of goods in, out, and throughout the U.S.
2. Increase incentives for infrastructure projects within the private sector and encourage more private-public partnerships.

Access to Talent

1. Reform visa and green card processes that create backlogs which block access to talent.
2. Benchmark visa best practices from other countries that are successfully attracting and retaining top science, technology, engineering, and mathematics (STEM) talent.
3. Create opportunities for scientists and engineers born outside the U.S. to become an integral part of U.S. competitive capabilities instead of focusing primarily on border protection.

U.S. Education in Science and Technology

1. Focus educational curricula on developing STEM skills. Develop flexible education tracks that foster STEM literacy through community colleges, vocational trade schools, work training programs, etc.
2. Empower performance-based legislation such as the America COMPETES Act, the Elementary and Secondary Education Act, Investing in Innovation, and Race to the Top and Teacher Incentive funds.
3. Develop federally funded programs that promote and market manufacturing as a high-value and vital industry with rewarding long term career opportunities for high school and college students in the U.S.
4. Subsidize state universities' efforts to attract higher caliber students to STEM programs and increase the number of graduates.

Acknowledgments

The Council on Competitiveness would like to thank the following executives for taking the time to provide their perspectives and recommendations for this report.

Kellie Johnson
President
ACE Clearwater Enterprises

William P. Sullivan
President and CEO
Agilent Technologies, Inc.

Hannah Kain
Chief Executive Officer
ALOM Technologies Corp.

Michael R. Splinter
President and CEO
Applied Materials, Inc.

Richard E. Dauch
Chairman and CEO
American Axle & Manufacturing Holdings, Inc.

Charles G. McClure, Jr.
Chairman, President and CEO
ArvinMeritor, Inc.

Gregory S. Babe
President and CEO
Bayer MaterialScience LLC
Bayer Corporation

Pamela Kan
President
Bishop-Wisecarver Corp.

Sergio Marchionne
Chief Executive Officer
Chrysler Group LLC

Collie Hutter
COO and Owner
Click Bond, Inc.

Samuel R. Allen
Chairman, President and CEO
Deere & Company

Andrew N. Liveris
Chairman, President and CEO
The Dow Chemical Company

Ellen Kullman
Chairman and CEO
E. I. du Pont de Nemours & Co.

Alan R. Mulally
President and CEO
Ford Motor Company

John Krenicki, Jr.
Vice Chairman GE, CEO
GE Energy

John R. Rice
Vice Chairman GE, CEO
GE Technology Infrastructure

David Cote
Chairman and CEO
Honeywell International, Inc.

David B. Speer
Chief Executive Officer
Illinois Tool Works, Inc.

Michael W. Lamach
Chairman, President and CEO
Ingersoll-Rand plc

William L. McComb
Chief Executive Officer
Liz Claiborne Inc.

Robert J. Stevens
Chairman and CEO
Lockheed Martin Corporation

William A. Hawkins III
President and CEO
Medtronic, Inc.

James M. Phillips
Chairman and CEO
NanoMech Inc.

Wesley G. Bush
President and CEO
Northrop Grumman Corporation

Indra K. Nooyi
Chairman and CEO
PepsiCo, Inc.

Robert A. McDonald
Chairman, President and CEO
The Procter & Gamble Corporation

Keith Nosbusch
Chairman and CEO
Rockwell Automation, Inc.

Walter P. Havenstein
Chief Executive Officer
SAIC, Inc.

Nicholas T. Pinchuk
Chairman, President and CEO
Snap-On Incorporated

Christopher J. Kearney
Chairman, President and CEO
SPX Corporation

Al Lubrano
President
Technical Materials, Inc.

Joseph R. Gromek
President and CEO
Warnaco Group , Inc.

Ward J. Timken, Jr.
Chairman
The Timken Company

Louis R. Chênevert
Chairman, President and CEO
United Technologies Corporation

U.S. Manufacturing Competitiveness

From the conclusion of World War II to nearly the end of the 20^{th} century, the United States was recognized as the world's leading manufacturing economy by most any metric: productivity, innovation, scale and quality of products, or workforce quality. The country's strong industrial base and highly talented workforce pioneered innovations and technological advancements, elevating the standard of living for its citizens and its rapidly growing middle class to levels that were the envy of nations worldwide. A strong industrial complex retooled for post-WWII consumer demands, and a favorable export environment driven by post-war rebuilding efforts abroad, helped to establish the United States as the leading global manufacturer. As a result, the competitiveness of U.S. manufacturers and the prosperity of America's people rose to an all-time high.

As the 21^{st} century dawned and developing nations began their drives to improve the prosperity of rapidly growing middle classes, they placed increasing emphasis on developing manufacturing-based economies that would produce high-value jobs and leverage the multiplier effect that a robust industrial base creates. This in turn led to the creation of strong supporting infrastructures, education programs, and pro-business public policies that attract foreign direct investment. Taken together, these factors have given rise to strong domestic consumer markets abroad.

Consequently, the U.S. manufacturing sector today faces unprecedented challenges. According to the *2010 Global Manufacturing Competitiveness Index*[1], which is based on input from over 400 C-suite manufacturing executives around the world, the U.S. ranks fourth in global manufacturing competitiveness behind China, India, and South Korea, and is expected to fall to fifth by 2015, based on the input of these executives. As a result, the United States has been challenged to create high value, manufacturing-driven job growth which, in turn, has become a tremendous challenge for both policymakers and business leaders keen on maintaining the prosperity of the American working middle class.

Executives participating in the *2010 Global Manufacturing Competitiveness Index*[1] research effort identified 10 broad areas that they believed define the manufacturing competitiveness of a country. Topping the list of competitiveness drivers is talent-driven innovation, followed closely by the cost of labor and materials, energy costs and policies, economic development, trade, central bank and finance policies, and the quality of the infrastructure. While market forces had a significant impact on the competitiveness of a country, executives stressed that government policies critically affect manufacturing competitiveness, and a country's ability to compete in international markets.

In the view of survey respondents, today's increasingly borderless global economy and the emergence of new industrial powers represent both prospective threats to America's long term economic health, as well as opportunities to leverage new technologies to revive the industrial base, improve competitiveness, grow high value jobs, and increase prosperity in America today and for years to come. To succeed, significant and complex challenges must be tackled, and the Council on Competitiveness has undertaken a significant effort to address these challenges and to improve America's long term competitiveness.

To learn more about the role government policy plays in national competitiveness, the Council sought short term and long term policy recommendations from CEOs and other senior manufacturing executives that could improve manufacturing competitiveness, and drive high value job growth, innovation, and sustainable prosperity in the U.S.

Approach & Methodology

Between September 2010 and January 2011, on behalf of the Council on Competitiveness, senior leaders at Deloitte [2] held discussions with approximately three dozen senior executives. These executives represented some of the world's largest manufacturing organizations headquartered in the U.S., and a number of key small and medium sized manufacturers, a demographic which represents the bulk of all U.S. manufacturing employment. These companies, spanning a large swath of manufacturing employment, included diversified manufacturing, process and industrial products, consumer products, automotive, aerospace and defense, technology, life sciences, and both public and private enterprises. Participating companies included firms like Applied Materials, Deere & Company, Dow Chemical Company, DuPont, PepsiCo, Bayer Corporation, Procter & Gamble, Ford Motor Company, Chrysler Corporation, Lockheed Martin Corporation, ACE Clearwater Enterprises, General Electric, and many more. These discussions were done on an individual basis, typically occurring in the executive's office, with a handful occurring over the phone. These hour long discussions sought the executive's perspectives on:

- The U.S. and global economy, including expected growth, the shape of the recovery, and vulnerabilities relative to short term and long term economic prospects.
- Short term and long term recommendations on what federal and state policy makers should do to improve U.S. manufacturing competitiveness, reinvigorate the industrial base, create jobs, and drive a sustainable economic recovery.
- Important areas their individual company's must address to compete effectively over the next five years with their closest global competitors.

Business executives participating in this report were asked to recommend what federal and state policymakers should do to address the following 10 areas:

1. Human Capital Development Policies
2. Infrastructure Investment and Development Policies
3. Economic Development and Trade Policies
4. Central Bank and Finance Policies
5. Corporate and Individual Tax Policies
6. Legal and Regulatory System and Policies
7. Science, Technology and Innovation Policies and Investments
8. Energy Policies and Investments
9. Healthcare Policies and Systems
10. Other

Key Insights & Recommendations

The following report outlines key short and long term measures executives identified as critical to revitalizing and sustaining the U.S. industrial base, a key driver of prosperity and economic strength. Executives consistently noted that success hinged on the ability of the public and private sectors to work together and have open, honest, on-going productive dialogues focused on creating an environment in the United States that promoted competitive manufacturing – an environment that, among other things, creates and maintains a competitive cost structure, balances regulatory policy, spurs investment, supports globalization and attracts, develops, and retains the very best talent required at all levels of the manufacturing process. Executives also consistently noted that the results of certain investments in areas like education would be realized in the long term, but that action on these fronts should begin immediately. Other areas of focus noted by executives, including tax reform and energy policy, would have an immediate, positive, and meaningful impact on America's ability to compete globally, provided that proposed policy changes balance public and private sector needs, and are enacted with a long term competitiveness outlook in mind.

Passion for the U.S. and Manufacturing

Throughout the interview process, a palpable passion for manufacturing competitiveness was conveyed by respondents that is difficult to capture in this summary. Though the thoughts and opinions of the participating CEOs were diverse, depth of passion for a globally competitive U.S., and the importance of a robust and innovative manufacturing base to our economic future emerged as common themes. Participants made it exceedingly clear that these factors were inextricably linked to our short and long term prospects for job creation, security, and prosperity as a nation today and tomorrow, for our children and our grandchildren. For some, these sentiments were expressed through anger and frustration over what one executive called a, "steady and unnecessary decline in the U.S. industrial base over a long period of time as the result of self-inflicted policy wounds, as opposed to the rise of any new super-power manufacturing nations."

Most opinions, however, conveyed an unwavering belief that the U.S. had the resources, the capabilities and the will to be the most competitive manufacturing nation in the world in the 21st century, given a new approach to setting public policy. Most believed this new path needed to focus on national competitiveness and the challenges facing manufacturers of all sizes, in order to remain one step ahead of global competition.

It is noteworthy that the tone of the responses grew more cautiously optimistic following the November mid-term elections. And as the interviews wrapped up in December 2010 and January 2011, executives openly looked forward to the opportunity for dialogue, the prospects for policy and regulatory balance, and a resurgence of U.S. manufacturing competitiveness.

21st Century Principles for a Competitive American Industrial Base

The executives interviewed represent diverse backgrounds, experiences, and countries of origin. Some approached the discussion as a deep and specific point-by-point policy dialogue, while others spoke in broad terms, stressing key concepts and the most important policy actions necessary. All had given the topic considerable thought, and it was clear most gave public policy issues meaningful attention on a regular basis. Several executives also offered insightful intellectual frameworks in which to discuss manufacturing competitiveness. The most compelling of these were offered as core principles for the creation of a competitive 21st century U.S. manufacturing complex. These are principles that many CEOs believe need to be broadly understood and embraced by today's policymakers in order to better develop and implement the recommendations offered through these efforts. The integration of the key principles offered by these executives is as follows:

1. Policymakers should strive considerably less to seek to create a single, specific, concrete industrial policy for the future of U.S. manufacturing and much more to develop an achievable set of goals that ensures the U.S. is the most vibrant and attractive place to do business, the greatest place in the world to innovate, make things, prosper, and grow.

2. Creative destruction of businesses and jobs is at the very core of competition, and as such, policymakers should stimulate new business creation, new job creation, and foster the most dynamic environment possible, in lieu of saving jobs or industries.

3. Productivity is a good thing. Higher productivity will always be necessary to stay competitive on the global stage. But productivity will result in greater efficiency, which means less labor will be required to perform a given task. This creates a healthy economy as long as businesses are innovating, and public policy is stimulating new business creation, new job creation, and attracting investment to drive the creation of new jobs.

4. Global economics is not a zero-sum game. A job created somewhere else in the world is not the loss of a job in the U.S. Our global trading partners must grow their economies in order for the U.S. to grow its own economy. Similarly, U.S. businesses must grow both domestically and abroad.

5. Freedom of movement is an essential driver of national competitiveness today. Movement of capital, laborers, scientists, engineers, and ideas is a critical element of a competitive and dynamic nation.

6. Manufacturing is much broader, more diverse, and has a higher multiplier on the economy than at any previous time in history. Manufacturing includes all facets of research, development, production, sales, distribution, logistics, customer service, marketing, and support. It extends from the making of physical products to the production of software, an increasingly important component integrated across the manufacturing spectrum into increasing numbers of physical products. Properly understanding the breadth of today's manufacturing and its multiplier effect on the domestic economy is essential to enacting public policy that ensures that the United States will be competitive in the long term.

Consequences of Uncertainty

An overarching concern that was consistently and nearly unanimously expressed by executives was policy, legislative and regulatory uncertainty. Executives suggested that this uncertainty directly impacted both short and long term decision making. Many participants emphasized that as business leaders, they routinely develop strategic business plans and make supporting investments with 10 to15-plus year horizons, yet are faced with a reality in which policies do not provide enough long term clarity or stability to make these decisions without a significant sense of uncertainty. In particular, many suggested that this uncertainty overshadowed their investment processes which focused on the critical costs and competitiveness variables.

Clarity and permanency of R&D tax credits, competitive tax rates, ratification of free trade agreements, tort reform, health care policy, financial reforms, labor policy, innovation policy, energy policy, and carbon regulation policy were all examples cited by executives of policy areas where competitive policies developed and enacted with clarity and maintained with stability would provide tremendous opportunities for American manufacturers. Many suggested that resolving these policy questions would afford businesses the opportunity to make long term investments in the labor force, improve manufacturing processes, develop new products, and implement cutting edge technology with greater certainty. In doing so, they could advance U.S. manufacturing competitiveness and stimulate domestic job growth. Executives applauded recent agreements in the areas of tax policy and global trade, yet felt uncertainty remained high, and that many opportunities still exist for business and policy leaders to collaborate on creating long term competitiveness solutions and limiting uncertainty.

Recommendations

A majority of the executives noted that changes to the following areas would offer immediate, positive, and meaningful improvements to the ability of U.S. businesses to compete effectively in global markets. There was also a general recognition that many of these recommendations should be implemented soon in order to realize long term benefits and competitiveness advantages.

Tax Policy and Deficit Reduction

Many of those interviewed indicated that if the overall corporate tax rate of the United States were closer to our largest trading partners, American companies would be more competitive. High corporate taxes result in a reduced ability to invest, and global competitors with lower rates are able to invest more. Many felt a tax rate comparable to other strong manufacturing countries would improve American corporations' ability to invest, innovate, and be more competitive globally. A benchmarking study with other global manufacturing powers would be helpful in order to understand differences between corporate tax structures, and by extension, America's competitiveness.

Improving U.S. companies' ability to repatriate cash from abroad was often cited as another means to boost the domestic economy and U.S. competitiveness. Many executives interviewed believe that, at a minimum, U.S. policy should designate a brief period in which cash could be repatriated at a lower tax rate. When similar policy measures were enacted several years ago, there was a dramatic influx of cash into the U.S., which was then funneled back into the economy.

Long term, many participants felt that a territorial tax rate policy should be developed. This could allow American corporations to increase investment in the U.S. and shrink the current federal deficit.

The federal deficit was repeatedly cited as a major concern in the long term, but executives also felt that immediate action was needed to reduce the deficit, and very importantly, the borrowing costs for the U.S. Moreover, the executives argued that excessive federal debt would be a drag on growth in the long term, and adversely impact current and future manufacturing product and process innovations and future productivity gains.

Finally, a significant majority felt that the time was right to begin a major tax policy overhaul consistent with ideas advanced by the President's Bipartisan Deficit Reduction Committee. Interviewees argued that this would have a dramatic, positive, and long lasting impact on America's competitiveness across all industries.

In particular, executives recommended the following actions be considered:

1. Institute widespread tax reform and provide long term clarity and stability on overall corporate tax policies to promote investment in the United States and strengthen U.S. competitiveness.
2. Enhance and make permanent R&D tax incentives. Our ability to innovate and develop technological advances is key to our competitive advantage in the future. Therefore, we must invest in long term basic and advanced research to stay ahead.
3. Decrease the cost of repatriating earnings – either by creating a territorial tax rate policy or by minimizing the payback difference between foreign and U.S. tax rates. The U.S. is the only G8 member that does not employ a territorial tax rate policy - a taxation policy where governments tax only the income earned inside their borders. We need to provide U.S. headquartered companies the same competitive advantages that our major trading partners provide for companies headquartered within their borders.

4. Develop more globally competitive corporate tax rates. Executives applauded the recent continuation of tax adjustments, but, as previously noted, felt that consistency over the long term would be even more beneficial in reducing uncertainty and increasing investment.

Energy Policy

Many discussions with executives strongly suggested that a clear energy policy in the U.S. is required to address environmental and sustainability concerns, reduce uncertainty within the business community, and make U.S. businesses more competitive in global markets. Executives noted that a long term, realistic, competitive energy policy is critical to ensure a competitive business cost structure and to further ensure an uninterrupted supply of energy. They believe such a policy would spur innovation on a massive scale and encourage prudent capital investments into their U.S. business operations.

According to those interviewed, creating an energy policy that properly incentivized businesses and sent clear market signals could drive investments that ease dependence on fossil fuels in favor of clean energy sources, and lower the cost of energy when domestic resources become scarce. Most executives favor meaningful environmental protection, applied equally on a global basis. They emphasized that given the significant differences in viewpoints worldwide, it is important to focus on an international treaty approach, one that would include input from both developed and emerging markets, crafted to reduce dependence on fossil fuels in an equitable manner. Most agreed carbon regulation is necessary to incentivize change, though no consensus existed on the particulars of the regulatory process.

Despite varying points of view, executives consistently recommended the following actions:

1. Create a comprehensive energy policy that encourages reinvestment in our current infrastructure, pursues energy efficiency and conservation, and balances investment across a diverse portfolio of alternative fuels sources, including solar, wind, and nuclear. This policy should also tap existing U.S. energy assets like coal, natural gas, and offshore oil.
2. Immediately begin planning to increase use of nuclear power, it being an available and scalable low-carbon technology.
3. Increase collaboration with businesses on new regulations to ensure they are cost-effective and attainable. Regulations should also employ available technologies in an effort to increase efficiency and advance competiveness while complying with new standards.
4. Restore and modernize the U.S. electric grid in order to grow capacity, improve reliability, and integrate alternative energy sources as they develop.
5. Incentivize the use of cleaner and abundant fuels like natural gas to facilitate the transition away from the use of oil and coal.

Trade Policy

Leveling the playing field with respect to international trade was of critical importance to the executives interviewed, particularly because consumer demand continues to explode in emerging markets. Today, approximately 95 percent of consumers are outside of the United States[3]. However, according to executives, the issue of trade encompasses more than fair and equitable access to global markets. U.S.-based manufacturing companies also rely on these markets for access to critical raw materials, innovative technologies, talent and human resources, business partners to help penetrate new markets, and the research, ideas, and capital necessary to sustain growth. Executives consistently noted that the ability to look abroad to increase sales, as well as to access leading technologies and attract highly educated professionals is critical to spurring domestic economic growth and job creation.

Executives applauded recent free trade negotiations with South Korea, an agreement which may boost U.S. exports by $10 billion to $11 billion dollars and U.S. GDP by up to $12 billion if ratified [4]. They also indicated that much work remains to be done. Some executives indicated that many free trade agreements are unfair to critical industry sectors in the United States, with phase-in components that are one-sided and detrimental to U.S. interests. Equally troubling is the lack of protection for intellectual property rights in many agreements, a detriment to U.S. companies operating overseas.

Participants also noted that the concept of "fair and equitable" must apply to other aspects of the business environment in other countries. In particular, labor laws and regulations concerning child labor, working conditions, human rights, and environmental and safety policies must be improved. A level playing field would require a broad application of the key drivers of cost and competitiveness. Narrowly defined trade policies alone will not be sufficient to competitively or fairly position U.S. businesses in the international marketplace.

According to many of the participating executives, strong governmental advocacy for free and equitable trade, especially in emerging markets, in conjunction with advocacy against protectionist policies would be valuable to U.S. businesses. Many expressed concern over America's perceived migration towards protectionism through policy, legislation and regulation. Executives also noted that their international business operations create a positive ripple effect in domestic business, and are often a significant source of profit and job growth in the United States. Senior leaders at large multinational and smaller domestic firms alike indicated that their markets competitors were global.

Most of these executives also stressed that disadvantaging large multinationals through ill-advised protectionist policies disadvantaged the small and medium domestic manufacturers as well, as many of these firms are critical partners in large and complex global supply chains. According to these executives, in the global market of tomorrow, U.S. jobs will be increasingly dependent on international business, meaning the dynamics of competition will no longer be between large U.S. multinationals and small and medium sized U.S. domestic manufacturers, but with large and small global competitors and their supply chain partners. This is a new environment the participants hoped lawmakers would understand.

In terms of export trade control, some felt the U.S. is protecting technology that is readily available elsewhere. Some hoped policy leaders could be more nimble in developing capabilities that protect U.S. technology and intellectual property in the rapidly evolving global supply chains and markets. Protected technology should be reassessed in a timely manner in order for U.S. companies to compete globally.

To level the playing field, executives recommended the following actions:

1. Develop a new trade promotion and fast-track authority to quickly establish free trade agreements that are fair and equitable. Balance access to global consumers, spur investment, and keep pace with our global competitors' aggressive negotiating strategy to open new markets for companies and workers.
2. Create a more comprehensive and competitive export trade control process to ensure U.S. companies are not exposed to overly burdensome protectionism of goods and technology.
3. Ensure U.S. rights under existing trade agreements are enforced, while ensuring compliance with WTO rules and regulations, minimizing unacceptable obstructions to trade, currency manipulation, restricted access to markets, and violation of intellectual property rights.

4. Continue efforts that create pro-business relationships with all trading partners, especially with emerging markets, so that conducting business in and exporting to these emerging markets is less complex and more equitable for all parties. The U.S. must also aggressively pursue closure of a commercially meaningful WTO Doha Round.

Regulatory and Legal Environment

Executives interviewed for this report felt that U.S. companies would benefit from a new approach to the regulatory process. Specifically, they suggested that regulators adopt a method for assessing proposals and actions through a global competitiveness lens, with perspective developed through consistent and ongoing dialogue with business leaders. Participants suggested that this methodology is far more likely to yield effective regulations that minimize regulatory burdens, promote competitiveness, and can be implemented quickly. Executives of small and mid-sized companies interviewed for this report noted that their companies feel the full impact of domestic regulatory policy and typically do not have the option to set up operations in other areas of the globe. Therefore, the overall environment for small and medium-sized businesses is becoming more challenging vis-à-vis their global competitors, as these companies don't have the financial resources to address increasing compliance costs and complexities.

Many executives noted that increasingly complex regulatory and legal environments pose significant challenges for their companies. For example, overlapping federal, state, and local regulations are difficult to understand and navigate, and can be very challenging for the typical manufacturing organization. Patent processes, FDA guidelines, EPA guidelines and mandates, and other regulations were specifically noted as areas of concern. They identified these regulations as barriers to developing new products and innovation in the production process. Many executives felt a more balanced system would significantly increase the potential for innovation. While executives cited the significant costs of defending against a steady stream of lawsuits, several respondents went deeper, pointing to other hidden costs. Some of these costs include the challenge of attracting FDI in the U.S., where threats of lawsuits make investments riskier, and exceptional verdicts could destroy a company's balance sheet.

Finally, many executives indicated that the complexity of facility permitting dramatically slows a company's ability to invest in new plants, new research and development facilities, and new operations of all types. Limited ability to invest in these critical areas retards a company's ability to rapidly respond to global competitors, slowing or inhibiting U.S. job growth.

To address these concerns, executives recommended the following actions:

1. Develop policies collaboratively with government and business leaders so appropriate evaluation can be conducted through a lens of global competitiveness instead of a U.S.-centric perspective. This will promote regulation with fewer unintended consequences while encouraging creative and efficient approaches. Regulatory changes must be supported over the long term to afford businesses an opportunity to make strategically sound business investments.
2. Develop a benchmarking process that appreciates the consequences of regulation from a global perspective. Policymakers should analyze proposed regulation through the lens of global standards to avoid stagnating U.S. growth.
3. Cut the cost and complexity of compliance with regulations; where different agencies have overlapping jurisdiction, collaborative efforts to harmonize and simplify rules and processes will greatly reduce companies' expenses while achieving the regulatory standards.

Science, Technology and Inspirational Goals

Executives frequently suggested that federally supported long term goals have been catalysts for innovation and advancement in science, technology, and the competitiveness of the United States. From breaking the sound barrier, to landing a man on the moon, to nuclear energy – advancements have been achieved through cutting edge research and development, often spurred by bold goals set by the U.S. government. Moreover, the federal government has supported these goals with assertive science and technology policies, and the requisite long term funding to achieve success. Many executives suggested that the U.S. government should once again take a strong leadership role and establish significant scientific goals, enabled by policy, which could drive meaningful advancement and innovation. They felt that doing so would benefit universities and businesses of all sizes that play a role in the research process. They also felt these investments would spur the competitive U.S. spirit, inspiring additional investment in innovation and promoting the cultivation of highly skilled scientists, engineers and workers, as well as the manufacturing capabilities required to advance U.S. competiveness for decades to come.

To reach this objective, executives recommended:

1. Policy leaders should establish a consortium of business, university, labor, and public sector leaders to establish bold long term goals with a 15 to 20-year development horizon, and then work collaboratively to craft policy, investment, and development programs - as well as education and other physical, technology, and intellectual infrastructures - that support progress towards those goals.

2. Strengthen intellectual property protections, particularly in emerging markets, and ensure investment from the U.S. government and private sector in science, technology and innovation provide maximum long term return to the United States.

Infrastructure Investments

Executives repeatedly indicated that infrastructure investments are key to U.S. competitiveness and job creation. This includes investment in railroads, road, and waterway infrastructures to offer flexibility in transportation solutions, and to optimize U.S. transportation and shipping networks. Additionally, respondents identified the air traffic infrastructure as a key concern, along with the need to rapidly modernize U.S. air traffic system technology. Many executives believed that undertaking these efforts would improve export channels for U.S. manufacturers, make the U.S. an increasingly attractive location for foreign direct investment, and result in increased employment opportunities for workers, a development which would drive consumer spending, spur the economy, and grow GDP. According to those interviewed, the federal government needs to demonstrate greater leadership in building a 21st century world class manufacturing and business infrastructure to reinvigorate the domestic economy.

Executives recommended the following actions to address America's infrastructure challenges:

1. Focus on improving ports, railroads, roads, nuclear facilities, the electric grid, and IT infrastructures to ensure the U.S. remains an attractive place to live and do business. Priority should be given to projects that improve export capabilities and the efficient movement of goods in, out, and throughout the U.S.

2. Similar to the Federal-Aid Highway Act of 1956, recognized by many as the largest public works project in American history, increase incentives for infrastructure projects within the private sector, and encourage more private-public partnerships in an effort to more rapidly and efficiently address the national infrastructure challenge.

Access to Talent

To compete effectively in today's borderless economy, executives strongly emphasized that U.S. companies need access to top science and engineering talent from all corners of the globe to drive world class innovation and R&D. Executives indicated that reaching this goal will require more than improving education. Advancing access to talent also demands policies that will improve and streamline America's ability to attract and retain the best and brightest students, experienced scientists, engineers, and researchers from around the world. Effective immigration policies will both bring this talent to the U.S. and make it possible for them to remain in America indefinitely without jeopardizing domestic security.

Current visa policies are complex, limiting, and do not encourage employers to recruit or relocate science, technology, engineering, and mathematics (STEM) talent from other markets for critical research and innovation work. Many executives suggested that the U.S. government should employ best practices from countries like Singapore. Participants indicated that Singapore seems to successfully target desired talent sets, while easing the entry process into the country. Moreover, the national government facilitates additional education in advanced disciplines and makes it more difficult for students to leave upon graduation. Executives stressed that the battle to recruit, develop and retain the best talent is a key area where countries and companies will increasingly compete with global rivals, and that rapidly identifying and applying best practices could help the U.S. stay one step ahead of global competitors in talent cultivation and retention.

Specifically, executives recommended the following actions:

1. Reform visa and green card processes to rapidly deal with backlogs that block access to the talent needed to energize the economy.
2. Adopt visa best practices from other countries that are successfully attracting and retaining top STEM talent.
3. Change the focus of immigration reform discussions and craft policy that creates opportunities for scientists and engineers born outside the U.S. to become an integral part of the U.S. scientific community instead of focusing on border protection.

U.S. Education in Science and Technology

The need to rapidly innovate and develop new products and processes led executives to note a growing gap between their needs and the STEM skills possessed by their employees. Many felt there is a significant opportunity and need to transform the U.S. education system by placing special emphasis on STEM from early education through advanced college programs. Additionally, executives proposed incentives that reward educators and institutions based on performance, not on the number of graduates. There are now more foreign students pursing advanced engineering degrees in U.S. schools than U.S. students[5]. This trend exacerbates the challenge many U.S. companies face today given the visa and immigration complexities previously outlined.

Transformation, according to many of the executives interviewed for this report, should start early in a reformed U.S. education system. They felt that emphasis and effectiveness of STEM education at the elementary and high school levels is not sufficient, and noted that U.S. students are less interested and performing more poorly in science and engineering disciplines. Increasing emphasis on STEM education in lower grade levels would result in greater long term interest in manufacturing, and lead more to consider manufacturing as an attractive career.

To address this issue, executives recommended the following actions:

1. Restructure education curricula to focus more on STEM skills. Doing so will create a foundation for developing tomorrow's scientists and engineers. Develop flexible paths to help achieve STEM literacy, such as through community colleges, vocational trade schools, working training programs, etc.

2. Promote performance-based legislation such as the America COMPETES Act, the Elementary and Secondary Education Act, Investing in Innovation, and Race to the Top and Teacher Incentive funds.

3. Develop federally funded programs that promote and market manufacturing as a high-value and vital industry with rewarding long term career opportunities for high school and college students in the U.S. as researchers, scientists, mathematicians, computer scientists, engineers, technicians, and advanced machine operators. Focus on promoting highly advanced degrees and technical training beneficial to improving U.S. manufacturing competitiveness.

4. Support state university programs that admit higher caliber students into STEM focused programs and increase the number of graduates in STEM fields.

Concluding Comments

Generally speaking, many executives noted an absence of interaction between business leaders and policymakers in the United States. Repeatedly, we heard comments from executives that suggest American manufacturing corporations of all sizes are operating in a borderless economy, yet policymakers have increasingly introduced, supported, and advocated bordered policies negatively impacting firms, who in their quest to remain globally competitive, invest outside of the United States. This has resulted in policies that are not effective in increasing U.S. manufacturing competitiveness, and create many unintended consequences.

International business can contribute to a strong, successful and globally competitive economy, and can fuel job growth in the U.S. in a variety of ways. Executives from both large and small manufacturing firms indicated that an economic strategy focused exclusively on increasing manufacturing in the U.S. and exports from the U.S. was not a viable or comprehensive approach in today's complex global market.

Many executives also noted the need for business and government to work more closely to make America more attractive for investment. It was noted that closer public-private collaboration would also increase the ability of U.S. based manufacturers to expand globally while providing quality, advanced manufacturing employment opportunities for American workers.

Overall, interview participants clearly indicated the need for an American manufacturing strategy and related industrial policies. Respondents suggested that the time for change is now, and that the window of opportunity in which to take effective action is narrow. Today, the U.S. remains the world's largest manufacturing economy. The domestic manufacturing sector is critical to the healthy recovery of the U.S. economy and its long term economic prosperity. To ensure America's manufacturing future, however, effective and strategic change is required. In short, as one executive suggested:

"We need to develop a holistic vision and inspirational goals for the future, understand our prosperity is tightly linked to our ability to make things, energize people around that vision, that understanding, and those goals, and then go out and manufacture our future - and the future of our grandchildren - together".

About the U.S. Council on Competitiveness

The Council's mission is to set an action agenda to drive U.S. competitiveness, productivity and leadership in world markets, and to raise the standard of living of all Americans.

The Council on Competitiveness is the only group of corporate CEOs, university presidents, and labor leaders committed to the future prosperity of all Americans and enhanced U.S. competition in the global economy through the creation of high-value economic activity in the United States.

The key to U.S. prosperity in a global economy is to develop the most innovative workforce, educational system, and businesses that will maintain the United States' position as the global economic leader.

The Council achieves its mission by:

- Identifying and understanding emerging challenges to competitiveness
- Generating new policy ideas and concepts to shape the competitiveness debate
- Forging public and private partnerships to drive consensus
- Galvanizing action to translate policy into action and change

The Council on Competitiveness is a non-partisan, non-governmental action think-tank located in Washington, D.C.

Council on Competitiveness
1500 K Street, NW Suite 850
Washington, D.C. 20005
T 202 682 4292
Compete.org

Leadership Council

Samuel R. Allen
Chairman and CEO
Deere & Company

Michael R. Splinter
Chairman, President and CEO
Applied Materials, Inc.

Shirley Ann Jackson
President
Rensselaer Polytechnic Institute

Edward J. McElroy
Chief Executive Officer
ULLICO Inc.

Charles O. Holliday, Jr.
Chairman Emeritus
Council on Competitiveness

Deborah L. Wince-Smith
President and CEO
Council on Competitiveness

Industry Lead

James H. Quigley
Chief Executive Officer
Deloitte Touche Tohmatsu

Academia Lead

Susan Hockfield
President
Massachusetts Institute of Technology

Labor Lead

William P. Hite
General President
United Association of Plumbers and Pipefitters

National Laboratories Lead

George H. Miller
Director
Lawrence Livermore National Laboratory

Steering Committee

Paul Alivasatos
Director
Lawrence Berkeley National Laboratory

Michael R. Anastasio
Director
Los Alamos National Laboratory

David Arkless
President, Global Corporate and Government Affairs
Manpower, Inc.

Dan E. Arvizu
Director
National Renewable Energy Laboratory

Neil Z Auerbach
Founder and Managing Partner
Hudson Clean Energy Partners

Thomas R. Baruch
Founder and Managing Director
CMEA Capital

Gene D. Block
Chancellor
University of California
Los Angeles

William H. Bohnett
President
Whitecap Investments LLC

Richard H. Brodhead
President
Duke University

Curtis R. Carlson
President and CEO
SRI International

Jean-Lou A. Chameau
President
California Institute of Technology

Nancy Conrad
Chairman
The Conrad Foundation

William W. Destler
President
Rochester Institute of Technology

Daniel DiMicco
Chairman, President and CEO
Nucor Corporation

Steven E. Downie
President, CEO and Chairman
Ktech Corp.

Ron Gaiser
Chairman and CEO
Ecotech Builders, Inc.

Alice P. Gast
President
Lehigh University

Pierre L. Gauthier
President – United States
Alstom Inc.

E. Gordon Gee
President
The Ohio State University

Peter T. Halpin
Chief Executive Officer
World Resources Company

Paul J. Hommert
President and Laboratories Director
Sandia National Laboratories

Eric D. Isaacs
Director
Argonne National Laboratory

Richard B. Jarman
President and CEO
National Center for Manufacturing Sciences

David L. Joyce
President and CEO
GE Aviation

Mohamed Farid Khamis
Chairman and CEO
Oriental Weavers Carpet Company

Executive Advisors Committee

William L. Chameides
Dean, Nicholas School of the Environment
Duke University

Sujeet Chand
Senior Vice President and Chief Technology Officer
Rockwell Automation, Inc.

Admiral Jay Cohen
Former Undersecretary for
Science and Technology
Department of Homeland Security

John Cohen
Vice President of Government Affairs
Alstom Inc.

Hall P. Daily
Director of Government Relations
California Institute of Technology

James K. Davis
Vice Provost - IT & Chief Academic Technology Officer
Professor Chemical Engineering
University of California, Los Angeles

Jeff DeCarlis
Executive Vice President
SRC Holdings Inc.

Joseph M. DeSimone
Chancellor's Eminent Professor of Chemistry
University of North Carolina

Tomás Díaz de la Rubia
Deputy Director for
Science and Technology
Lawrence Livermore National Laboratories

Patrick V. Farrell
Provost
Lehigh University

George Fischer
Executive Vice President and Group Executive
Worldwide Sales and Operations
CA Technologies

Joseph Flanagan
Senior Vice President
Worldwide Operations and
Supply Chain
Applied Materials, Inc

Craig A. Giffi
Chairman, Global Manufacturing Industry
Deloitte Touche Tohmatsu

Debra Goldfarb
Senior Director HPC Product Management
Microsoft Corporation

Theodore Green
Senior Advisor to the General President
Laborers' International Union of North America

Thomas C. Halbouty
CTO & CIO
Pioneer Natural Resources Company

George Haritos
Dean
College of Engineering
The University of Akron

Richard H. Herman
Former Chancellor
University of Illinois at Urbana-Champaign

Thom J. Hodgson
James T. Ryan Professor & Director of
Integrated Manufacturing Systems Engineering Institute
North Carolina State University

Klaus G. Hoehn
Vice President, Advanced Technology & Engineering
Deere & Company

Paul M. Hunt
Senior Associate Vice President for Research and Graduate Studies
Michigan State University

John Irion
President
SC Manufacturing Extension Partnership (SCMEP)

Ray O. Johnson
Senior Vice President and Chief Technology Officer
Lockheed Martin Corporation

Stephen P. Johnson
Vice President for Government and Community Relations
Cornell University

Mark M. Little
Senior Vice President and Director of GE Global Research
General Electric Company

Ajay Malshe
Executive Vice President and Chief Technology Officer
NanoMech Corporation

Patrick McFadden
GM, Public Affairs
Nucor Corporation

Donald R. Medley
Head of Federal Government Relations
Lawrence Berkeley National Laboratory

Eugene S. Meieran
Former Senior Intel Fellow
Intel Corporation

Michael Melnick
Principal, Energy and Materials
CMEA Capital

Paul R. Michel
Chief Judge (Ret.)
United States Court of Appeals for the Federal Circuit

William Mitchell
Vice President
Business Development
A123 Systems, Inc.

Curtis M. Mitchke
General Manager
Poly-Flow Engineering, LLC
Ktech Corp

Nabil Z. Nasr
Assistant Provost and Director, Golisano Institute for Sustainability and CIMS
Rochester Institute of Technology

Kevin M. Nepveux
Vice President, Global Manufacturing Services
Pfizer, Inc.

Joshua Neubert
Executive Director
The Conrad Foundation

Allison Newman
Assistant Vice President, Government and Communication Relations
Rensselaer Polytechnic Institute

Robin L. Newmark
Director, Strategic Energy Analysis Center
National Renewable Energy Laboratories

Ziad S. Ojakli
Group Vice President, Corporate Affairs
Ford Motor Company

Pete K. Rahn
Senior Vice President
The HNTB Companies

Aleda V. Roth
Burlington Industries Professor in Supply Chain Management
Clemson University

Alan Taub
Vice President
Global Research & Development
General Motors Corporation

Rebecca R. Taylor
Senior Vice President
National Center for Manufacturing Sciences

Terrence Urbanek
Assistant Director of Training
United Association of Plumbers and Pipefitters

General Charles F. Wald
Director and Senior Advisor
Aerospace and Defense Industry Deloitte Services LP

Terry Wallace
Principal Associate Director for Science, Technology and Engineering
Los Alamos National Laboratory

Ann M. Weeks
Vice President, Government Affairs
Underwriters Laboratories Inc.

Chelsea C. White, III
Chair, H. Milton and Carolyn J. Stewart School
Georgia Institute of Technology

End Notes

[1] 2010 Global Manufacturing Competitiveness Index. http://www.deloitte.com/assets/Dcom-Global/Local%20Assets/Documents/Manufacturing/DTT_Global_Manufacturing_Competiveness_Index_6_23_2010.pdf

[2] As used in this document, "Deloitte" means Deloitte & Touche LLP, Deloitte Consulting LLP, Deloitte Tax LLP, and Deloitte Financial Advisory Services LLP, which are separate subsidiaries of Deloitte LLP. Please see http://www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries.

[3] White House Releases Report to the President on the National Export Initiative http://www.whitehouse.gov/the-press-office/2010/09/16/white-house-releases-report-president-national-export-initiative

[4] Benefits of the FTA. http://www.uskoreafta.org/about/benefits-fta

[5] National Center for Education Statistics (2007). Computation by DAS-T Online Version 5.0 on 10/29/2007 using U.S. Department of Education, National Center for Education Statistics, 2003-2004 National Postsecondary Student Aid Study (NPSAS:04).

Mrs. BONO MACK. Thank you.

Dr. Boushey, you are recognized for 5 minutes, and again, I will give you a 1-minute signal.

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

Ms. BOUSHEY. I appreciate that. Thank you, Chairman Bono Mack and Ranking Member Butterfield for inviting me here to testify today. My name is Heather Boushey and I am a senior economist with the Center for American Progress Action Fund.

Until we fill the demand gap, we will have continued unemployment, which in turn will continue to drag down economic growth. Today's high unemployment was caused by the 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, and we must address these root causes. The policies that will create jobs now are those that will make investments that not only boost employment in the short term but lay the foundations for long-term economic growth.

The private sector has been adding jobs every month for nearly a year now and at a faster rate than in the 2000s economic recovery. Even with the success of the Recovery Act in boosting job growth, at this pace we will reach 5 percent unemployment for many decades, and unemployment has stood at or above 9 percent for a record 21 months, and there is growing evidence that many workers may never find jobs at the level that they had prior to the great recession. 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 problem.

The continuing slow pace of the jobs recovery stems from insufficient aggregate demand in the overall economy. Gross domestic product grew at an annual rate of 2.8 percent in the fourth quarter of 2010, the sixth quarter of positive growth in a row. Much of this was 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 it currently produces and what it would be producing if workers and the economy's productive assets were to be used at full employment.

Investment is the key to creating jobs now and building the foundation for a higher-productivity future. Even though corporate America is flush with cash, investment is at its lowest level in more than four decades yet the cost of capital continues to be at lows not seen since the 1960s. Small businesses continue to point to a lack of customers, a lack of demand as their single most important problem. The National Federation of Independent Businesses reports that regulations are not nearly as important as poor sales.

In our economy, 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 we need to free ourselves from foreign oil and address climate change. Infrastructure has been a traditionally bipartisan issue and one that hopefully this Congress can build a bridge across to address.

I live here in the District of Columbia, and across the street from me, a small business opened up a couple of years ago, a restaurant. This small-business owner has had to deal with not one, not two but three water main breaks because of the aging infrastructure here in the District of Columbia, and each time that business owner has had to close shop and not see customers, costing them money.

We should not repeat the mistakes of the Great Depression with austerity policies that will not create jobs. There has been much talk this morning about the recent report from Goldman Sachs that estimates that the House-passed federal bill will decrease economic growth, and I would like to note that this was as reported by ABC News, these were estimates for their clients. These are people that are investing in America and they are trying to tell them how the policies here in Washington are going to affect economic growth, and I think that we should take their estimates very seriously. At the same time, we have heard Mark Zandi estimate that these policies that were implemented in the budget passed by the House will lead to fewer jobs here in the United States, an estimate of 700,000 by the end of 2012.

I want to note that the most important reason for the rise in the deficit was rising unemployment and falling incomes. Economists estimate that had Congress done nothing, the deficit would have ballooned to more than two and a half times as large as it actually will.

And let us remember, it was deregulation that was brought us today's excruciatingly high unemployment. Last month the Financial Crisis Inquiry Commission clearly placed the blame for the crisis on the lack of oversight and regulation of the financial sector. As we move forward in terms of thinking about regulation, we need to make sure that it not only works for business but that we don't end up right back here in a few years because we are not focused on making sure that business also works for America.

Finally, we need to make sure that if our goal of our trade policies is job creation, then we need to evaluate whether or not these policies will indeed create jobs here in the United States and whether or not they will reduce our trade deficit and on net create jobs. Recent empirical research shows that local labor markets that have seen increased exposure to Chinese imports have had higher unemployment, lower labor force participation and reduced wages.

We need jobs now and we need the kind of investments that will transform our economy and renew long-term prosperity. Thank you.

[The prepared statement of Ms. Boushey follows:]

Center for American Progress Action Fund

Testimony Before the House Committee on Energy and Commerce
Subcommittee on Commerce, Manufacturing, and Trade
on "Made in America: Innovations in Job Creation and Economic Growth"

Heather Boushey,
Senior Economist, Center for American Progress Action Fund
March 3, 2011

Thank you, Chairman Bono Mack and Ranking Member Waxman for inviting me here today to testify on the innovations in job creation and economic growtb. My name is Heather Boushey and I'm a Senior Economist with the Center for American Progress Action Fund.

The challenges workers face today are tougher than they've been in generations. The Great Recession wrought havoc in the lives of millions of families, and the ensuing economic recovery, while gaining strength, offers little hope of sustained job creation without targeted government investments. The policies that will create jobs are those that will increase aggregate demand by making investments that not only boost employment in the short term but also lay the foundations for long-term economic growth.

Until we fill this demand gap, we will continue to have unacceptably high 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 government policymakers don't really care about the very real hardships families are facing or don't recognize the enormous waste of human potential.

The real question, then, is whether policymakers will focus on not repeating the mistakes of the Great Depression and rather continue to focus on boosting government investments until the economic recovery solidly takes hold.[1] Jobs will not be created by limiting necessary government regulation, repealing the Affordable Care Act, cutting spending, or focusing on the short-term federal budget deficit. In particular, I would caution all of you about focusing too much on the short-term deficit, which is not due to 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 and the Bush-era tax cuts that were then extended this past December.

We need to ensure that government programs operate effectively and efficiently. But pursuing these necessary reforms should not be done in lieu of making the kinds of investments our economy and our nation need to create millions of new jobs to boost future tax revenue and long-term, sustainable economic growth.

In my testimony today, I will make three key points:

- **The unemployment problem continues to be caused by too little aggregate demand.** If we want to help the unemployed then we need to address the output gap—the gap between what our economy is producing and what it could be producing at full employment.

- **Today's unemployment is not a structural problem.** The Great Recession caused the record-high numbers of unemployed and the record-long spells of unemployment that we've seen.

- **Funds spent on benefits and services designed to help the unemployed find new work have mitigated, not exacerbated the problem.** The best economic evidence is that unemployment benefits and transitional jobs programs have helped, not hurt, the current economic recovery. What's more, by boosting economic growth, the actions we've taken have actually made the long-term deficit smaller than it would have been without action.

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. The shortfall in aggregate demand amounts to almost 6 percent of U.S. gross domestic product, primarily due to lost investment and lost employment resulting from the burst of the real estate bubble and the ensuing Great Recession. This is the output gap that we need to fill in order to make our economy whole so that everyone who wants to work can find a job.

While the economy has been growing for six quarters now, businesses have not yet begun to ramp up hiring. High unemployment not only creates significant hardships for individual families; it continues to threaten the economic recovery: The unemployed can't spend what they don't earn, which is why high unemployment directly adds to our nation's aggregate demand problem. Thus, there is a direct link between lack of hiring and future economic growth.

To address this, Congress should focus on three specific policy goals:

- **Focus on policies that boost aggregate demand and investment in our economy.** Investment—including investment in infrastructure—is the best way to ramp up employment now while building the foundation for a high-productivity future. This is why policymakers should make sure our investments focus on job creation.

- **Stop adding to the problem of unemployment.** Once someone loses their job, they face historically low odds of finding a new one. Congress should seek to ensure that those who are working can stay in their jobs.

- **Help the long-term unemployed beat the odds and find work.** We know from decades of research that the displaced and long-term unemployed are more often at the bottom of the hiring queue, and as a result often suffer years of lowered earnings. Congress should consider reinvigorating the TANF Emergency Funds that put people to work in public-private partnerships.

And, I will note, at this point in the economic recovery, the costs of inaction continue to far outweigh the costs of action. While we need to keep our eye on a growing federal debt, addressing the scourge of long-term unemployment now will do more to cut future deficits than not. Millions of unemployed pay much less in taxes now than they will once they get back to work, which is one reason why getting our economy growing again is the most important thing we need to do to address our budget woes.

Insufficient aggregate demand is hindering job creation

The unemployment problem continues to be caused by too little aggregate demand. **If we want to help the unemployed, we need to address the output gap—the gap between what our economy is producing and what it could be producing at full employment.**

U.S. gross domestic product, or GDP, grew at an annual rate of 3.2 percent in the fourth quarter of 2010, the sixth quarter of positive growth in a row.[2] Much of this growth would not have happened without the American Recovery and Reinvestment Act of 2009, or ARRA, alongside other policies aimed at addressing the fallout from the housing and financial crises in the last two years of the Bush administration.

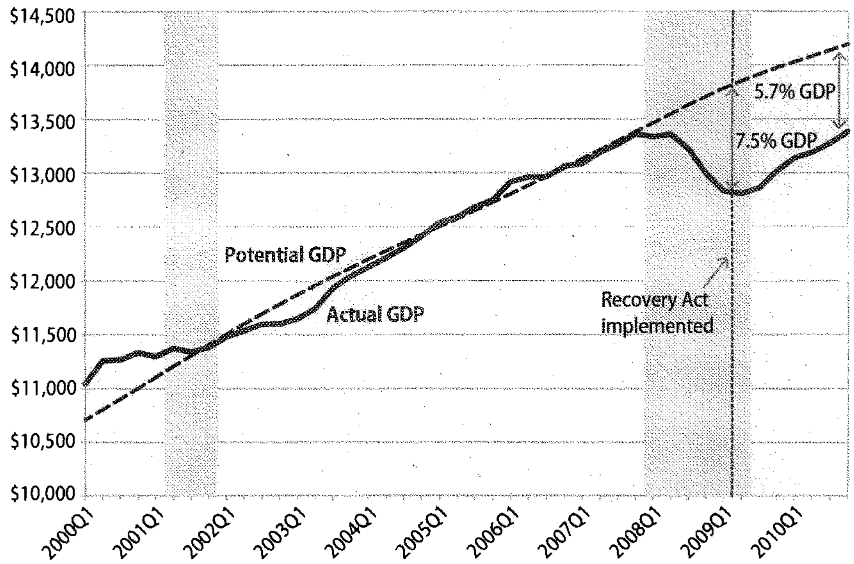
Yet, our economy continues to have what economists call "excess capacity," which means there is not enough demand for all the goods and services we have the capacity to produce, and thus not enough demand for more workers. As of January 2011, capacity utilization was 76 percent, 4.6 percent below its average from 1972 to 2009.[3] Excess capacity is a technical term that economists use to describe what Americans are currently seeing every day 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," or 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. The output gap is equal to almost 6 percent of our total gross domestic product (see Figure 1). This is down from 7.5 percent when growth was at its nadir, just before ARRA was passed and signed into law.[4]

FIGURE 1

U.S. gross domestic product: actual and potential

$ billions (real 2005)



Source: Author's calculation of the Bureau of Economic Analysis and Congressional Budget Office data.

What's more, we are now in another jobless recovery while corporate 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, several months before the start of the Great Recession.[5] 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.[6]

We can see the lack of urgency to hire across the private sector due to lack of demand in a wide array of data. The National Federation of Independent Businesses, for example, continues to report that its members—most of whom have fewer than 40 employees—see a lack of sales as the key factor that they are concerned about.[7] This is an aggregate demand problem: Businesses don't see enough demand for products, which then hampers hiring. The Federal Reserve's survey of senior loan officers also shows that while banks are lending for mergers and acquisitions, which often lead to job losses, they are not lending for investment in plants and equipment that will create jobs and expanding economic opportunities.[8]

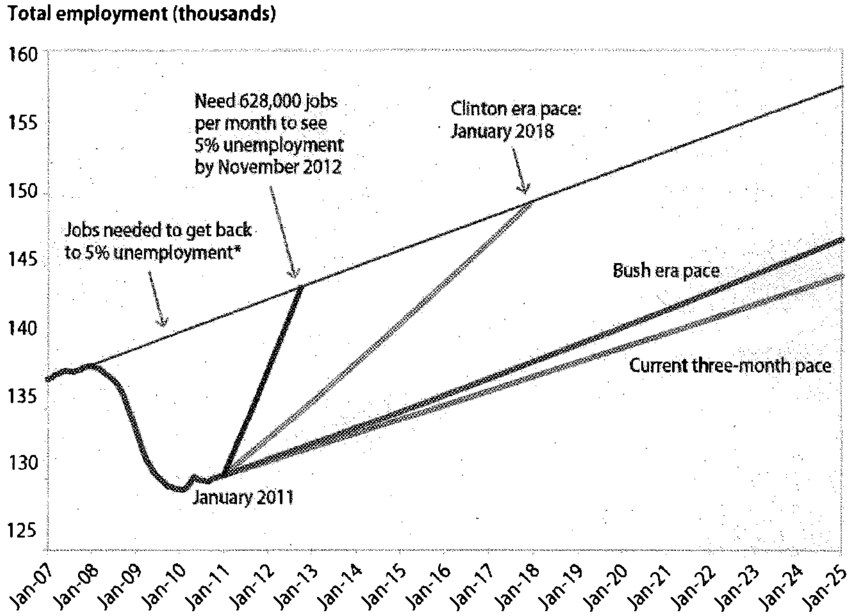
Even though corporate America is flush with cash, investment is at the lowest level in more than four decades. So far in this business cycle, from December 2007 to December 2010, business investment has averaged 10.3 percent of GDP, the lowest average for four decades. This low level of investment is not because of the cost or availability of capital, which continues to be at lows not seen since the 1960s.[9]

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

Thus, while the recession ended in June 2009, for everyday Americans there hasn't been a recovery. The private sector has been adding jobs every month for nearly a year, averaging 106,000 jobs per month over the past three months.[10] This is a faster pace than economic recovery in the 2000s but at this rate we won't reach 5 percent unemployment for decades (see Figure 2).[11] But the current pace of job growth is insufficient for labor market recovery in any relevant time frame.

FIGURE 2

Employment projections under four growth scenarios

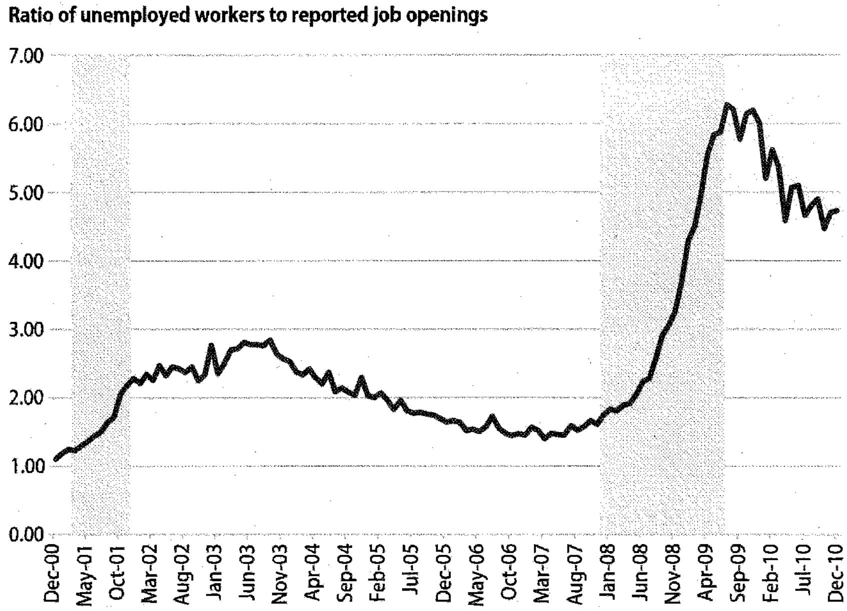


Source: Author's calculation of Bureau of Labor Statistics data.
*Assumes monthly labor force growth of 100,000.

There are nearly five workers seeking a job for every opening available (see Figure 3). In typical economic times—before the Great Recession—there were about one and a half job seekers for every job opening.[12] Unemployment has stood at or above 9 percent for a record 21 months and economists predict it will remain this high at least through 2011.[13] Nearly half of those unemployed (43.8 percent) have been job searching for at least six months.[14]

FIGURE 3

Ratio of unemployed workers to reported job openings, monthly, 2000 to 2010



Source: Bureau of Labor Statistics, Jobs Openings and Labor Turnover Survey and Current Population Survey.

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, and the labor market consequences of graduating from college in a bad economy are large, negative, and persistent.[15]

Many workers may never find jobs at the income level of the jobs they lost during this Great Recession. Recent data from the Bureau of Labor Statistics find 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 re-employed. This is the lowest re-employment rate on record for the series, which began in 1984. Of those re-employed in full-time work, more than half (55 percent) were earning less than they had prior to job displacement.[16]

The unemployed cannot spend what they don't earn, a fact that threatens economic recovery. Families that receive unemployment insurance benefits typically spend these benefits rather than save them. To put some back-of-the-envelope numbers on this, think of it this way: The typical worker brings home about $40,000 annually, but with nearly 14 million out of work and without unemployment benefits, our economy would shrink by about $600 billion.[17] It's that gap that unemployment insurance fills. And that's why unemployment insurance is critical to sustaining the economic recovery, and why we can't just fill the output gap with tax cuts. In a report for the Department of Labor, Wayne Vroman, economist at the Urban Institute, estimated that the unemployment insurance system closed about one-fifth (18.3 percent) of the shortfall in the nation's GDP during the Great Recession.[18]

Funds spent on benefits and services designed to help the unemployed find new work have mitigated, not exacerbated the problem

Unemployment benefits are good for the economy and in high-unemployment times such as in the current labor market, and they do not hinder workers from finding employment. The argument that helping the long-term unemployed encourages them to remain unemployed rather than seek work ignores the reality that there are nearly five job seekers for every one job opening. Furthermore, a number of new research papers show that unemployment benefits do not extend spells of unemployment in any economically meaningful way.

Research from the 1970s and 1980s that examined when people exit unemployment benefits found a "spike" in workers exiting just as their unemployment benefits expired. Yet much of this research relied on data that only measured exit from benefits—not whether the individual actually became re-employed. A key paper in the early literature was by Harvard economist Lawrence Katz and University of Chicago economist Bruce Meyer, which found there were sharp increases in the rate at which workers with unemployment benefits exited unemployment for employment—increases that coincided with the time when unemployment benefits were likely to lapse. But there was no such spike for those who did not receive unemployment benefits.[19]

In testimony before the U.S. Congressional Joint Economic Committee in April 2010, Katz himself noted that "much of the responsiveness in this analysis came from firms and industries using temporary layoffs and the sensitivity of recall dates to unemployment insurance benefits."[20] Temporary layoffs are less common now than during the 1970s and early 1980s downturns. More recent research suggests only modest effects of unemployment benefits on the timing of finding employment:

- San Francisco Federal Reserve economists Rob Valletta and Katherine Kuang analyzed data on unemployed individuals during the Great Recession and calculated that, in the absence of extended benefits, the unemployment rate would have been about 0.4 percentage points lower at the end of 2009, or about 9.6 percent rather than 10 percent.[21]

- Based on existing empirical research using U.S. data, University of California, Berkeley, economist Raj Chetty noted that a 10 percent increase in the value of UI benefits increases unemployment durations by 4 percent to 8 percent.[22] Using unique panel data from Austria that actually links receipt of unemployment benefits and employment, which is not available in U.S. administrative panel data, Chetty and fellow UC Berkeley economist David Card found that "fewer than 1 percent of jobless spells have an ending date that is manipulated to coincide with the expiration of UI benefits."[23]
- Economists David Card and Phillip B. Levine found that additional weeks of unemployment benefits only increased the fraction of workers who exhausted—that is, used up all unemployment benefits available to them—by 1 to 3 percentage points, and had the program run long enough to affect claimants from the first day of their spell, the average recipient would have collected regular benefits for just one extra week.[24]

Other empirical work shows how unemployment benefits give workers the time to search for a new job. Massachusetts Institute of Technology economist Jon Gruber found that unemployment insurance smoothes consumption for households with an unemployed worker, which helps them maintain their spending even in the face of a job loss.[25] Chetty estimated that 60 percent of difference in the length of time workers spend unemployed if they have unemployment benefits is due to a liquidity effect—a constraint on household finances because they have little access to cash in the short term—rather than to reduced incentives to search for a new job.[26]

Unemployment is not a structural problem

While some groups have been harder hit than others, today's unemployment is not a structural problem. In May 2007, the unemployment rate was 4.5 percent. Just more than a year and a half later, the private sector was shedding 700,000 to 800,000 jobs per month, and unemployment continues to linger at 9 percent.[27] 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 became mismatched due to some new set of technological advances that made 1 in 10 workers instantaneously obsolete. There is no evidence that this has been the case in the years since 2007.

There are a number of ways to think about this. First, 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 the distribution of job losses due to the Great Recession was fairly broad and widespread across industries, contradicting the idea that there are one or two sectors that U.S. workers need to transition out of. 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 the extraordinary monetary and fiscal policies enacted over the past few years would have led to higher prices. The logic is that if more money were chasing a limited pool of 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 1.7 percent, below what the Federal Reserve considers the target rate of 2 percent.[28]

If the problem with unemployment were structural, then the primary policy lever to address this would be 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 to the 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.[29] But 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 and 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.

Addressing aggregate demand has shown good results

Congress has taken important steps to encourage private-sector job creation. The Congressional Budget Office credits ARRA with saving or creating 1.3 million to 3.5 million jobs in 2010, and CBO estimates that 2.7 million jobs will be saved or created in 2011.[30] The Recovery Act kept teachers in schools and police officers on their beats even as state and local tax revenues fell. It kept money flowing into the pockets of the long-term unemployed, which in turn helps not only those individual families hardest hit by the Great Recession but also keeps dollars flowing into their local communities. It helps unemployed workers access health care, undoubtedly mitigating the well-documented negative health effects of unemployment.

Economists Alan Blinder and Mark Zandi estimate that the Recovery Act and other fiscal policies saved or created 2.7 million jobs, and that 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.[31]

Even with the success of the Recovery Act, there have been clear indications since 2009 that in order to fill the output gap and lower unemployment, Congress will need to focus on policies that raise, not lower, aggregate demand.[32] As Federal Reserve Chairman Ben Bernanke noted this January in testimony before the U.S. Senate Committee on the Budget:

> *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).[33]

Sustained government spending until the economic 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.[34] We've also known for more than two years now that the Federal Reserve has no more room to lower interest rates to boost demand.[35]

In other recent recessions, lowering interest rates was sufficient to push the economy toward sustainable growth, but this time that'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 he tried to address rampant inflation. The Federal Funds Rate hit nearly 20 percent in 1981, which stopped inflation but then also gave the Federal Reserve a great deal of room to lower rates to encourage economic activity.[36]

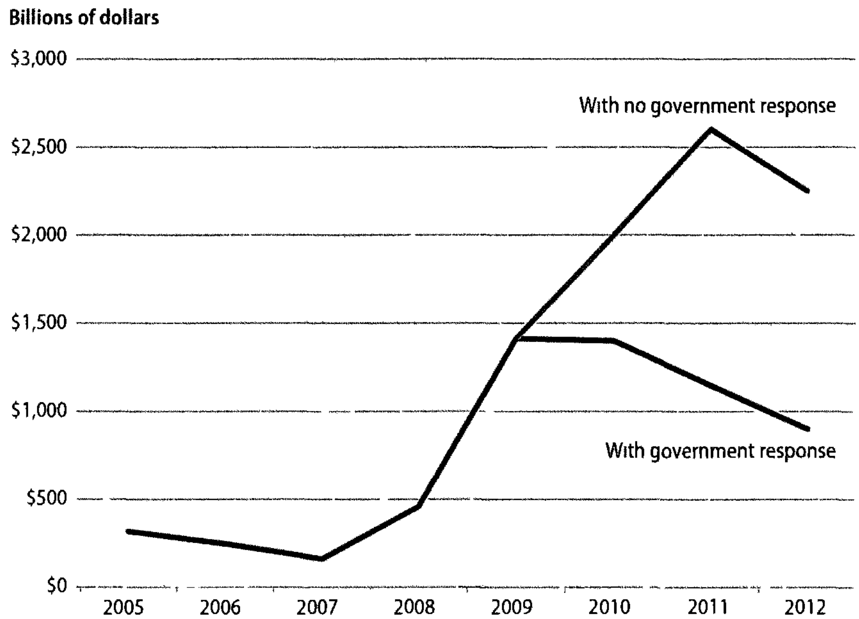
Today, to boost growth, the Federal Reserve has pursued quantitative easing, using the proceeds from the central bank's mortgage bond portfolio to buy long-term government debt. That is, they are using unorthodox methods of pumping money into an economy and working to lower interest rates that central bankers do not usually control. Their effect is the same as printing money in vast quantities but without ever turning on the printing presses. The Federal Reserve's response to the Great Recession has been effective in lowering interest rates and addressing the crisis in the banking system but it has not yet successfully increased investment or led to sufficient job creation.

At present, and owing both to QE2 (the second round of quantitative easing by the Fed) and to strong global demand for U.S. Treasury assets, the United States is enjoying historically low interest rates. At the same time, excessively contractionary monetary policy by the European Central Bank is keeping interest rates higher in Europe while fast economic growth in developing countries that pay a higher risk premium present investors with attractive speculative opportunities. The combined effect of these forces is to push foreign currencies up and make the U.S. dollar more competitive internationally.

The international value of the dollar has improved in competitiveness by nearly 11 percent in inflation-adjusted terms over the past two years. This means that goods of U.S. exporters are priced more competitively in world markets and that foreign goods face an 11 percent disadvantage in U.S. markets. A secondary factor, as the result of bilateral diplomacy, China has resumed its policy of appreciating its currency, the yuan, against the dollar. Yet Chinese appreciation is still not happening fast enough and has much further to go.

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 (see Figure 4). 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 fiscal year 2010, $2.6 trillion in fiscal year 2011, and $2.25 trillion in fiscal year 2012. In actuality, they estimate that by the end of fiscal year 2010, 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.[37]

FIGURE 4
Federal budget deficit, in billions, 2005-2012



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.[38] 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.[39]

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, including the nearly 14 million currently unemployed workers in our country, millions of workers will find no means of support today and will see their economic future grow dimmer by the week.

Policy recommendations

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 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.

Congress should focus on three specific policy goals:

- **Focus on maintaining the boost in aggregate demand.** Investment—including investment in infrastructure—is the best way to ramp up employment now, while building the foundation for a high-productivity future.

- **Stop adding to the problem of unemployment.** Once someone loses their job, they now face historically low odds of finding a new job. There are ways Congress can act to keep people in the jobs they have now.

- **Help the long-term unemployed beat the odds and find work.** We know from decades of research that the displaced and long-term unemployed are more often at the bottom of the hiring queue and often suffer years of lowered earnings. Specifically, Congress should consider reinvigorating the TANF Emergency Funds that put people to work in public-private partnerships.

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 our 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 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.

Boost aggregate demand

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.[40] 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.

In January, the Commerce Department reported that private business investment in overall buildings, factories, and equipment grew only $18 billion, while investment in new buildings and factories grew only $700 million, adding just 0.13 percent to the growth in U.S. GDP. As CAP economist Adam Hersh put it, "the tepid investment recovery is particularly troubling, given that in the 2001 to 2007 business cycle expansion, we'd already experienced the slowest investment growth rate since World War II. Making matters worse, much of that investment was misallocated into nonproductive residential and commercial real estate."[41]

Federal Reserve Chairman Ben Bernanke was right in February when he said the recovery is not truly established until the unemployment rate returns to a normal level.[42] Bringing unemployment down will require both increased investment, which is currently lower than in past recoveries, and a strong middle class that has the jobs and incomes to maintain consumption. Policymakers should continue to encourage investment in infrastructure and in the skills of our nation's workforce and make sure that these investments create good jobs, the kind that will rebuild our middle class.

The Obama administration proposed a $50 billion infrastructure 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, we evaluate whether these policies reduce our trade deficit and, on net, create jobs.[43] Economists estimate that local labor markets facing increased exposure to Chinese imports have experienced 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 the employment decline is concentrated in manufacturing, the declines in wages occur across the local labor market and are actually most pronounced outside of manufacturing.[44] 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.*[45]

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, estimates that while the Korea FTA would increase exports, it would increase imports even more—resulting in an increase in the total U.S. goods trade deficit of between $308 million and $416 million.[46] 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 states' unemployment insurance trust funds are insolvent, with 30 states and the U.S. Virgin Islands owing a total of $42 billion, and the debt could rise to $90 billion by the end of 2013.[47] 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.[48]

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 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.[49]

Stop adding to the problem: If someone has a job, help them keep it

One of the striking things about today's labor market in the wake of the Great Recession is that the market for job seekers is the worst in generations. The best thing to do for the long-term unemployed is to make sure our economy stops creating unemployment. A key piece of that is to keep recovery dollars flowing until the economy fully recovers. Here are three tested policies to focus on.

Aid to the states. Reductions in government spending not only drag down U.S. economic growth but also reduce overall employment. Reductions in government spending pulled down U.S. economic growth by 0.1 percent over the fourth quarter of 2010. The Great Recession had a devastating impact on states' fiscal health. Unlike the federal government, states cannot deficit spend, which in turn means they have to make difficult choices amid declining revenue and a weak economy. According to the Center on Budget and Policy Priorities, "thus far some 44 states and the District of Columbia are projecting budget shortfalls totaling $125 billion for fiscal year 2012." If nothing is done, this will be the worst year on record for state budgets, and it comes on top of sharp layoffs over the past couple of years.[50]

This means serious problems for the U.S. jobs market: In January, local governments shed another 10,000 jobs, for a total of 366,000 since their peak in September 2008, nearly three-quarters of which were jobs held by women. State governments shed 2,000 jobs in January and 69,000 since their peak in September 2008.[51] As of January 2011, 39 percent of those unemployed who had jobs in the public administration industry have been out of work and searching for a job for at least six months.[52]

Simply put, schools are laying off teachers, public universities are trimming their staffs, and community colleges are cutting back. These cutbacks are one of the most unfortunate outcomes of the fiscal crisis precipitated by the Great Recession and constitute not just lost jobs now, but also eventually worse educational outcomes for tens of millions of students across the country—consequences that will have long-term negative effects on the economy.

Helping state and local governments and school districts boasts clear advantages over many of the alternatives. First, the added resources will immediately and directly boost employment in a very hard-hit sector. Distinct from the private sector, job cuts are being forced exclusively by impossible budget situations, not by a lack of demand for services. Ameliorating those budget dilemmas will result in more jobs. Second, additional aid will prevent further cuts to state and local education systems—investments that will pay dividends far beyond the current recovery.

Work-sharing. When businesses need to cut back on staffing, they have two options: lay off workers or reduce hours. There are strong incentives in our labor market to simply lay off workers—benefits are often tied to the worker, not their hours.

Currently, 17 states have opted into the "short-time compensation" or "work-sharing" program within their unemployment insurance system, which allows workers to receive partial benefits from the unemployment insurance system if their hours have been reduced, not just if they lost their job or their pay is reduced. The unemployment insurance system also provides partial benefits to workers whose wages have been cut (including due to working part-time) but the thresholds are fairly low. The unemployment benefit is typically equal to the difference between the weekly benefit amount and earnings, and all states disregard some earnings as an incentive to take short-time work.[53] Mark Zandi estimates that the multiplier for the short-term compensation program would be relatively high: For every dollar spent on the program, $1.69 would be added to our economy's output.[54]

Short-term compensation or work-sharing proposals have been garnering wider support over the past year.[55] New evidence from Germany shows that "short-term work programs," which encourage employers to reduce hours rather than lay off workers, can significantly reduce unemployment. While output fell more in Germany during the Great Recession than it did in the United States (through winter 2010), the German unemployment rate actually *decreased*, while the U.S. unemployment rate has risen 4 percentage points. Recent research by the International Monetary Fund points to the importance of the massive expansions to Germany's short-term work program (Kurzarbeit), which led to hours reductions but not unemployment.[56]

These findings are not directly applicable in the United States as the program was implemented in largely union settings, but it should encourage Congress to examine this kind of policy. Congress should promote nationwide implementation of the short-term compensation program by encouraging the Department of Labor to provide clear guidance on the program and encourage more states to adopt it.[57] Congress could adopt a technical amendment as part of an extension of the federal Emergency Unemployment Compensation program or another vehicle. Enactment of an amendment would send a clear signal that states should adopt short-time compensation laws as an option for employers.

Help the unemployed beat the odds and find a new job

The economic literature is clear: The long-term unemployed suffer more and are at risk of never regaining as strong a foothold in the labor market. Many who cannot find work will end up moving from unemployment benefits to Social Security Disability Insurance, an even greater likelihood if unemployment benefits for the long term are not restored.[58] Especially for younger workers, the lifetime costs of unemployment can be startlingly high. There are ways that Congress has and can continue to help.

Reinstate TANF Emergency Funds. This program was funded through ARRA but expired on September 30, 2010. It led to partnerships with the business community to create 250,000 new jobs for low-income and long-term unemployed workers. Extending this program for another year would continue to create thousands of jobs for long-term unemployed workers. The TANF Emergency Fund gave states more than $1 billion to operate subsidized jobs programs and promoted public-private partnerships. This program was implemented in states with both Democratic and Republican governors, with much success. Texas, for example, created nearly 40,000 jobs with this program.[59]

Recent polling shows that 8 in 10 voters favor Congress continuing to fund the TANF Emergency Fund, which was described in the poll as "states partnering with the private sector to create temporary subsidized jobs to move low-income parents from welfare to work."[60] Congress should refund this program and put people back to work.

Promote successful vocational programs. There are successful models for how community colleges can partner with the private sector to create vocational programs that work. To train the next generation of workers, we need to make sure our educational institutions are adequately addressing the real training needs of employers. One way to do this is through the "new vocationalism" movement, which seeks to integrate vocation and employment-oriented goals in academic educational programs. A key way this has been happening around the country is through partnerships between community colleges and businesses, as outlined by my colleague Louis Soares.[61]

There are a variety of success cases and recommendations that policymakers "promote systematic innovation by reviewing federal, state, and local finance and regulation to facilitate the 'good practice' innovations."[62] Federal and state policymakers can ensure that formula funding streams and regulations do not stifle good practice when partners are building an alternative education program; use competitive grant funds to promote partnerships that emphasize sustainable, systemic change; and continue to emphasize desired student outcomes to keep community colleges and partners focused on innovation. Policymakers should also look at what tools and information we need to really measure the value of good practice and gather the data needed to make it an evidence-based best practice.[63]

Invest more in national service programs such as AmeriCorps, VISTA, YouthBuild, and the youth service and conservation corps, which could create full-time positions for young people. These investments would in most cases be paid for jointly by public and private resources. Investing $830 million in fiscal year 2011 could create 60,000 jobs. Most of these jobs would be in nonprofit organizations.[64]

Invest in a summer youth employment program. The summer youth employment program does more than provide hundreds of thousands of youth with seasonal employment opportunities; it also has the potential to change the long-term employment prospects of disadvantaged youth who might otherwise be disconnected from the labor market. Youth get the experience and support they need to access entry-level jobs as they transition to adulthood through training in hard and soft jobs skills and exposure to services offered by community organizations.

Improve employment services. Research shows that employment services and job-search assistance can be helpful to unemployed workers.[65] Currently, the Workforce Investment Act systems are not designed to stay with a worker over time. Instead, they are focused on quick job placement. For the long-term unemployed, it may be challenging to get them into a job quickly and Congress should provide the one-stops with flexibility and funding to provide professional career-counseling services.[66]

Improvements to employment services can be done through WIA and Wagner-Pizer Act funding. One idea is to require that one-stop career center partners include opportunities to provide career guidance across agencies as part of their Memorandum of Understanding for co-location at the center.[67] The Department of Labor's new website, www.mynextmove.org, seeks to help workers identify career paths and skills necessary through an interactive web-based tool.

Conclusion

I'd like to come back to the question of: Are we doing everything we can to help the unemployed find jobs? Earlier this week, in the *Financial Times*, Rep. Darrell Issa (R-CA) made the case that "President Barack Obama's $814 billion economic expansion has woefully failed to reach each of its self-imposed targets."[68] That's partially true since the economy has not come back to full employment—clearly a goal that we all share—but the reality is that employment has not returned not because we acted together as a nation to address high unemployment but rather because we did not act enough.

The nearly 14 million people out of work today would be better off if we used our nation's resources to spur, not halt, economic growth. We now know that the perception of prosperity in the 2000s was in many ways a mirage. The housing bubble—fueled by financial services innovation that masked growing risks to the larger economy—and then the Great Recession revealed 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.

We continue to live in one of the richest nations on the planet. We have the resources to solve problems that we decide to solve. We've had enough money to give billions of dollars away in tax cuts for the very wealthiest among us. And yet we seem to have lost our can-do conviction that the economy can indeed improve, and that we can again create good jobs for all who need them. There appears to be a growing acceptance that slow job creation is "just the way things are." A growing fatalism convinces us that our economy will be stuck at the bottom for quite some time.

These diminished expectations aren't merely evidence of a national funk. They also pose a real threat to our economy—not just by making businesses and consumers less willing to invest in the future but also by letting elected officials off the hook. We need greater investment to bring down unemployment, but the widespread idea that we are doomed to austerity gives policymakers an excuse not to tackle the problem.

In closing, I would like to underscore the urgency of Congress continuing to address long-term unemployment. In May 2010, Christina Romer, then-chair of the Council of Economic Advisers, said:

> *It would be penny-wise but pound-foolish to try to deal with our long-run problem by tightening fiscal policy immediately or foregoing additional emergency spending to reduce unemployment. Immediate fiscal contraction would inevitably nip the nascent economic recovery in the bud—just as fiscal and monetary contraction in 1936 and 1937 led to a second severe recession before the recovery from the Great Depression was*

> *complete. And nothing would be more damaging to our fiscal future than a protracted recession and permanently higher unemployment.*[69]

Addressing the federal budget deficit is certainly an important concern but economists are largely in agreement that cutting back on government spending before the recovery has fully taken hold is not the right policy. In fact, it could exacerbate unemployment. Record-high long-term unemployment will remain until employers begin hiring in much larger numbers than they are today. Because we are in the unusual situation of following a severe recession and a financial crisis—with policymakers having already tapped into expansionary monetary policy as far as they can—using the "power of the purse" is necessary to push the economy into a self-sustaining recovery. If we do that and lay the foundation for a strong recovery, we will be in a much better situation to address the deficit in the years to come.

Endnotes

[1] Christina D. Romer, "Back to a Better Normal: Unemployment and Growth in the Wake of the Great Recession", Address at the Woodrow Wilson School of Public and International Affairs, Princeton University, April 17, 2010.
[2] "National Income and Product Accounts Table 1.1.1.," available at http://www.bea.gov/national/nipaweb/TableView.asp?SelectedTable=1&FirstYear=2009&LastYear=2010&Freq=Qtr.
[3] "Industrial Production and Capacity Utilization," Table G.17, available at http://www.federalreserve.gov/releases/g17/current/default.htm.
[4] Adam S. Hersh and Isha Vij, "Economic Growth Continues, but Too Slowly to Secure Recovery," Center for American Progress, January 7, 2011, available at http://www.americanprogress.org/issues/2011/01/december_jobs.html.
[5] 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.
[6] Adam S. Hersh and Christian E. Weller, "Measuring Future U.S. Competitiveness: U.S. Productivity and Innovation Snapshot," Center for American Progress, February 9, 2011, available at http://www.americanprogress.org/issues/2011/02/productivity_snapshot.html.
[7] Correspondence with NFIB; William C. Dunkelberg and Holly Wade, "NFIB Small Business Economic Trends." (Washington: National Federation of Independent Business, 2011), available at http://www.nfib.com/Portals/0/PDF/sbet/sbet201102.pdf.
[8] "Senior Loan Officer Opinion Survey on Bank Lending Practices," tables 5c and 5e, available at http://www.federalreserve.gov/boarddocs/snloansurvey/201102/table1.htm.
[9] Hersh and Weller, "Measuring Future U.S. Competitiveness."
[10] "Employment status of the civilian population by sex and age," available at http://www.bls.gov/webapps/legacy/cpsatab1.htm; Hersh and Vij, "Economic Growth Continues."
[11] Hersh and Vij, "Economic Growth Continues."
[12] Bureau of Labor Statistics, *Job Openings and Labor Turnover Survey* (Department of Labor, 2010), available at http://data.bls.gov:8080/PDQ/servlet/SurveyOutputServlet;jsessionid=6230b1db2685c2223617.
[13] Heather Bousbey, "Rebuilding the middle class," MarketWatch, February 4, 2011, available at http://www.marketwatch.com/story/creating-jobs-should-be-a-top-priority-2011-02-04.
[14] "Employment status of the civilian population by sex and age"; Hersh and Vij, "Economic Growth Continues."
[15] Henry Farber. "What Do We Know About Job Loss in the United States? Evidence from the Displaced Workers Survey, 1984-2004," *Economic Perspectives* (2) (2005): 13–28; Lisa B. Kahn, "The Long-Term Labor Market Consequence of Graduating from College in a Bad Economy," *Labour Economics* 17 (2) (2010): 303–316.
[16] Bureau of Labor Statistics, *Worker Displacement: 2007-2009* (Department of Labor, 2010), available at http://www.bls.gov/news.release/disp.nr0.htm.
[17] Author's calculations from U.S. Census Bureau and Bureau of Labor Statistics.
[18] Wayne Vroman, "The Role of Unemployment Insurance As an Automatic Stabilizer During a Recession" (Columbia, MD: IMPAQ International, 2010).
[19] Lawrence F. Katz and Bruce D. Meyer, "The Impact of the Potential Duration of Unemployment Benefits on the Duration of Unemployment,"*Journal of Public Economics* 41 (1990): 45–72.

[20] Lawrence F. Katz, "Long-Term Unemployment in the Great Recession," Testimony before the Joint Economic Committee, "Long-Term Unemployment: Causes, Consequences and Solutions," April 29, 2010, available at http://jec.senate.gov/public/index.cfm?a=Files.Serve&File_id=e1cc2c23-dc6f-4871-a26a-fda9bd32fb7e.
[21] Rob Valletta and Katherine Kuang. "Extended Unemployment and UI Benefits," Federal Reserve Bank of San Francisco, April 19, 2010, available at http://www.frbsf.org/publications/economics/letter/2010/el2010-12.html.
[22] David Card, Raj Chetty, and Andrew Weber, "The Spike at Benefit Exhaustion: Leaving the Unemployment System or Starting a New Job?" Working Paper 12893 (National Bureau of Economic Research, 2007).
[23] Ibid.
[24] David Card and Phillip Levine, "Extended benefits and the duration of UI spells: evidence from the New Jersey extended benefit program," *Journal of Public Economics* 78 (2000): 107–138.
[25] Jonathan Gruber, "The Wealth of the Unemployed." Working Paper 7348 (National Bureau of Economic Research, 2000), available at http://econ-www.mit.edu/files/102.
[26] Raj Chetty, "Moral Hazard vs. Liquidity and Optimal Unemployment Insurance." Working Paper 13967 (National Bureau of Economic Research, 2008).
[27] Bureau of Labor Statistics, *The Employment Situation - January 2011* (Department of Labor, 2011), available at http://bls.gov/news.release/pdf/empsit.pdf.
[28] Bureau of Labor Statistics, *Consumer Price Index - January 2011* (Department of Labor, 2011), available at http://www.bls.gov/news.release/pdf/cpi.pdf.
[29] Howard L. Fleischman and others, "Highlights From PISA 2009: Performance of U.S. 15-Year-Old Students in Reading, Mathematics, and Science Literacy in an International Context" (Washington: National Center for Education Statistics, 2010), available at http://nces.ed.gov/pubs2011/2011004.pdf.
[30] Congressional Budget Office, "Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output from October 2010 Through December 2010" (2011), available at http://www.cbo.gov/ftpdocs/120xx/doc12074/02-23-ARRA.pdf.
[31] Alan S. Blinder and Mark Zandi, "How the Great Recession Was Brought to an End" (Washington: Economy.com, 2010), available at http://www.economy.com/mark-zandi/documents/End-of-Great-Recession.pdf.
[32] A wide array of economists agree with this sentiment. See: Mark Zandi, "Using Unemployment Insurance to Help Americans Get Back to Work: Creating Opportunities and Overcoming Challenges," Testimony before the Senate Committee on Finance, April 14, 2010; Lawrence H. Summers, "Reflections on Fiscal Policy and Economic Strategy," Remarks at the Johns Hopkins School of Advanced International Studies, May 24, 2010, available at http://www.whitehouse.gov/administration/eop/nec/speeches/fiscal-policy-economic-strategy.
[33] Ben S. Bernanke, "The Economic Outlook and Monetary and Fiscal Policy," Testimony before the Committee on the Budget, U.S. Senate, January 7, 2011, available at http://www.federalreserve.gov/newsevents/testimony/bernanke20110107a.htm.
[34] Carmen Reinhart and Kenneth Rogoff, "The Aftermath of Financial Crises," *American Economic Review (Papers and Proceedings)* 99 (2) (2009): 466–472.
[35] Heather Boushey, "Keep the Money Flowing," Room for Debate, June 24, 2010, available at http://roomfordebate.blogs.nytimes.com/2010/06/24/can-obama-create-more-jobs-soon/?scp=1&sq=boushey&st=cse#heather.
[36] "Federal Reserve Statistical Release H.15: Selected Interest Rates," available at http://www.federalreserve.gov/releases/H15/data.htm.
[37] Blinder and Zandi, "How the Great Recession Was Brought to an End."
[38] Michael Linden, "Breaking Down the Deficit" (Washington: Center for American Progress, 2009).
[39] Ibid.
[40] American Society of Civil Engineers, "America's Infrastructure Report Card" (2009), available at http://www.infrastructurereportcard.org/sites/default/files/RC2009_full_report.pdf.
[41] Adam Hersh. "The Missing Ingredient in Our Recovery: Investment Is Central to Continued Growth and Competitiveness," Center for American Progress, January 28, 2011, available at http://www.americanprogress.org/issues/2011/01/recovery_gdp.html.
[42] Ben S. Bernanke, "The Economic Outlook and Macroeconomic Policy," Speech at the National Press Club, February 3, 2011, available at http://www.federalreserve.gov/newsevents/speech/bernanke20110203a.htm.
[43] As Paul Krugman wrote in a recent column: "If you want a trade policy that helps employment, it has to be a policy that induces other countries to run bigger deficits or smaller surpluses. A countervailing duty on Chinese exports would be job-creating; a deal with South Korea, not." See: Paul Krugman, "Trade Does Not Equal Jobs," *The New York Times*, December 6, 2010.

[44] David H. Autor, David Dorn, and Gordon H. Hanson, "The China Syndrome: Local Labor Market Effects of Import Competition in the U.S.," available at http://econ-www.mit.edu/files/6477.
[45] Ibid.
[46] U.S. International Trade Commission, "U.S.-Korea Free Trade Agreement: Potential Economy-wide and Selected Sectoral Effects" (2007), available at http://www.usitc.gov/publications/332/pub3949.pdf.
[47] Michael Cooper and Mary Williams Walsh, "U.S. Bills States $1.3 Billion in Interest Amid Tight Budgets," *The New York Times*, January 14, 2011, available at http://www.nytimes.com/2011/01/15/us/politics/15stimulus.html.
[48] U.S. Department of Labor.
[49] Vroman, "The Role of Unemployment Insurance As an Automatic Stabilizer During a Recession."
[50] Elizabeth McNichol, Phil Oliff, and Nicholas Johnson, "States Continue to Feel Recession's Impact," Center for Budget and Policy Priorities, February 10, 2011, available at http://www.cbpp.org/cms/?fa=view&id=711.
[51] Boushey, "Rebuilding the middle class."
[52] "Employment status of the civilian population by sex and age."
[53] "Comparison of State Unemployment Laws," available at http://workforcesecurity.doleta.gov/unemploy/uilawcompar/2009/comparison2009.asp.
[54] Mark Zandi, "The Impact of the Recovery Act on Economic Growth," Testimony before the Joint Economic Committee, October 29, 2009, available at http://www.economy.com/mark-zandi/documents/JEC-Fiscal-Stimulus-102909.pdf.
[55] Mark Zandi, Testimony before the Senate Finance Committee, "Using Unemployment Insurance to Help Americans Get Back to Work: Creating Opportunities and Overcoming Challenges," April 14, 2010, available at http://finance.senate.gov/imo/media/doc/041410mztest.pdf; Paul Krugman, "Free to Lose," *The New York Times*, November 12, 2009, available at http://www.nytimes.com/2009/11/13/opinion/13krugman.html; Kevin A. Hassett, "Prospects for Employment Growth: Is Additional Stimulus Needed?", Testimony before the House Committee on Financial Services, February 23, 2010, available at http://financialservices.house.gov/media/file/hearings/111/hassett.pdf. Dean Baker has also proposed a new tax credit to encourage shorter workweeks. See: Dean Baker, "Job Sharing: Tax Credits to Prevent Layoffs and Stimulate Employment" (Washington: Center for Economic and Policy Research, 2009), available at http://www.cepr.net/documents/publications/job-sharing-tax-credit-2009-10.pdf.
[56] International Monetary Fund, "World Economic Outlook: Rebalancing Growth" (2010), available at http://www.imf.org/external/pubs/ft/weo/2010/01/pdf/text.pdf.
[57] The short-term compensation program was established as a temporary program in 1982 and made permanent in 1992. However, there were discrepancies in the 1992 legislation that created an "administrative muddle" about what exactly states are allowed to do. The 1982 legislation had required that any employer who participated must continue health insurance and retirement benefits, and that the program must have the consent of bargaining representatives in unionized shops. The 1992 legislation, however, did not include those provisions, which has led to a lack of clarity about the program requirements.
[58] U.S. Congress Joint Economic Committee, "Extending Unemployment Insurance Benefits: The Cost of Inaction for Disabled Workers" (2010), available at http://jec.senate.gov/public/?a=Files.Serve&File_id=a0bf909c-eb74-48bd-86fb-3b611694b052.
[59] Liz Schott and LaDonna Pavetti, "Walking Away From a Win-Win-Win: Subsidized Jobs Slated to End Soon Are Helping Families, Businesses, and Communities Weather the Recession," Center for Budget and Policy Priorities, September 2, 2010, available at http://www.cbpp.org/cms/index.cfm?fa=view&id=3274.
[60] Guy Molyneaux, "Key Findings From Survey on Poverty Issues" (Washington: Hart Research Associates, 2010), available at http://halfinten.org/uploads/support_files/Half_in_Ten_Poll_Results.pdf.
[61] Louis Soares. "The Power of the Education-Industry Partnership: Fostering Innovation in Collaboration Between Community Colleges and Businesses" (Washington: Center for American Progress, 2010), available at http://www.americanprogress.org/issues/2010/10/community_colleges.html.
[62] Ibid.
[63] Ibid.
[64] Melissa Boteach, Joy Moses, and Shirley Sagawa, "National Service and Youth Unemployment: Strategies for Job Creation Amid Economic Recovery" (Washington: Center for American Progress, 2009), available at http://www.americanprogress.org/issues/2009/11/pdf/nation_service.pdf.
[65] David E. Balducchi, Randall W. Eberts, and Christopher J. O'Leary, "Labor Exchange Policy in the United States," (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 2004).

[66] Louis Soares, "Moving from Short-Term Jobs to Long-Term Skills: Priorites for Workforce Investment Act Reauthorization" (Washington: Center for American Progress, 2010), available at http://www.americanprogress.org/issues/2010/05/wia_reauthorization.html.
[67] Ibid.
[68] Darrell Issa, "Obama's Keynesian failures must never be repeated," Financial Times, February 7, 2011, available at http://www.ft.com/cms/s/0/d949c6c8-32fc-11e0-9a61-00144feabdc0.html?ftcamp=rss#axzz1DJpPo9eD.
[69] Romer, "Back to a Better Normal."

Mrs. BONO MACK. Thank you, Dr. Boushey.

Mr. Resch, you are recognized for 5 minutes.

STATEMENT OF RHONE RESCH, PRESIDENT AND CEO, SOLAR ENERGY INDUSTRIES ASSOCIATION

Mr. RESCH. Madam Chairwoman Bono Mack, Ranking Member Butterfield and members of the subcommittee, thank you for the opportunity to testify today. I am testifying on behalf of our 1,000 member companies and the 100,000 American citizens employed by the solar industry.

In the last 2 years, during one of the worst economic downturns in our Nation's history, the solar industry has thrived, becoming the fastest-growing industry in the energy sector and one of the fastest-growing industries in any sector in the United States. In 2010, the solar industry grew at a rate of 67 percent and now employs over 100,000 Americans across all 50 States. From 2009 to 2010, we doubled employment in the United States, creating almost 50,000 new jobs while most other industries were contracting. We are putting plumbers, electricians and carpenters that lost their jobs due to the collapse of the housing industry back to work. We are building new factories and providing existing manufacturers with new large customers, and we are providing opportunities for small businesses to reinvent themselves and become part of one of the most exciting changes to our economy to occur in a generation.

As you can see by this chart, the U.S. solar industry is expanding at a consistent 50 percent annual growth rate over the last 4 years. Photovoltaic installations fully doubled in 2010 in the United States while construction began on dozens of massive utility-scale solar power plants that will be completed over the next several years, employing thousands of Americans and bringing billions of dollars of economic investment to the southern half of the United States. Things are bright for solar today, but that will not last unless the right policies are adopted.

The U.S. solar industry has created opportunities for over 100,000 Americans. Take, for example, Justin Cox, a technical support rep at Sungevity, a company that is expanding and will soon operate in eight States. Up until 2 years ago, Justin was a soldier. When he came back after serving in Iraq, he found a job in the solar industry and now applies the leadership and technical skills he gained in the Army to expand his company. The U.S. solar industry is welcoming back thousands of veterans like Justin with new opportunity, and these aren't just jobs, these are careers.

The growth of the industry and the creation of jobs is evident in all of your districts and all of your States. For example, in Chairwoman Bono Mack's district, there is a 21-megawatt solar photovoltaic project near Blythe, California. This is one of the largest PV projects operating in the United States. The project developer and module supplier for the project is an American company that manufacturers in the Midwest with over 1,000 American workers. Also in Blythe, a new 1,000-megawatt concentrating solar power plant, the Solar Trust of America-Blythe, is under development. It will be the largest solar project in the world, producing enough clean energy to power 300,000 American homes. Unfortunately, the Blythe project has been placed at risk by provisions of H.R. 1, which eliminate the funding for the project's pending Department of Energy loan guarantee application.

Solar's reach goes far beyond California. Unfortunately, Congressman Barton isn't here but the next two slides show facilities in Texas. This is a massive polysilicon manufacturing plan in Pasadena, Texas, which provides feedstock material for the solar industry. And the next slide shows a state-of-the-art solar power plant in San Antonio, Texas.

And in Clarksville, Tennessee, located in Representative Blackburn's district, Hemlock Semiconductor is building a $1.2 billion polysilicon manufacturing facility to supply the solar industry. This plant will employ up to 1,500 workers during construction and over 1,000 workers for permanent operations when completed at the end of this year. Also in Tennessee is Sharp Solar's panel factory located just south of Representative Blackburn's district. The factory expanded in 2010 and now has over 500 employees.

So how do we keep this kind of solar job growth going? To succeed, we need stable tax policies. We need tax policies such as the section 1603 treasury program to be continued and incentives for solar manufacturing to be restored. We also need policies that facilitate financing for clean energy technologies that cannot be obtained in the commercial marketplace. To support these industries, Congress should consider a variety of financing mechanisms including the Clean Energy Development Administration. But what is most important today is for Congress to restore funding to the DOE loan guarantee program.

Unfortunately, measures such as the provisions in H.R. 1 Continuing Resolution that eliminate all funding for the pending renewable and other non-nuclear loan guarantee applications are a step in the wrong direction. In its current form, H.R. 1 would likely kill as many as 30 clean energy projects representing tens of billions of dollars of economic development. With that, it will kill jobs like Jim Amadeo's, who is in Illinois, a solar plant operator. SEIA respectfully requests that in the C.R. negotiations with the Senate that the House reverse the cuts to the section 1705 loan guarantee program.

In conclusion, SEIA, our 1,000 member companies and our workforce of 100,000 strong is eager to work with Congress on important policy initiatives to continue to grow the solar industry and solar jobs.

Once again, I deeply appreciate the opportunity to testify before the subcommittee and I would be happy to answer any of your questions.

[The prepared statement of Mr. Resch follows:]

TESTIMONY OF

RHONE RESCH, PRESIDENT & CEO

SOLAR ENERGY INDUSTRIES ASSOCIATION

BEFORE THE

HOUSE ENERGY & COMMERCE COMMITTEE, SUBCOMMITTEE ON COMMERCE, MANUFACTURING, AND TRADE

HEARING ON "MADE IN AMERICA: INNOVATIONS IN JOB CREATION AND ECONOMIC GROWTH"

MARCH 3, 2011

SEIA Solar Energy Industries Association®

Solar Energy Industries Association
575 7th Street NW, Suite 400
Washington, DC 20004
(202) 682-0556
www.seia.org

Madam Chair Bono Mack, Ranking Member Butterfield and Members of the Subcommittee, thank you for the opportunity to testify. I am Rhone Resch, the President and CEO of the Solar Energy Industries Association (SEIA). I am testifying on behalf of our 1,000 member companies and 100,000 American citizens employed by the solar industry. SEIA represents the entire solar industry, encompassing all major solar technologies (photovoltaics, concentrating solar power and solar water heating) and points in the value chain, – including financiers, project developers, component manufacturers and solar installers. Before getting into the substance of my testimony, let me thank Chair Bono Mack and Ranking Member Butterfield for their leadership and support of solar energy.

I. INTRODUCTION

At a time of high unemployment and difficult economic conditions, the solar industry has become the fastest growing energy sector and one of the fastest growing industries in any sector across the U.S. In 2010, the solar industry grew at a rate of 67 percent and now employs Americans in all 50 states. We are putting plumbers, electricians and carpenters that were let go by the housing market back to work. And we are providing opportunities for small businesses to sprout up and prosper all over the country. This phenomenal growth has occurred due to private investment, technological innovation, a maturing U.S. solar market, and smart federal policy. The federal government has received a strong return on its investment of public dollars, with benefits to our economy far exceeding costs.

The purpose of my testimony is to describe the tremendous progress the solar industry has made in just the last few years in creating jobs across the country and stimulating strong economic growth while generating clean, reliable, domestically-sourced energy. SEIA also has suggestions regarding steps Congress can take to continue the rapid growth of the solar markets and workforce.

II. THE STATE OF THE SOLAR INDUSTRY

Solar is booming worldwide, doubling in size in 2010 and is one of the largest global growth sectors. The U.S. is seen by many within the industry as becoming the largest solar market within two years.

In fact, the U.S. solar industry grew from $3.6 billion in 2009 to $6.0 billion in 2010, a growth rate of 67 percent. Photovoltaic's installations doubled in 2010 in the U.S., while construction began on several utility-scale, concentrating solar power plants that will be completed over the next several few years, employing thousands of Americans. Unlike any other energy resource, solar is abundant in every state in the union, and more people in more states are using solar energy every year. Over the past 30 years, over 2 million homes and businesses have installed solar energy systems.

Industry scale and innovation are driving down costs while smart federal and state policies accelerate this process. Nationally, the price of solar energy fell by 20% during 2010, making solar increasingly affordable for homeowners, businesses, and utility ratepayers.

But we can't afford to remain content with the status quo. China, Germany, Italy and Japan are investing heavily in solar. After decades of leadership in the 1970s and 1980s, the U.S. is now in fourth place and playing catch up, and competition is stiff. Today the U.S. is a net exporter of solar energy goods and services – a claim that is hard to make in most other industries today in these tough economic times – but it is hard to say how long that condition will last unless the right policies are adopted.

III. SOLAR INDUSTRY EMPLOYMENT

As solar deployment grows, so do the number of Americans employed by solar. Although the largest American companies, such as General Electric, Applied Materials, and Dow Chemical are actively engaged in the solar industry, the majority of solar jobs are found on Main Street.

In 2010, The Solar Foundation completed the first ever National Solar Jobs Census to quantify the current employment and projected growth of the United States solar industry. It found the U.S. solar industry employs nearly 100,000 Americans [defined as those workers who spend at least half of their time supporting solar-related activities].

These workers range from small-town installers and roofers, electricians, plumbers, construction workers, many of whom were laid off in the recent housing market collapse, to assembly line manufacturers, architects, and engineers.

Moreover, more than half of solar companies expect to add jobs during 2011, while only 2% expect to cut workers. According to the census, U.S. solar companies expect to add jobs at a rate of 26% in 2011, a pace of growth that is much faster than the general economy – which grew at 2.8% in 2010 (GDP).

Take for instance, Justin Cox, a technical support rep at Sungevity in California. Justin came back after serving in Iraq and now applies the leadership skills he gained in the Army to the solar industry. The U.S. solar market is welcoming back veterans like Justin with new job opportunities now.

Solar also employs 25,000 Americans in the manufacturing sector, and this number is expected to grow by a remarkable 36% between 2010 and 2011. Solar is helping to revive U.S. manufacturing with factories opening in every region of the country.

Today there are over 2,000 companies across America supplying products and services to the solar industry. PV manufacturing facilities across 17 states around the country are producing the primary components of a solar PV system, including polysilcon wafers, cells, solar modules, cells, wafers, polysilicon and inverters. In addition, hundreds of companies all over the country supply the solar industry with components and services. Fifty-eight of these facilities received federal Manufacturing Incentive Tax Credits to build out their factories, boosting U.S. clean tech production and employing thousands of additional workers.

In addition to the existing facilities in traditional solar state leaders like California and Oregon, new solar manufacturing facilities opened in 2010 in Arizona, Georgia, and Colorado. And for the first time, a Chinese solar manufacturer, Suntech, opened an American manufacturing facility, because they recognized the value and potential of the expanding U.S. market. Further solar manufacturing expansion will continue in 2011, as major new facilities come online in Tennessee, Michigan, Indiana, Colorado, and Mississippi.

The scope and growth of the solar industry and solar jobs in the United States is apparent from the industry presence in Subcommittee Member's districts and states. In Subcommittee Chair Bono Mack's district in Southern California, there is a 21 MW solar photovoltaic project in operation near Blythe, California. This project is one of the largest photovoltaic projects operating in the U.S. today. The project developer and module supplier for the project is an American company, First Solar, which manufactures its innovative, low cost cells and modules in Ohio, employing over 1,000 American workers.

Also in Blythe, California, a 1,000 MW concentrating solar power plant is under development and recently received final approval to begin construction on federal land. When complete, the Solar Millennium's Blythe project will be the largest solar project in the world, and will produce enough clean energy to power 200,000 average American homes. Additionally, the construction of the first 500 MW project alone will create 1,000 direct construction jobs and about 100 permanent operations jobs in Chair Bono Mack's district. In December 2010, unemployment in Riverside County, where the project is located, stood at 14.2 percent. These projects will begin to add much needed jobs to this district. Unfortunately, as discussed further below, the Solar Millennium Blythe Project has been placed at risk by certain provisions of H.R. 1 which eliminate funding for the project's pending Department of Energy (DOE) loan guarantee application.

In Clarksville, Tennessee, located in Representative Blackburn's district, Hemlock Semiconductor is building a $1.2 billion polysilicon manufacturing facility which will employ up to 1,500 workers during construction and 1,000 workers for permanent operations when completed later this year. Polysilicon is a key component of the majority of solar panels built today. Also in Tennessee, a Sharp Solar manufacturing facility is located just south of Representative Blackburn's district. Panels manufactured there were used to supply a 1 MW solar project in Jackson, TN, which is also located near Ms. Blackburn's district, providing a significant local impact throughout the supply chain, from manufacturing to project completion and beyond.

In Chicago's West Pullman neighborhood, on the south side of town, Exelon owns and operates a 10 MW solar photovoltaic power generating facility, just north of Representative Kinzinger's district. This 10 MW project is the largest urban PV plant in the country today. Nearby, in Rockford, Illinois, a 62 MW PV farm is under development, and the modules will be supplied by a local Illinois manufacturer.

Adjacent to Representative Olson's district, MEMC operates a polysilicon manufacturing facility. The MEMC facility is one of three large U.S. polysilicon manufacturing facilities. Together, these three facilities produce approximately 40% of the global supply of polysilicon for the solar industry. The MEMC facility is located in an industrial area west of Houston, and is adjacent to Representative Olson's district.

IV. SUSTAINING THE GROWTH OF THE SOLAR INDUSTRY AND JOBS

A. Tax Policy

The cornerstone of federal policy in support of solar energy is the Investment Tax Credit (ITC) for residential and commercial projects, enacted as part of the Energy Policy Act of 2005 by a Republican Congress and Administration. The solar ITC is in place until the end of 2016 and has been a tremendous success, generating billions of dollars of investment in solar and helping to create good-paying, stable jobs nationwide. Prior to the recent financial crisis, many solar and other renewable energy projects relied on third party tax equity investors to monetize the value of the commercial tax credit. However, the economic downturn dramatically reduced the availability of tax equity, severely limiting the financing available for renewable energy projects. Congress acted to remedy this problem in 2009 with the enactment of the Section 1603 Treasury Program which allows the owners of commercial solar projects to receive a direct payment in lieu of the ITC. This program was extended in late 2010 for an additional year. Section 1603 has been an extraordinarily effective policy mechanism, supporting the deployment of over 1,500 solar projects in more than 40 states. Very few federal policies have had that type of return on investment. SEIA believes it should be extended for at least another year due to the still sluggish economy and continued shortfall of tax equity financing.

SEIA also believes that solar manufacturing incentives are needed to both preserve and grow solar manufacturing jobs in the United States. Currently, no solar manufacturing incentives are in place due to the failure to extend the Section 48C manufacturing tax credit, which expired at the end of 2010 By contrast, countries such as China provide extensive support to their renewable manufacturing industries, making it very difficult for American companies to compete. If the United States does not respond through tax incentives and other measures, it will be very difficult, if not impossible, to keep solar manufacturing jobs in the U.S. We should be reclaiming our manufacturing lead on a technology that our country first invented.

B. Financing Mechanisms

SEIA members consistently say that the most serious challenge they face is the difficulty of obtaining project financing. SEIA urges Congress to consider a variety of financing mechanisms, including the Clean Energy Development Deployment Administration. SEIA also strongly supports additional funding as well as reforms to the DOE Loan Guarantee Program.

DOE's Loan Guarantee Program was initially created by the Energy Policy Act of 2005 in recognition of the great challenges that large-scale nuclear and renewable energy projects face obtaining affordable long-term financing in the commercial marketplace. Until the financial community witnesses the successful completion of several of these projects, it will continue to charge substantial premiums or not lend to such projects at all.

To date, DOE has committed over $26 billion in loan guarantees for 23 clean energy projects with total project costs of over $40 billion. Cumulatively, these projects will produce almost four gigawatts of clean energy capacity, deploy three new manufacturing facilities, and will create tens of thousands of jobs across 19 states.

SEIA strongly opposes the provisions in the House-passed continuing resolution, H.R. 1, which would eliminate funding for DOE loan guarantees for solar and other non-nuclear renewable energy projects. In its current form, H.R. 1 would likely kill over 30 clean energy projects that have applied for loan guarantees Many of the companies with pending applications have collectively invested hundreds of millions in developing solar projects in reliance on the Loan Guarantee Program and will likely lose the entirety of their investment and may be bankrupted if this proposal becomes law. Among the projects placed at risk is the Blythe Solar Power Project discussed above, located in Chair Bono-Mack's Bono Mack's district.

Seven of these projects have received only conditional loan commitments. Since OMB will likely not consider loan guarantee funding to be obligated until the loans have closed, many of these projects would be killed by H.R. 1 even though the developers have committed millions of dollars in reliance on the U.S. government's promise of support.

There are also approximately 25 additional projects that have received term sheets as part of the agency's loan guarantee due diligence review process. These projects have been selected from hundreds of applications submitted to the DOE loan guarantee program to receive the balance of loan guarantee funding available under the Section 1705 program.

The DOE loan guarantee funds that would be eliminated by H.R. 1 are not simply excess appropriated dollars sitting in an agency's reserve account. Every dollar will be spent on clean energy projects that have been identified by DOE as viable and creditworthy and ones that will significantly contribute to our nation's energy needs. To cancel funding for the loan program at this point, just as these projects are about to be deployed and after companies have already paid DOE millions of dollars for application, consulting, and facility fees and invested hundreds of millions of dollars in engineering, preparation and development, would result in a colossal waste of private capital and erode domestic and international confidence in the U.S. energy markets. It is both unfair and short-sighted to change the rules this late in the game. Therefore, SEIA respectfully requests that the House reconsider its position regarding DOE loan guarantees in the context of negotiations with the Senate on the FY 2011 Continuing Resolution.

C. Trade Issues

Solar is helping to restore America's diminished manufacturing base. As I mentioned earlier in my testimony, last year new solar manufacturing facilities opened in Arizona, Georgia, and Colorado. Numerous others are on the drawing board.

A recent SEIA-GTM study found that in 2009, U.S. solar installations created a combined $3.9 billion in direct value for our economy. Of this, 73%, nearly $2.8 billion was sourced domestically. Furthermore, the domestic solar industry is a net exporter—bringing money into the American economy. In 2009, those exports totaled $723 million. For the average PV system, 71% of the total system value was created domestically. The largest solar product export was polysilicon, the feedstock for crystalline silicon photovoltaics, of which the U.S. exported $1.1 billion. Manufacturing incentives, the reduction of non-tariff trade barriers, and continued assurance of open marketplaces for American products are all key to ensuring this trend continues.

We are unique among industries in that a significant portion of the revenue generated by solar projects resides beyond the physical components. These include site preparation, installation, labor, permitting, financing, and other soft costs. Together these comprise over 50% of the total cost of installing a system. These are functions that can't be exported, and as the industry has grown, so has the number of electricians, plumbers, and roofers who have been put back to work.

D. FERC Transmission Policy

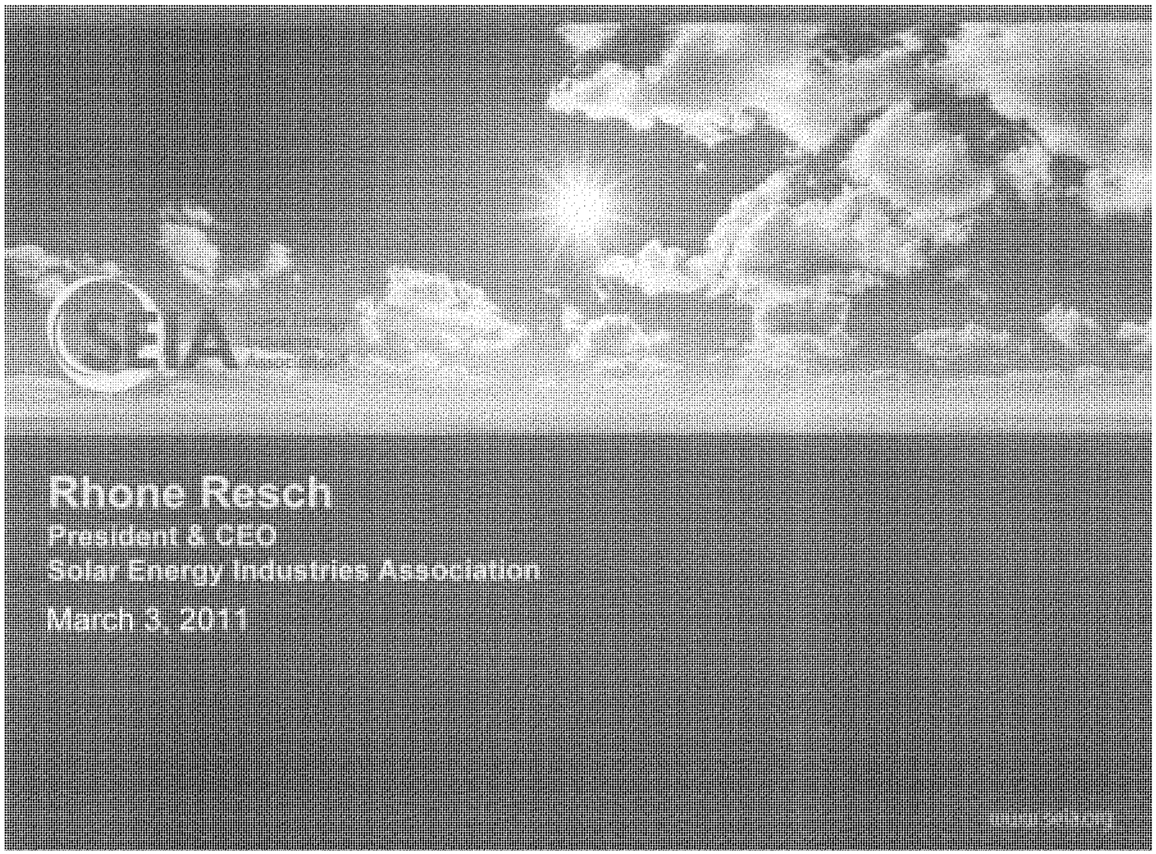
Electric transmission constraints are increasingly becoming a barrier to solar development. Particularly in the Southwest more transmission is needed to deliver utility scale solar power generated in remote areas to electricity customers in urban areas. Regulatory responsibility for transmission is shared between the states and the federal government. One aspect of the issue that is the responsibility of the Federal Energy Regulatory Commission (FERC) is transmission planning and cost allocation for the interstate transmission system. In many cases, the most economic and environmentally sound renewable transmission solutions involve regional interstate lines. However, the difficulty of reaching agreement on how transmission costs should be allocated between states often slows, or even kills, necessary transmission.

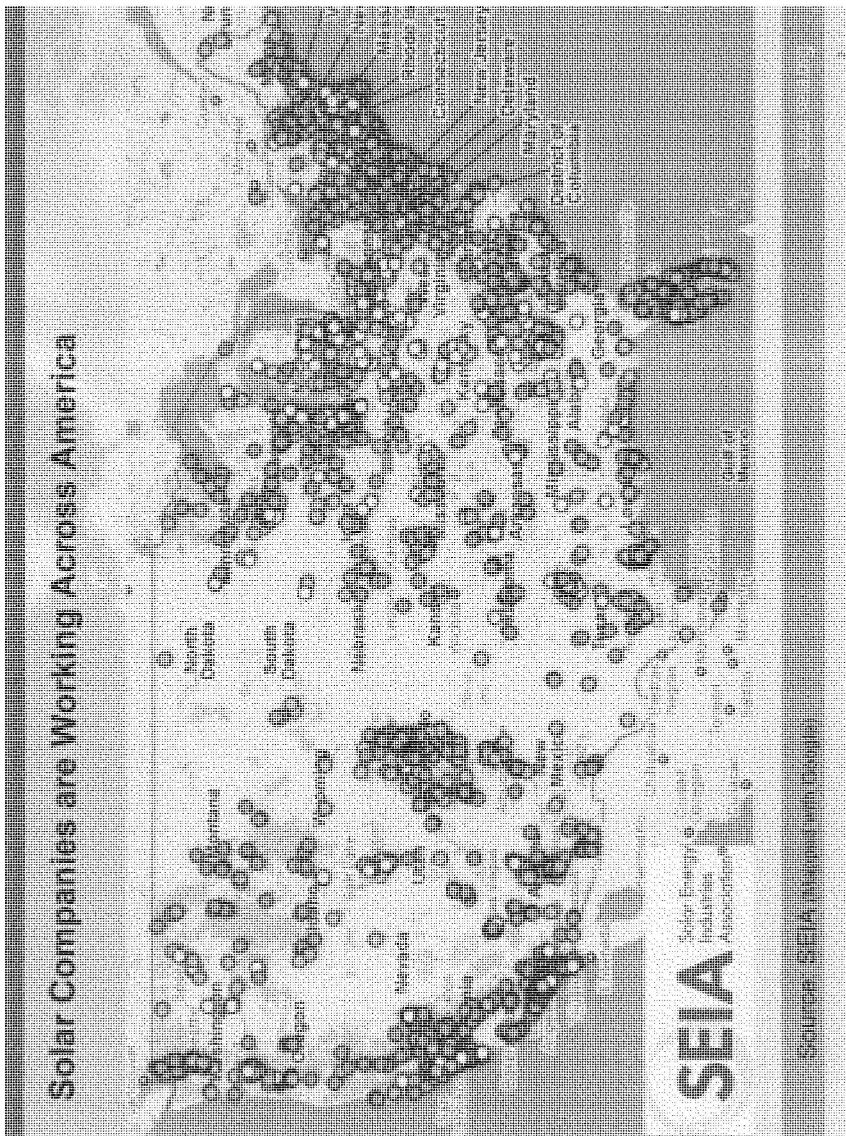
SEIA applauds FERC for its proposed transmission rule that addresses cost allocation issues through a highly equitable "beneficiary pays" approach. SEIA also supports the Commission's recently issued proposed rule to facilitate the integration of variable renewable resources into the electric system.

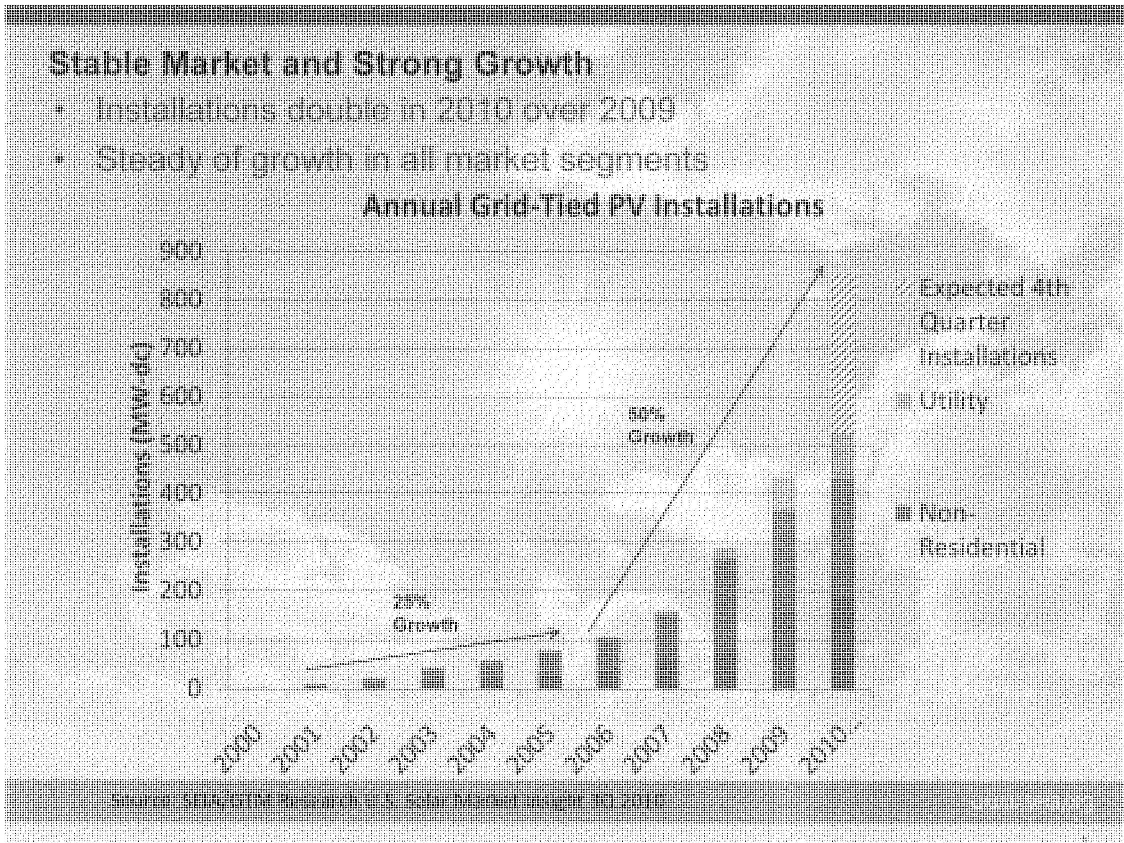
V. CONCLUSION

In conclusion, SEIA, our 1,000 member companies and our workforce of 100,000 strong and growing thinks that these policy recommendations combined with private investment and continued technological advances will keep the solar industry as one of the fastest growing economic sector in the country. These factors will help spur new American jobs across the supply chain, help revive our manufacturing base and expand the use of solar in our nation's energy mix – a national objective that more than 90 percent of the American public supports.

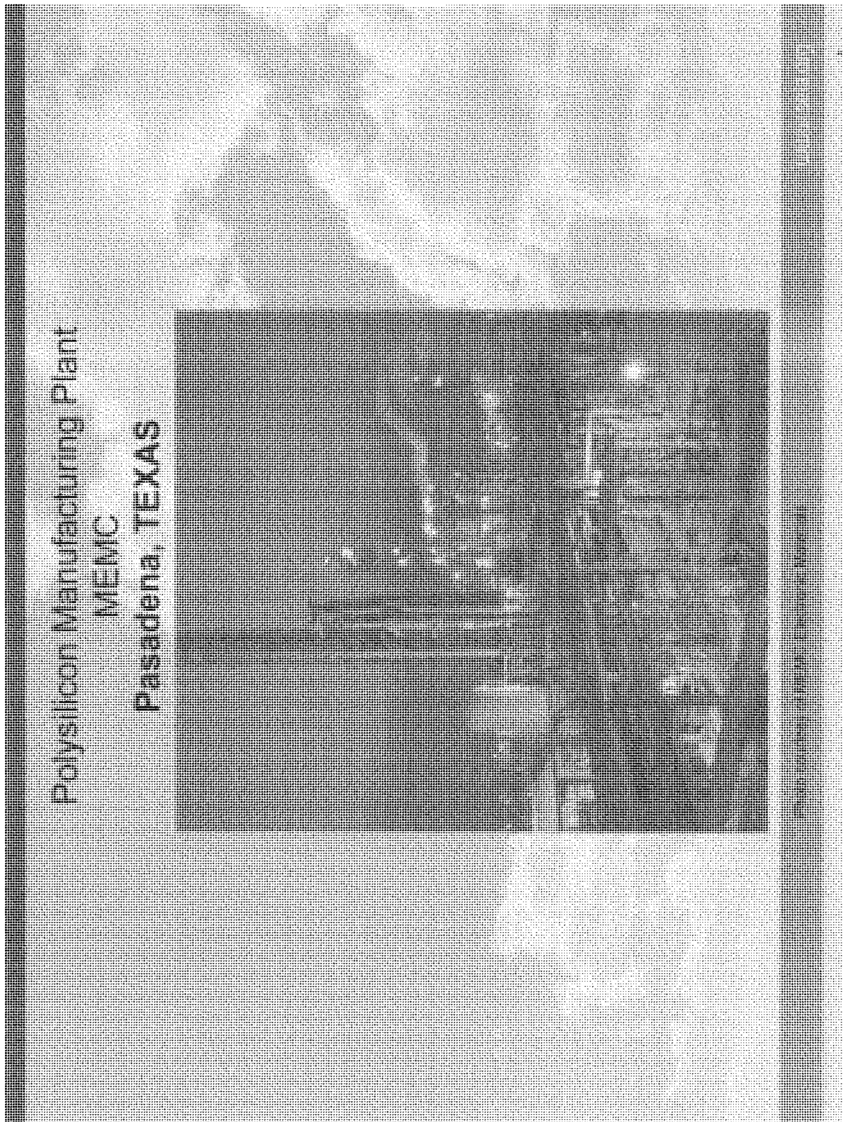
Once again, SEIA deeply appreciates the opportunity to testify before the Subcommittee. I would be happy to answer any questions.


Rhone Resch
President & CEO
Solar Energy Industries Association
March 3, 2011

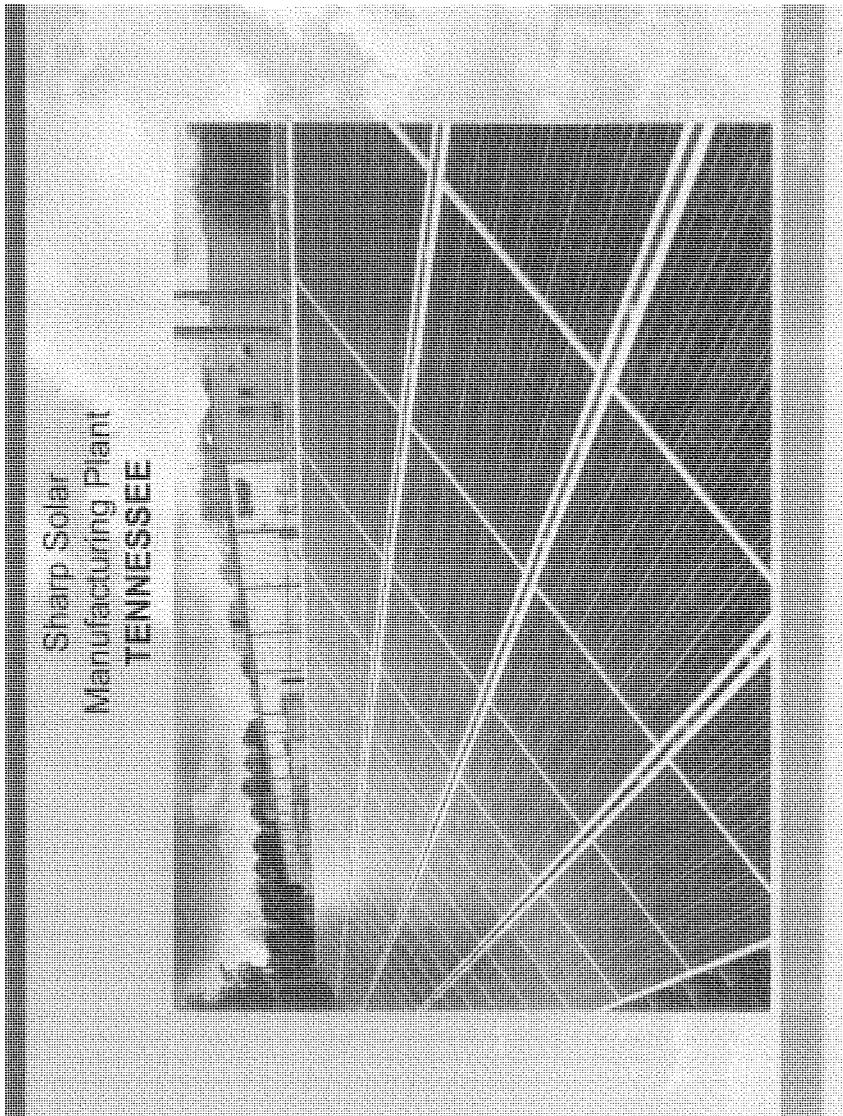

Solar Companies are Working Across America
SEIA


Stable Market and Strong Growth
• Installations double in 2010 over 2009
• Steady of growth in all market segments
Annual Grid-Tied PV Installations
Installations (MW-dc)
900
800
700
600
500
400
300
200
100
0
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
25% Growth
50% Growth
Expected 4th Quarter Installations
Utility
Non-Residential
Source: SEIA/GTM Research U.S. Solar Market Insight 3Q 2010


Justin Cox
Technical Account Rep
Sungevity
CALIFORNIA
"The Army taught me leadership, discipline, integrity, selfless service all of which are great attributes in the solar industry."


Polysilicon Manufacturing Plant
MEMC
Pasadena, TEXAS


Blue Wing Solar Project
Duke Energy
San Antonio, TEXAS


Sharp Solar
Manufacturing Plant
TENNESSEE


Jim Amedeo
Site Manager
Exelon City Solar
SunPower Corporation
ILLINOIS
"SunPower is on the cutting-edge of changing the way electricity is supplied in this country—and in the rest of world."

Mrs. BONO MACK. Thank you, Mr. Resch.

The chair will recognize herself for the first 5 minutes of questioning, and I would like to begin with Ms. Wince-Smith.

In your written testimony, you state that—you call something the creative destruction of jobs and say it is at the very core of competition and that policymakers should not try to restore jobs or industries that have become uncompetitive. Can you explain what you mean by creative destruction and provide examples?

Ms. WINCE-SMITH. Well, a very simplistic example is back at the turn of the century when there was an effort to keep the buggy business in place when we were moving to automobiles. So as part of the whole technological innovation that goes throughout human history. So let us focus on, the jobs and industries of the future, recognizing that there is going to be tremendous productivity gains coming from the intersections of biotech, nanotech, information technology and not the jobs really that are more commoditized and really can be performed at a lower cost and more efficiency elsewhere.

Mrs. BONO MACK. In it, though, you say policymakers shouldn't try to restore those jobs but can you sympathize or understand what Members of Congress do go through when they see industries fleeing their districts for whatever reason? Can you speak to that a little bit further? Because as a Member of Congress when this happens, it is very painful. But can you explain why you think it is still beneficial?

Ms. WINCE-SMITH. Absolutely. In fact, if you look at the textile industry, which is an industry where we led the world in the 19th and 20th century, there are tremendous opportunities to use modern technology to revitalize that industry. So rather than focus on competing with Pakistan on certain types of cloth, let us focus on the industry that is going to embed smart intelligence into the needs of the military in textiles. So I think what we really need to look at is, how do we take these industries to the next level and have a skilled workforce to go with that as opposed to just the status quo.

Mrs. BONO MACK. So what you are saying is, we are actually preventing the growth by sort of dumbing down technologies?

Ms. WINCE-SMITH. Absolutely.

Mrs. BONO MACK. And you testified that manufacturing today has a much higher multiplier in the economy than at any time in past history. Can you quantify that multiplier, and how does it compare in past times?

Ms. WINCE-SMITH. Yes, I can actually give you the data for the multiplier right now. It is about $1.4 in output versus 58 cents for any other sector. And we will submit that complete data set for you, but it is very, very significant, and also, it is beyond the traditional view of manufacturing. You have to look at the whole value system around that including the services that support the manufacturing.

Mrs. BONO MACK. Thank you.

Mr. Greenblatt, today's Washington Post reports that Maryland Governor Martin O'Malley wants to double the State's surcharge on electric bills. That is to pay for construction of offshore wind farms. Can you talk about how that would affect your competitiveness?

And I am a Californian. I believe that is going to increase your energy costs and that is going to affect you in a big way. Can you talk about it?

Mr. GREENBLATT. It is not a good idea. We are in favor of having low energy—we should eliminate taxes for manufacturing on energy because we are creating jobs when we build in the State of Maryland, and when you make it harder for us to compete with Virginia or Pennsylvania or China or Mexico, we are going to lose jobs in our State. It is very shortsighted.

Mrs. BONO MACK. Thank you. Would you talk a little bit—the free trade agreements, you specify that they would be very helpful. Can you go into that, why they would be helpful for you?

Mr. GREENBLATT. Because it will give us almost 100 million new consumers we could shoot for, we could sell to. For example, Korea, Panama, Colombia have almost 100 million consumers, and we want to compete, we want to grow, we want to hire more people in Baltimore and export to Korea, for example. Right now when I ship a wire basket to Korea, there is an 8 percent tax against me. Once the Korean trade agreement is approved and enacted by the Congress, that 8 percent will go away. So we will be much more competitive and we are going to hire more people in Baltimore that are unemployed now so we can improve our economy.

Mrs. BONO MACK. Thank you.

Mr. Resch, are you now or have you ever been a Californian?

Mr. RESCH. No, but I have always wanted to be.

Mrs. BONO MACK. Have you ever been to Blythe?

Mr. RESCH. No, I have not yet.

Mrs. BONO MACK. Can you say—you talk about the loan guarantee program but can you say that the solar projects in my district have never had regulatory impediments that have stopped the development? Have there been sort of cross policies that have intersected where you all have found the development slowing down because of regulation?

Mr. RESCH. Absolutely, land-access policies, siting and permitting policies. We face the same kinds of impediments that any large industrial face would in siting in America today.

Mrs. BONO MACK. Have you ever scratched your head about why the government does things the way they do?

Mr. RESCH. Of course, and——

Mrs. BONO MACK. I mean, you spent your time talking about the loan guarantee program but it is my hope that we talk about regulations that are slowing down prosperity in our country, and if you can spend 10 seconds—I am over my time, so 5 seconds talking about if the truth is regulation has impacted you as much as any loan guarantee program, correct? Yes or no is fine.

Mr. RESCH. The answer is yes, and we have the ability to deploy very, very rapidly thousands of megawatts here in the United States, much faster than you will see in clean, coal, natural gas or even new nukes, but without removing some of those regulatory impediments, we will never see that happen.

Mrs. BONO MACK. The chair will recognize Mr. Butterfield for 5 minutes.

Mr. BUTTERFIELD. Thank you, Madam Chairman.

Dr. Boushey, the Republican C.R. that was put forth a couple of weeks ago to fund the government through the end of this fiscal year takes what I call a "whack and hack" approach to spending cuts. The approach taken in the proposal put forth by the President is a bit more surgical and strategic, to say the least. In particular, the Republicans have proposed cuts of $8 billion from infrastructure, $5.5 billion from R&D, $5.1 billion from education, $26.7 billion in cuts to Pell grants for low-income college students. The President, on the other hand, has proposed increases in these areas. These are also three areas that the manufacturers and the Competitive Council and all of us on this side seem to agree are key to our long-term economic competitiveness and stability.

Dr. Boushey, if we follow the approach to federal spending cuts put forward by our friends on the Republican side and the Republicans promise of job growth through spending cuts fails to materialize, will these cuts do anything really to cut the deficit, in your opinion? I have looked at your r AE1suḿ and you have a very impressive background and you are an economist. What is your opinion on this? Will it affect the deficit in any way?

Ms. BOUSHEY. Well, two comments. First of all, there are two sides to the deficit, right? There is revenue and there is spending, and one of the challenges of the great recession and where we are right now is that revenues are down because people don't have incomes because we have nearly 14 million people out of work. Those people without incomes, without jobs, they don't pay as much in taxes, if any, and then that of course leads to a growing deficit. You also have more people who need services, who don't have jobs and so they need more assistance. So, yes, if these measures that have been taken in this C.R. do not lead to economic growth, then certainly that will increase the deficit, but moreover, we are really sort of cutting off our nose to spite our face with this C.R. in that we need these investments in our long-term economic future. We need to be investing in education. We need to be investing in technologies. We need especially to be investing in infrastructure. Much of our infrastructure in the United States is aging, it is frayed and it just don't work, and so we need an infrastructure that supports all of the businesses in America so that they can compete.

Mr. BUTTERFIELD. So as a conclusion that if we make these massive cuts in spending that it is not going to result in America's competitiveness being improved?

Ms. BOUSHEY. I am very afraid that it will reduce our competitiveness, and the Center for American Progress and the Economic Policy Institute just released a letter earlier this week signed by over 325-some-odd economists including a number of Nobel laureates saying that this budget, that that C.R. will hurt our competitiveness because we do not make the investments that we need to make in America.

Mr. BUTTERFIELD. Dr. Boushey, while I am with you, let me ask you this. In your testimony you note that the Federal Reserve survey of senior loan officers shows that while bankers are lending for mergers and acquisitions, which ultimately leads to job losses, they are not lending for investment in plants and equipment that will create jobs and expand economic opportunities. Can you explain more about this?

Ms. BOUSHEY. Well, what, of course, we have seen since the end of the—the financial crisis led to tightening credit conditions and we have seen that across the board. We have seen that it continues to be the case for small businesses that they are facing tight credit conditions and that that is a part of the problem, especially for the small business owners who need those funds to make those investments.

Mr. BUTTERFIELD. Let me go to you, Mr. Resch, if I can. With the situation in the Middle East as it is, particularly in Libya—and gas prices are on the rise yet again. As of yesterday, gas prices had increased in each of the last 8 days by a total of 24 cents. The national average stood at $3.39 for a gallon of gas. Some are speculating that the price per gallon could hit $4 by the summer. Let us pray that that does not happen. Rising fuel prices can and will have a ripple effect across our fragile economy. This isn't a new or surprising development for anyone. We have long known that our dependence on foreign oil puts our economic security in the hands of others.

Mr. Resch, what do you think we must do to spur demand in the United States for clean energy technologies?

Mr. RESCH. It is absolutely critical that we do so, and part of it is education, but just in the same way that we provide subsidies to the oil and gas and coal industries, we need to make sure that we are providing a level playing field for wind, solar and other technologies. Unfortunately, our policies are on again, off again, 1 year, 2 years, where those industries enjoy permanency. So providing a stable regulatory and policy framework is absolutely critical. The investment is there. The infrastructure is built. We are going to see these industries continue to grow very, very rapidly as long as we provide stability for the business environment.

Mr. BUTTERFIELD. It is sad that we get to $4-a-gallon gasoline before the American people really concentrate on the importance of renewable energy.

Mr. RESCH. It is amazing.

Mr. BUTTERFIELD. Thank you for the work that you do.

I yield back.

Mrs. BONO MACK. I thank the gentleman.

The chair recognizes Ms. Blackburn for 5 minutes.

Mrs. BLACKBURN. Thank you, Madam Chairman.

Ms. Wince-Smith, I appreciate that you mentioned creative destruction, especially in the creative economy as we look at technologies. The lifecycle is so sort and I think it is important that we not try to prolong the lifecycle of a product that the American people do not want. So thank you for mentioning that.

Mr. Cummiskey, I want to come to you. Very quickly, Georgia, is it a right-to-work State?

Mr. CUMMISKEY. Yes, ma'am, it is.

Mrs. BLACKBURN. OK. And that I would assume helps the Quick Start program?

Mr. CUMMISKEY. It helps a lot of things including Quick Start, yes, ma'am.

Mrs. BLACKBURN. And if you would submit for me the budget that you have for Quick Start and then the dollar, the ratio on your return for investment. I would love to know that. It sounds like a great program, and sometimes we in Tennessee at your border get a little bit jealous of some of the work you are doing there. What I would also like to know from you, because of the work you all are doing in some of the high-tech industries, what are the five things that you hear from the companies that you are working with when they talk about the Federal Government and they say they need to get this, that or the other off the book and you can just submit those for the record, and we would appreciate knowing what those five things are. We need to drill down and get some of these onerous regulations off the books.

Mr. CUMMISKEY. Yes, ma'am.

Mrs. BLACKBURN. OK. Dr. Holtz-Eakin, for you, I appreciated that you talked about the households, businesses, governments, international partners and the effect the budget has there. I would love to have from you kind of a checklist as you look at this committee and our goal being to energize domestic production and manufacturing, how we best do that. As you look at these four sectors, what your advice would be on five items that we could do that you see would serve us well.

Mr. HOLTZ-EAKIN. I would be happy to submit that.

Mrs. BLACKBURN. Thank you. I appreciate that.

Mr. Wilson, I want to chat with you a minute, because your group supported the Dodd-Frank or Frank-Dodd, whatever you want to call it, bill, and I have to——

Mr. WILSON. Actually, Congresswoman, the roundtable did not.

Mrs. BLACKBURN. Oh, they did not? OK. Well, I have to tell you, I hear from my bankers and small businesses out in the district as we are doing these listening sessions that this is horrific. They want this thing off the books because it impairs their ability to get credit and they see it as a true impediment. I would love to hear from you your thoughts on how that legislation has and will continue to affect small businesses, and even though we don't have jurisdiction over that piece of legislation, I think that it prohibits people moving to the next generation of technology that Ms. Wince-Smith has, individuals that want to innovate something or a company that wants to locate in Georgia. So can you give me about 30 seconds on that one?

Mr. WILSON. Sure. I think one of the biggest concerns as I tried to make clear in my remarks is that there is still a lot of uncertainty about what the rules of the road are going to be going forward. So on top of the crisis, on top of not knowing what your capital liquidity requirements are going to be going forward and we may not know what those are going to be until the end of the year given the current state of U.S. rulemaking. None that helps establish the certainty nor do we know the full economic impact of what that is going to be. I happen to think that the 250 new rules coming out of Dodd-Frank are going to have a negative effect on economic growth and job creation. I can't prove that you today. That is the kind of thing where I think the economic impact assessments that I referenced in my testimony would be useful, that either this committee or the Financial Services Committee could request of the Treasury and other financial regulators, or my idea of putting it on a new legislative requirement that all new future financial rules have a true economic impact assessment to——

Mrs. BLACKBURN. Basically like we did in the pledge with the $100 million impact.

Mr. Cummiskey, submit to me also how much you all have increased your exports in Georgia. I would be appreciative of knowing that, and give your governor my regards.

Mr. CUMMISKEY. I will.

Mrs. BLACKBURN. Mr. Resch, I would love to come to you for just a second, please, sir. Your member companies, how many receive government subsidies?

Mr. RESCH. There are just a few that have received any kind of form of grants to help develop——

Mrs. BLACKBURN. And you don't know how much those total?

Mr. RESCH. I would have to look it up, but it is a pretty small R&D that exists in the solar industry.

Mrs. BLACKBURN. OK. How many of those businesses would be viable without those government grants?

Mr. RESCH. Most of them would be, but what they are trying to do is really advance the technology beyond where the state is today, to expand applications into military applications, portability, increased efficiency drive down costs so those programs are really designed to kind of lift up the industry, similar to what you see in R&D programs for other energy technologies that——

Mrs. BLACKBURN. OK, and then in 2005 you testified before this committee that tax incentives were necessary to jump-start the solar market but that those incentives should decline over time, so do you still hold that position?

Mr. RESCH. You know, I think our industry needs this very stable platform in order to build upon. We have tax credits that exist through 2016. By 2016, we are hoping to be the source of——

Mrs. BLACKBURN. Yield back.

Mrs. BONO MACK. Thank you.

The chair recognizes Ms. Schakowsky for 5 minutes.

Ms. SCHAKOWSKY. Well, following up on that, Mr. Resch, how viable do you think the oil and gas industry would be without the $40 billion in subsidies they get over 10 years?

Mr. RESCH. I think the reality is, we need all energy sources. We are dependent upon foreign sources of energy right now. I think we need to refocus on our domestic sources and look at technologies like solar and wind that could be manufactured here, that could be deployed on homes and on businesses and in utility-scale applications.

Ms. SCHAKOWSKY. But do you think we still need to subsidize, especially now that gas is at $100 a barrel once again? Do you think that they really need to be subsidized?

Mr. RESCH. Certainly it doesn't make any sense to subsidize an industry that is as profitable as the oil and gas industry while not providing the kinds of support for emerging technologies that are actually creating jobs here in the United States. But when you look at the economics of oil and gas, there is no doubt there are opportunities to encourage drilling that probably do require some kind of tax incentives, but ultimately what we want to do is make sure we support all of the energy technologies because we are going to need more of it going forward, especially more of the clean energy technologies.

Ms. SCHAKOWSKY. Thank you.

I want to ask a question that I have been mulling over for quite a while now. In the United States of America, the income inequality has been growing enormously over about the last 30 years so that right now about the top 1 percent of earners control about 39 percent of the wealth, which is more than the bottom 90 percent. The top .001 percent of Americans, the very, very rich, have an average income of about $27 million and the bottom 90 percent have an average income of about $31,000. It seems to me that that is a problem, not only for our economy but for our democracy as well when we have that kind of income inequality, and I am wondering if anybody wanted to comment on that. It seems like we are still going in the direction rather than of high-wage economy toward a low-wage economy. We still see while manufacturing is picking up, we still actually give some incentives for businesses to go overseas. Does anybody want to comment on this? Yes, Ms. Wince-Smith, and then we will go to Dr. Boushey.

Ms. WINCE-SMITH. Well, we have a lot of data at the Council on Competitiveness over the years that really showed the direct correlation between educational attainment and income levels over time, and you are correct about the growing inequality gap. But on the issue of—and so our whole education strategy is—and of course, we spend more per child from K–12 than any other country in the world outside of Switzerland and we are not getting the outcomes. So the whole issue around how we get the impact from the investment in education is huge going forward.

And the other thing I would say on, the issue of low wages and how that relates to manufacturing, even in countries such as China now, there is tremendous data that their wage structure is increasing as they become more productive and companies are not investing in China because of low wage. It is the skill of the workers, it is the overall capital structure, regulatory environment. So we have to look at all of these things as a system and really optimize what do we need to do to ensure we have the highest skilled workers and do the best high-value activity in this country.

Ms. SCHAKOWSKY. Although it is also true that productivity has gone up even as average wages for the middle class have done gown.

Dr. Boushey?

Ms. BOUSHEY. You are right about that, Congresswoman, that, as we have seen America become wealthier and we have seen workers in the United States become more and more productive, you have seen an increasing divergence between how much the average worker is getting of those productivity gains or not, and that has been a trend that has been going on for the past 30 years.

One of the things we have talked about on this that many folks on this panel have talked about today is understanding the economic impact of regulations and understanding the economic impact of what government is doing. And I think that what your question about inequality points us to is thinking not just what it means for profits but what does this mean for the kinds of jobs that are being created and not just for folks at the very, very top but across the distribution. When we are talking about jobs in the United States, we have to remember that six in ten workers who are in this economy don't have a college degree, and are we creating good jobs for them, and they are indeed good customers for many of the kinds of businesses and things that we have been talking about here on this panel.

Ms. SCHAKOWSKY. Thank you. I yield back.

Mrs. BONO MACK. The chair recognizes the gentleman from Kentucky, Mr. Guthrie.

Mr. GUTHRIE. Thank you, Madam Chairman. Thank you for recognizing me.

I first want to talk, I know we have had Mr. Zandi quoted for his proposal or his analysis, and also I believe he is the one that said that—resounding success, which most people that defend this thing was actually well, it would have been worse if we hadn't done it but the President said it is going to create 3.5 million jobs and 8 percent unemployment so if you are going to define something as resounding success, you might want to say at least you hit the goals you put forward.

Mr. Holtz-Eakin, I know you are familiar with the Goldman Sachs study. Do you want to comment on that since it has been quoted here today and why you think it is probably not the best analysis?

Mr. HOLTZ-EAKIN. Well, I certainly that the fundamental flaw with these analyses is that there is no conduit anywhere in them for someone to be worried about the future. They are entirely driven by the current cash flows, and so mechanically if the Federal Government spends less, that cash flow goes down, they say the economy is smaller. There is no ability for the private sector to recognize that taxes aren't going to go up in the future, interest rates are going to explode, there is not going to be a financial crisis so I am going to make the investment, get offsetting impacts. That is the basis reason to be doing this. So the studies are rigged to be at odds with the basic motivation for the policy, and I think they shed no light on the potential effectiveness of them whatsoever in the same way that they were very misleading about what would happen with the stimulus bill.

We are in the middle of a recovery that is driven by destroyed balance sheets. Households' homes are worth a lot less than they used to be. Their pensions have been damaged. Governments have red ink as far as the eye can see. None of this is about the current cash flow. This is about the fact that the assets and liabilities don't line up in any deep way but we have got the wrong analysis injected into that situation. You get bad policy advice.

Ms. BOUSHEY. Can I comment on that?

Mr. GUTHRIE. Yes.

Ms. BOUSHEY. I would like to comment on that for a moment. You know, when we think bout economic growth, we often sort of—maybe it is sort of a black box so let us sort of open that up for a second. When you look at our gross domestic product, there are four basic components: consumption, which is about 70 percent of GDP, investment, government spending and net exports. In the short term, and what these models that the Goldman Sachs folks put forward, what these models measure is the impact over the next couple of years of reducing one of those components in a significant way. So in a moment when we already have so many individual consumers cutting back, we already see investment is at decades lows, right? So firms aren't investing because they don't see customers. People don't have any money, as Dr. Holtz-Eakin said, because of the unemployment and also the reduction in their balance sheets. The decline in spending from the Federal Government will reduce growth in our economy.

Now, over the long term, of course, we need to be concerned about the taxes, the tax increases to pay for that, but in the short term where we have high unemployment, that is what that model is showing you.

Mr. GUTHRIE. But also I want to say I know anecdotally a lot of businesses aren't investing because they are concerned about the regulatory environment and the uneasiness that is coming forward. I know that from personal experience from people that I know. And so those of us who are concerned understand there are investments that are going to yield in the future. We spend a lot of money on education. That is something I was driven by in the state legislature. When you look at what I think we are looking at, inflation that is coming if we don't get control of our budget deficit by printing money inflation is going to come. Interest rates, pressure has to be there eventually. I know they are record low. But looking at why does—if we say investments in the long term, we are looking in the long term and not trying to be, well—you are not trying to cut your nose off to spite your face. What we are trying to do is, how are we going to have a sustainable future and a sustainable budget, and if we don't do it now, then when? Mr. Holtz-Eakin?

Mr. HOLTZ-EAKIN. I just have one thing. These models are used by policymakers at times and they can be useful. I have been in the White House twice. I used these models when I ran the Congressional Budget Office. But they are missing things that are central to the economic moment. They, for example, assume a stable regulatory environment. We have an avalanche of new regulations in Washington. Last year we had a record number of Federal Register pages and this year we are coming to see come online Dodd-Frank, 240 rulemakings, 20 times more than we have ever seen, the Affordable Care Act, an extraordinary regulatory expansion, the EPA boiler rules, five other rulemakings in process. There is nothing in those models that recognizes what is happening to the business community in reality.

Mr. GUTHRIE. And manufacturing is a pathway to the middle class for so many people, and that is why we have to make sure we preserve that in the environment.

I know you probably want to comment. I only have 20 seconds.

Ms. BOUSHEY. Certainly, completely, manufacturing is certainly vital to American workers. But two things. I mean, one on inflation. I mean, we are at a moment where we are not seeing a lot of pressure on the capacity here in the United States. We are not seeing pressure on employment, we are not seeing pressure on our productive capacity. It remains at about 76 percent of——

Mr. GUTHRIE. We are seeing record-high commodity prices.

Ms. BOUSHEY. That is true, but there is a lot of——

Mr. GUTHRIE. There are other reasons for that. I understand.

Ms. BOUSHEY. And so that is actually again why economically it makes sense that this is a good time for government to invest, right? You have bridges that you need to invest in. Now is the time to do it. I will stop there.

Mrs. BONO MACK. The chair recognizes Mr. Harper for 5 minutes.

Mr. HARPER. Thank you, Madam Chair.

You know, one of the things that we have noticed in my home State of Mississippi is that I haven't found any business or any industry yet that believes that they are underregulated, and I guess what I would like to ask first of all is, if I could ask Commissioner Cummiskey, in your State, what have you seen that has worked that you would say would be good for other States and for us to look at?

Mr. CUMMISKEY. I go back to what I talked about, about those type of endeavors, but our trade, we put a lot of time and effort into our trade and not just with large companies but with small business, less than 20 employees, and opening up pathways to people all across the State through our trade offices and our offices both in Georgia and outside internationally who really have had great success finding new markets for them. Going back to that, one thing that has worked is, every time a free trade agreement is signed, we have seen exports to those new areas increase by 206 percent. So that is what is working right now, and that is one other area that I didn't get a chance to talk about because of time issues but trade and trying to find new markets and putting some energy and time into that has paid off exponentially for us right now.

Mr. HARPER. This is for anyone on the panel. As far as recommendations on changes in the tax code, what would come to the top of your mind?

Mr. HOLTZ-EAKIN. I want to echo the comments that were made in Mr. Greenblatt's opening remarks. Our corporate tax code is at odds with our ability to compete around the world. We are the last major economy that clings to a worldwide system of taxation. Everyone else has gone to taxing companies only on the basis of their activity in the jurisdiction, whether it is the United States or Brazil or Germany. We as a result are at a fundamental disadvantage in the way we structure our tax system, and our rate is way too high. Again, the President's fiscal commission said we should move toward an internationally competitive rate and a territorial system. Absolutely, positively, it is the top thing to do in the tax code.

Mr. HARPER. And if you did that, in what time period would you expect to see a turnaround or an impact in this country if we made that change?

Mr. HOLTZ-EAKIN. I think you should just cut the rate right now. We have to end up there anyway so why wait? You would get a boost in the near term and you get sensible tax policy in the long run.

Mr. HARPER. Yes, sir?

Mr. GREENBLATT. I think you also have to reduce the complexity. We are paying about 40 grand a year in accountants and companies to make sure that we pay the right amount of payroll tax, make sure we pay the right 401(k). If we make any mistakes, in inadvertent booboos, we get very large fines, even if we are not meaning to do anything. So we spend over 40 grand a year. I would much rather hire two unemployed Baltimore city steelworkers, get them working for me rather than paying my accountant for this.

Mr. HARPER. Yes, ma'am?

Ms. WINCE-SMITH. I would just add and support what Dr. Holtz-Eakin has said. You know, we see all over the world other councils on competitiveness that are partners of ours actually making fun of the United States now because of our corporate tax structure, countries in the Nordics, are saying, "How could you have the capital cost structure you have?" And we have the data now. It is not so much that U.S. companies that are sitting on, what is it, $1.8 trillion. They are now investing in this country because they are not customers. It is because their global enterprises and they are optimizing all over the world where they are going to do their high-value work and so it is a very complex issue. Having a very onerous corporate tax structure with all the other things we know, it is really just a knife in the coffin now. And when Canada and Japan can move very quickly, why can't we?

Mr. HARPER. Yield back.

Mrs. BONO MACK. The chair recognizes Mr. Pompeo for 5 minutes.

Mr. POMPEO. Madam Chairman, thank you.

Dr. Boushey, there has been some discussion about what we did with H.R. 1. We heard lots of criticism from it. Do you think there is any connection between job growth and deficit spending and projected deficit spending?

Ms. BOUSHEY. Certainly. In the short run or in the long run?

Mr. POMPEO. I am talking about jobs.

Ms. BOUSHEY. Yes. OK. Then that is—right now in this economy, we continue to have an output gap. We had a crisis——

Mr. POMPEO. So how much bigger should ARRA have been?

Ms. BOUSHEY. When we——

Mr. POMPEO. Ma'am, there is a question. You suggested that we don't have enough stimulus so I would like a number about how big you think the stimulus should have been to solve the problem in Kansas of unemployment.

Ms. BOUSHEY. It is a compositional problem and it was a numbers problem. So Christina Romer, then-chair of the Council of Economic Advisors, argued for a stimulus of over a trillion dollars. That would have provided a bigger bank for the buck. But the second issue is that when the House got ahold of the bill—I am sorry. When the Senate got ahold of the bill, they changed it and changed the composition of where spending went. If you want to make a big bang for your buck in terms of government spending at a time of massive recession and massive unemployment, you want to spend it on things that have the largest multipliers, and Ms. Wince-Smith has provided a nice sort of primer on the multiplier effect.

Mr. POMPEO. I appreciate that, but I would like to reclaim my time.

Ms. BOUSHEY. So you don't want to be spending that on tax cuts, you want to be spending it on——

Mr. POMPEO. All right. So there is a compositional problem. So we took $61 billion out of the fiscal year 2011 budget, and you think we should have instead added how much money?

Ms. BOUSHEY. I think we should have retargeted on things that would increase investment and increase our spending on infrastructure.

Mr. POMPEO. Thank you. I have heard you offer no solutions for what we should have done.

Ms. BOUSHEY. My testimony has a number of solutions.

Mr. POMPEO. I appreciate that.

Mr. Resch, you suggested we should not have visited tax credits associated with your industry. I don't know exactly what the dollars were that we removed. Tell me, if we put that back in the spending bucket, what do you think we should take out?

Mr. RESCH. It is specifically a loan guarantee program. It is actually not a tax credit. It is $2.5 billion that were specifically removed in H.R. 1. And what we are looking at reducing is somewhere on the order of $30 billion of economic investment that that would drive and somewhere around the order of 20,000 to 25,000 jobs throughout the United States, and that is just direct jobs in the manufacturing of these facilities. You have then all of the manufacturing plants in Michigan and all the rest that would support these jobs.

Mr. POMPEO. Mr. Greenblatt, we heard this morning from EDA that they provide grants to various industries and businesses. Would your business rather try and chase a grant from the Federal Government or have consistently lower tax rates?

Mr. GREENBLATT. If we could have lower tax rates, if we could put it on a postcard, you know, this is how much we made, this is what our percentage is, this is how much the check is going to be for, I would love that. I think every business would be happy to give up any grants.

Mr. POMPEO. I think so too. I spent the last 15 years of my life in the manufacturing world until I became part of the problem 60 days ago, so I think that is what—I certainly know what would have helped my competitors too, not just me, be successful.

Dr. Holtz-Eakin, you have talked about this deficit issue. I came to this because it is always tomorrow, so the folks from the Center for American Progress and other groups always say we have to spend today and we do the savings part somewhere down the road. It sounds to me like you think today is the day.

Mr. HOLTZ-EAKIN. Today is absolutely the day, and the evidence is from around the world. I mean, you don't have to do theoretical models, just go look at the evidence. Those countries who have had massive deficit problems, faced with financial crises who needed to fix those and grow, our problem, did it by controlling spending, keeping taxes low or even cutting it. That is the evidence around the globe. It is referenced in my testimony. We should simply copy success.

Mr. POMPEO. Great. Thank you. I yield back my time, Madam Chairman.

Mrs. BONO MACK. I thank the gentleman and recognize the gentleman from West Virginia, Mr. McKinley, 5 minutes.

Mr. MCKINLEY. Thank you, Madam Chairman.

Mr. Resch, if I could ask you a question, please. When you were asked by someone on the back panel about subsidies, getting subsidies in the industry, you answered that by saying "grants," and then you went on to say in an earlier remark you had commented about how coal is a subsidized industry. So I am just curious since I think we are supporting the idea of R&D, robust R&D in energy, can you share with me, because I am wondering if you are being critical of the coal industry and I am curious, are you saying outside of R&D the coal companies are getting grants? And if you are, could you provide me a list of coal companies that are getting grants that are not for R&D?

Mr. RESCH. There are a number of studies that look at the entire energy industry and compares what tax incentives and what types of programs support those industries. They may not be grants directly but I would be more than happy to, absolutely.

Mr. MCKINLEY. I am very curious to see what coal companies are getting grants.

Mr. RESCH. They are not specifically grants.

Mr. MCKINLEY. Because you answered the question when you were asked about subsidies. You went immediately to grants. So I am assuming you equate the two so——

Mr. RESCH. And I was talking about R&D specifically. I was talking about individual companies that were receiving grants from DOE.

Mr. MCKINLEY. Dr. Holtz-Eakin, if I could ask you a question. First, thank you for clarifying that gross mid representation from Goldman Sachs economic model. I just wish the rest of the panel had stayed to hear that misrepresentation. If we don't cut spending, if Congress doesn't cut spending and we continue this economic growth that plods along at 1–1/2 or 2 percent increase, when will we ever get back to the historic norms of employment here in this country?

Mr. HOLTZ-EAKIN. It would take a decade, and the good-news scenario is one where it takes a decade, we get people back to full employment but there is no real productivity growth, there is no real rise in standard of living, we leave to our children a damaged economy. That is the good-news scenario. The bad-news scenario is, we experience something that makes 2008's financial crisis look like a minor ripple and then have to pick up the pieces afterward. It is not an option. We simply have to change course. It is what the President's financial commission said. It is very simple.

Mr. MCKINLEY. So we have to cut?

Mr. HOLTZ-EAKIN. Yes. It is the right thing to do, and it should not be posed as oh, we have to control future growth and entitlements, do you want to cut Social Security. No, it is do want to leave to our children impaired freedom and prosperity or do you want to get the federal spending under control. Those are our choices, our real choices.

Mr. MCKINLEY. Well, help me out on that, Dr. Holtz-Eakin. Why doesn't the other side understand that? Have they not had real-life experiences? Is this something they have not been private sector employers? Why don't people get that? That is so fundamental.

Mr. HOLTZ-EAKIN. I have spent my entire life in economic education. I have spent 10 years trying to teach policymakers different things, and I decline to answer.

Mr. MCKINLEY. If you ever get it, I would sure like to hear it. Thank you very much.

I yield back my time.

Mrs. BONO MACK. The gentleman yields back.

The chair recognizes Dr. Cassidy for 5 minutes.

Mr. CASSIDY. Thank you, Madam Chair. I am so rarely called doctor anymore. I appreciate the remembrance of times past.

Mr. Greenblatt, hats off to you, buddy. Obviously our problem with the unemployed right now is in the non-college-educated man. That is really where our issues are. And as I look at it, the fields that have traditionally addressed that have been mining, manufacturing and construction since you use one to enable the other to do the other, if you will. The President has said that he wants to convert our electrical grid to renewables I think by 2035, 90 percent renewables. Now, looking at the subsidy of energy, I have here something based upon an EIA report from the Wall Street Journal. Effectively, wind gets a subsidy of $6.44 million per BTU produced, oil and gas $1.9 billion or about .3—basically 300,000 per BTU of energy produced. So if to go to a green economy with a green energy source, so to speak, was going to triple your energy costs by three times, what would that do to your ability to compete with other countries?

Mr. GREENBLATT. It is very bad for our energy costs to go up, and if you make artificial costs that drive up what it takes to make something in America, you are going to hurt our jobs.

Mr. CASSIDY. I have heard Chairman Barton say that the road to recovery goes through energy, so if your energy is inexpensive, that is a competitive advantage relative to other countries.

Mr. GREENBLATT. I agree, and not only that, these are great, $70,000-a-year jobs.

Mr. CASSIDY. That is what I next wanted to say. It is my understanding and my experience in the oil and gas mining industry, those are good jobs with good benefits that allow people to send their kids to college, et cetera. That is yours in manufacturing as well, I gather.

Mr. GREENBLATT. Absolutely. Remember, we have so many disadvantages. In China, they pay 30 cents an hour. In Mexico, they pay 3 bucks an hour. You know, we pay 20-something bucks an hour.

Mr. CASSIDY. So if the cost of your energy is increased by EPA regulating CO_2 emissions, same effect, correct?

Mr. GREENBLATT. Absolutely. Any more artificial ways to drive up our costs are not going to help grow jobs in America. We want to grow jobs in America. You have to lower the barriers so we can compete more effectively.

Mr. CASSIDY. So if we increase the cost of energy, lowering the number of jobs there, by the way, to increase the cost to manufacturing lowering the jobs there, by the way, would that have an effect upon the ability of the construction industry to employ?

Mr. GREENBLATT. Absolutely, because when we have less factories or less needs for additions, we need less construction workers.

Mr. CASSIDY. So, if you will, if the answer to our problem of unemployment among the non-college-educated man, good people—my dad was a non-college-educated man. So is mining, manufacturing and construction policies which increase the cost of energy is a silver stake in the heart of each?

Mr. GREENBLATT. Our mission is to grow jobs.

Mr. CASSIDY. Yes.

Mr. GREENBLATT. And when you increase our costs in America, we are not going to grow more jobs in America. You want to help us lower our costs. If you take off the shackles, we will beat China, we will beat Mexico, we will grow and we will get us out of the recession.

Mr. CASSIDY. Now, Mr. Resch, I know you are just over there biting your tongue. I can appreciate that. But let me ask you, if we equalize the subsidies that went between oil and gas and, say, your industry, but made those subsidies permanent, so I think I see that currently federal subsidies per megawatt-hour for wind are $23 per megawatt-hour, solar, $24, and for coal is 44 cents, now, the coal is permanent and yours is not, but if we said, listen, it is permanent in perpetuity but it is 44 cents, would you accept that bargain?

Mr. RESCH. I was smiling before because you sound like a lawyer, not a doctor. Sorry about that. I don't mean to offend you.

Mr. CASSIDY. I will meet you afterwards.

Mr. RESCH. I think what you really need to look at is stability over time periods, and the oil and gas industry has enjoyed——

Mr. CASSIDY. So if I give you 44 cents per megawatt-hour——

Mr. RESCH [continuing]. Since 1916——

Mr. CASSIDY. So for 100 years if you get 44 cents an hour, will you accept that as opposed to what you are getting now?

Mr. RESCH. We will be subsidy-free by 2020. Our goal as a technology is to drive down costs and to drive down regulations——

Mr. CASSIDY. So quick question. To balance the budget, we began to phase down those so by 20 whatever, 2023, the subsidy is completely gone, would you accept that?

Mr. RESCH. If you do that for all technologies, absolutely.

Mr. CASSIDY. So if went from 44 cents to zero, you would accept that?

Mr. RESCH. We would do it, but again, we need enough stability to build up the manufacturing base for the next 6 years, because, remember, coal, nukes and oil have enjoyed almost 70 years of subsidies. We have enjoyed just 3 years.

Mr. CASSIDY. If you have subsidies for 20 years, at which point does it become stability? I yield back. I am sorry. I know I am out of time. I apologize.

Mrs. BONO MACK. I thank the gentleman.

I would like to thank our panelists very much. I believe we have recognized all colleagues. I want to say that I think it has been a very, very informative hearing. It has been a good hearing. I want to thank my colleagues and certainly thank the ranking member for his indulgence today and his help.

I would like to remind members that they have 10 business days to submit questions for the record, and I would like to ask the witnesses to please respond promptly to any questions that they receive. So without objection, the chair is also going to insert two additional statements for the record, and we have previously shared these with the Minority and believe that they will improve the hearing record. Without objection, so ordered.

[The information follows:]

EXECUTIVE SUMMARY

The cable industry is an important provider in the delivery of entertainment and information to the American consumer, and has a significant and rapidly growing role in the delivery of telecommunications services. Through its aggressive re-investment of capital and its efforts to deploy new and innovative services to consumers, the industry has fostered the development of a highly competitive telecommunications market and has been a catalyst for broadband growth in the U.S. Through these investment and innovation initiatives, the industry has exerted a substantial impact on the United States economy.

In addition, the subscription television program network industry has a substantial economic impact of its own – one that is both linked to and distinct from its role as a supplier to the cable industry.

Cable Industry Economic Impacts

As of 2010, the cable industry (directly and indirectly) accounted for nearly 1.8 million U.S. jobs representing almost $77 billion in personal income. Gross economic output attributable to the industry amounts to more than $251 billion.

Other measures of the industry's economic impact include:

- Cable operator revenues in 2010 totaled more than $94 billion, providing direct employment to 233,700 people. Compensation to cable industry employees totaled $17.3 billion.

- These cable industry employees can be found in all 50 states, as well as the District of Columbia and U.S. territories, reflecting the overwhelmingly local character of an industry comprised of over 7,400 local cable systems. In fact, there are at least 300 cable industry employees in each U.S. Congressional District – and more than 2,000 cable employees in selected Districts (see Appendix B for employment and impact by District).

- Cable industry suppliers provide another 136,000 cable-related jobs, representing personal income of $11.1 billion.

- Since 2002, direct and indirect employment attributable to the cable industry has increased by 638,000 jobs. This growth has occurred even in a time period when total U.S. employment has not increased.

- Considering only those employment increases attributable directly to cable operators, growth since 2002 totals about 58,000 jobs. The industry's addition of 4,700 jobs over the last three years is particularly impressive in light of the U.S. economy's net loss of more than 7 million jobs.

- Cable's economic impacts are spread throughout all major sectors of the U.S. economy. The largest private sector impacts are in the information, services and manufacturing sectors, each of which are critical to both the growth and the overall health of the economy. The industry also is estimated to have a substantial effect on public sector employment.

Program Network Industry Economic Impacts

As of 2010, the program network industry (directly and indirectly) accounted for 854,000 U.S. jobs representing almost $32 billion in personal income. The industry's employment impact has increased by 87,000 jobs in the last three years. Gross economic output attributable to the industry amounts to just over $108 billion.[1]

Other measures of the industry's economic impact include:

- Program network revenues in 2010 totaled nearly $60 billion, providing direct employment to 50,700 people – an increase of 4,200 jobs since 2007. Compensation to program network industry employees totaled $6.6 billion.

- The industry's impact is spread throughout all sectors of the U.S. economy. However, program network industry expenditures have a particular concentration (and resulting impact) on the program production and sports industries. Together, these two industries derive almost $25 billion in revenues, over 70,000 jobs, and $7.5 billion in employee compensation from the program network industry.

Other Cable and Program Network Industry Impacts

In addition to the purely economic impacts described above, the cable industry has led the development of the country's broadband infrastructure, contributing both to a truly competitive telecommunications marketplace and to more robust growth in the penetration of broadband services. The industry has also fundamentally altered the manner in which most Americans view television, and through a continuing pattern of innovation has introduced new content and services to consumers.

Specific indicators of these contributions include:

- Made possible by an infrastructure investment of more than $170 billion over the last decade and a half, the cable industry has led the development of broadband Internet service in the U.S. – providing service to over 44 million customers as of year-end 2010. Moreover, cable's broadband offering continues to set the industry standard with more than one-third of cable customers receiving data rates of 10 Mbps or more and over 75 percent receiving at least 6 Mbps, while the majority of telephone company customers continue to receive speeds of 3 Mbps or less.

- Bortz Media estimates that the cable industry's early and ongoing commitment to deploying broadband infrastructure and delivering the most advanced broadband service offerings could have resulted in U.S. broadband penetration that is on the order of three percentage points higher than it would have been if cable's commitment had been significantly reduced or delayed.

- In addition, cable has fostered true competition in local telephone service – capturing roughly 24 million customers by the end of 2010 and adding over nine million in the past three years.

1 The total impacts reported here accurately reflect the economic impacts of the program network industry. However, since the program network industry is a supplier to the cable industry, a portion of the program network industry's total impacts are also subsumed in the total impacts estimated for the cable industry. As such, the total impacts for the two industries as presented in this report are not additive.

- At the same time, the industry's innovation has greatly improved the television services available to the American consumer. Nearly all digital cable customers have access to video-on-demand programming – with up to 25,000 titles available (most at no charge); 19 million cable customers have digital video recording capability; and more than 26 million cable homes had HDTV-enabled set-top boxes as of year-end 2010.

- The on-demand revolution has resulted in an enormous increase in consumer choice and programming access. As an example, the 25,000 on-demand titles offered by Comcast's Xfinity in 2010 represent an increase from 10,000 titles in 2008. Moreover, Xfinity offers 150,000 programs online each month.

- As of the 2009-10 television season, viewing of basic cable programming measured against all TV households was more than two and a half times the level of ad-supported cable network viewing during the 1994-95 season. In 2009-10, the aggregate total day viewing of ad-supported cable networks reached 51 percent, exceeding the combined viewership of all other television sources.

- As a measure of the industry's commitment to programming quality, the annual spending on programming by basic networks grew from $1.4 billion in 1990 to $24.4 billion in 2010. Spending has nearly tripled in the last eight years. The top 20 cable networks spent an average of $738 million per network during 2010, compared with $566 million in 2007 and just $160 million in 1997.

- Finally, the cable industry annually contributes substantially to charities, non-profit organizations and state/municipal coffers on a nationwide basis. In 2010, the NCTA estimates that franchise fees totaled over $2.7 billion, reflecting funds paid directly to local municipalities. In addition, sales and use taxes associated with cable subscriptions amounted to over $2.8 billion in revenues to state and local government entities. Moreover, including both cable operators and programming networks, the industry's public service announcements as well as cash and "in-kind" contributions to local and national non-profit organizations for 2010 are estimated to have exceeded $1.5 billion.

The Cable Industry's Economic Impact

CALIFORNIA

Cable operators' $174 billion investment over the past 15 years has been felt in every community across the nation. As of 2010, the cable industry, directly and indirectly, accounted for almost 1.8 million U.S. jobs, which represents $77 billion in personal income, and the gross economic output attributable to the industry amounted to $251 billion. Cable industry employees are found in all 50 states, and there are 7,400 locally based cable systems.

CALIFORNIA STATEWIDE

Major Cable Operators
Comcast, Time Warner Cable, Cox, Charter

Cable Operator Employees
24,415

Total Local Effects
185,112 direct and indirect jobs
$26.2 billion economic impact

DISTRICT BY DISTRICT

1st Congressional District
Cable Operator Employees – 427
Total Local Effects – 3,237 jobs, $459 million economic impact

2nd Congressional District
Cable Operator Employees – 353
Total Local Effects – 2,676 jobs, $379 million economic impact

3rd Congressional District
Cable Operator Employees – 543
Total Local Effects – 4,120 jobs, $584 million economic impact

4th Congressional District
Cable Operator Employees – 475
Total Local Effects – 3,598 jobs, $510 million economic impact

5th Congressional District
Cable Operator Employees – 500
Total Local Effects – 3,791 jobs, $537 million economic impact

6th Congressional District
Cable Operator Employees – 380
Total Local Effects – 2,878 jobs, $408 million economic impact

7th Congressional District
Cable Operator Employees – 594
Total Local Effects – 4,503 jobs, $638 million economic impact

8th Congressional District
Cable Operator Employees – 435
Total Local Effects – 3,298 jobs, $468 million economic impact

9th Congressional District
Cable Operator Employees – 399
Total Local Effects – 3,026 jobs, $429 million economic impact

10th Congressional District
Cable Operator Employees – 663
Total Local Effects – 5,023 jobs, $712 million economic impact

11th Congressional District
Cable Operator Employees – 756
Total Local Effects – 5,736 jobs, $813 million economic impact

12th Congressional District
Cable Operator Employees – 382
Total Local Effects – 2,898 jobs, $411 million economic impact

13th Congressional District
Cable Operator Employees – 415
Total Local Effects – 3,145 jobs, $446 million economic impact

34th Congressional District
Cable Operator Employees – 377
Total Local Effects – 2,858 jobs, $405 million economic impact

35th Congressional District
Cable Operator Employees – 523
Total Local Effects – 3,967 jobs, $562 million economic impact

36th Congressional District
Cable Operator Employees – 372
Total Local Effects – 2,818 jobs, $400 million economic impact

37th Congressional District
Cable Operator Employees – 374
Total Local Effects – 2,833 jobs, $402 million economic impact

38th Congressional District
Cable Operator Employees – 390
Total Local Effects – 2,957 jobs, $419 million economic impact

39th Congressional District
Cable Operator Employees – 348
Total Local Effects – 2,642 jobs, $374 million economic impact

40th Congressional District
Cable Operator Employees – 423
Total Local Effects – 3,207 jobs, $455 million economic impact

41st Congressional District
Cable Operator Employees – 422
Total Local Effects – 3,199 jobs, $453 million economic impact

42nd Congressional District
Cable Operator Employees – 492
Total Local Effects – 3,728 jobs, $528 million economic impact

43rd Congressional District
Cable Operator Employees – 480
Total Local Effects – 3,637 jobs, $516 million economic impact

44th Congressional District
Cable Operator Employees – 438
Total Local Effects – 3,322 jobs, $471 million economic impact

45th Congressional District
Cable Operator Employees – 693
Total Local Effects – 5,253 jobs, $745 million economic impact

46th Congressional District
Cable Operator Employees – 364
Total Local Effects – 2,760 jobs, $391 million economic impact

47th Congressional District
Cable Operator Employees – 321
Total Local Effects – 2,434 jobs, $345 million economic impact

48th Congressional District
Cable Operator Employees – 457
Total Local Effects – 3,461 jobs, $491 million economic impact

49th Congressional District
Cable Operator Employees – 533
Total Local Effects – 4,043 jobs, $573 million economic impact

50th Congressional District
Cable Operator Employees – 634
Total Local Effects – 4,809 jobs, $682 million economic impact

51st Congressional District
Cable Operator Employees – 707
Total Local Effects – 5,360 jobs, $760 million economic impact

52nd Congressional District
Cable Operator Employees – 1,056
Total Local Effects – 8,010 jobs, $1,136 million economic impact

53rd Congressional District
Cable Operator Employees – 600
Total Local Effects – 4,549 jobs, $645 million economic impact

MICHIGAN

Cable operators' $174 billion investment over the past 15 years has been felt in every community across the nation. As of 2010, the cable industry, directly and indirectly, accounted for almost 1.8 million U.S. jobs, which represents $77 billion in personal income, and the gross economic output attributable to the industry amounted to $251 billion. Cable industry employees are found in all 50 states, and there are 7,400 locally based cable systems.

MICHIGAN STATEWIDE

Major Cable Operators
Comcast, Charter, Bright House

Cable Operator Employees
7,224

Total Local Effects
54,769 direct and indirect jobs
$7.8 billion economic impact

DISTRICT BY DISTRICT

1st Congressional District
Cable Operator Employees – 438
Total Local Effects – 3,321 jobs, $471 million economic impact

2nd Congressional District
Cable Operator Employees – 438
Total Local Effects – 3,322 jobs, $471 million economic impact

3rd Congressional District
Cable Operator Employees – 524
Total Local Effects – 3,974 jobs, $563 million economic impact

4th Congressional District
Cable Operator Employees – 375
Total Local Effects – 2,842 jobs, $403 million economic impact

5th Congressional District
Cable Operator Employees – 437
Total Local Effects – 3,316 jobs, $470 million economic impact

6th Congressional District
Cable Operator Employees – 467
Total Local Effects – 3,541jobs, $502 million economic impact

7th Congressional District
Cable Operator Employees – 437
Total Local Effects – 3,313 jobs, $470 million economic impact

8th Congressional District
Cable Operator Employees – 392
Total Local Effects – 2,968 jobs, $421 million economic impact

9th Congressional District
Cable Operator Employees – 455
Total Local Effects – 3,450 jobs, $489 million economic impact

10th Congressional District
Cable Operator Employees – 400
Total Local Effects – 3,036 jobs, $430 million economic impact

11th Congressional District
Cable Operator Employees – 673
Total Local Effects – 5,100 jobs, $723 million economic impact

12th Congressional District
Cable Operator Employees – 653
Total Local Effects – 4,955 jobs, $702 million economic impact

13th Congressional District
Cable Operator Employees – 372
Total Local Effects – 2,820 jobs, $400 million economic impact

14th Congressional District
Cable Operator Employees – 577
Total Local Effects – 4,376 jobs, $620 million economic impact

15th Congressional District
Cable Operator Employees – 585
Total Local Effects – 4,434 jobs, $629 million economic impact

House Energy and Commerce –
Subcommittee on Commerce, Manufacturing and Trade

Subcommittee Hearing

Made in America: Innovations in Job Creation and Economic Growth

March 3, 2011

Matt Blunt
President, American Automotive Policy Council
(Written Submission)

Thank you for the opportunity for the American Automotive Policy Council (AAPC) and its member companies – Chrysler Group, Ford Motor Company and General Motors Company – to provide its views on job creation and economic growth.

AAPC represents the common interests of our three member companies and promotes their unique and significant economic contributions to the domestic economy. These three companies are committed to investing and keeping jobs here in the United States, and delivering high-quality, fuel-efficient vehicles to consumers. We will continue to strengthen domestic manufacturing by building the next generation of environmentally-friendly products consumers expect, and investing in plants, research, and people here in America.

The U.S. remains the world's largest manufacturer and our companies are the core of U.S. manufacturing, generating millions of American jobs in all 50 states. No other industry generates more manufacturing jobs, trade, research and development, and retail business.

Our companies directly employ nearly 200,000 people, or seven out of 10 American autoworkers, in hundreds of manufacturing plants, research labs and offices across the nation. Additionally, they support 1.8 million more American jobs, including auto dealers, parts suppliers and small businesses that serve our plants and workers.[1] The 11,000 United States

[1] Employment multiplier of 10 based on Center for Automotive Research (CAR) employment impact study, April 2010

Chrysler, Ford and General Motors dealerships alone employ over 550,000 Americans located in all 50 states.[2]

The three American automakers are strengthening American manufacturing by investing in plants, research, and people. Just this year, our companies have hired thousands of new workers, added extra shifts on assembly lines, and started building new vehicles – all right here in the United States.

Chrysler, Ford and General Motors account for the vast majority of total investment by all automakers in the United States and consistently rank among the top research and development spenders.[3] In fact, our three companies average $12 billion per year in research and development, more than the U.S. aerospace, medical equipment and communications industries.[4]

Last year, AAPC companies produced more than 4.1 million cars and light trucks and sold more than 5.1 million vehicles in the United States. 80% of the vehicles that Chrysler, Ford and General Motors sold here last year were made here, compared to only 55% by the other auto makers.[5]

The domestic content of cars sold by Chrysler, Ford and GM is nearly 70%, compared to only 34% for all other automakers.[6] This difference in content represents tens of billions of dollars, and hundreds of thousands more American automotive supplier jobs supported by our companies than the other automakers operating in the United States.

Over the last five years, the U.S. automotive sector has exported more from the United States than any other single sector – exporting about $95 billion worth of vehicles and parts last year alone, up from $68 billion in 2009. As the global economy recovers and new markets open up, this number will continue to grow, playing a large role in accomplishing the National Export Initiative goal of doubling exports within five years.

In my new role as President of the American Automotive Policy Council, I appreciate this opportunity to represent the interests of America's automotive industry as it reasserts its leadership and continues to grow in economic strength; thus helping to drive forward home-

---

[2] Automotive News and NADA
[3] Company Sources and JAMA
[4] Company Sources and National Science Foundation
[5] U.S. Production as a Percentage for U.S. Sales
[6] Calculated using AALA Data Supplied by NHTSA on a Sales-Weighted Basis (Includes Content of Imports and US Assembled Vehicles)

grown auto manufacturing and the creation of American jobs. I thank the Subcommittee for electing to hold this important hearing.

Mrs. BONO MACK. So again, this concludes the hearing. Thank you all very much for your time.

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

[Material submitted for inclusion in the record follows:]

Statement of the Honorable Fred Upton
Chairman, Committee on Energy and Commerce
Hearing on "Made in America: Innovations in Job Creation and Economic Growth"
Subcommittee on Commerce, Manufacturing and Trade
March 3, 2011

Thank you Chairman Bono Mack for calling today's hearing. This Subcommittee will serve a vital role examining proposals to grow our economy this Congress and where appropriate, considering implementing legislation. This hearing is timely. Last week, the President's advisory Council on Jobs and Competitiveness held its first meeting. I commend him for his decision to seek input and recommendations from the private sector on how to improve our economy and competitiveness. With unemployment expected to remain more than double our historical average for the foreseeable future, we must find a course of action that provides real, sustainable growth opportunities for free enterprise.

Today's hearing has assembled an excellent panel of witnesses that will help us understand what policies they believe will help grow the economy. Their recommendations will be most welcome. But I believe we already have identified some issues that are weighing on the economy and need to be addressed: rules without reason, excessive spending, and poorly targeted strategic investments.

As we heard in the Oversight and Investigations Subcommittee hearing last month examining the President's executive order regarding regulations, the Federal government has in many cases promulgated rules that are stifling business investment and growth. We simply cannot promulgate regulations without weighing the benefits. Regulations have costs, and the two must be balanced. Whether it is the regulations of the EPA, the FCC, the Dodd Frank reform, or the new healthcare law, free enterprise has been dealt a hand of added expense and uncertainty that is becoming insurmountable. If we cannot lower these burdens, the unfortunate consequence will be an environment that remains hostile to growth. And if the cost of doing business in this country is a deterrent, investment will continue to flow elsewhere. That is not a prescription for enabling job growth.

Regulations are not the only headwind facing the economy. Demand – from business and consumers - is not supporting expansion, in part because of the uncertainty of what Congress will do about other matters, including the budget and taxes. We need to examine our tax system and its relationship to Federal spending and the budget. Our debt service alone is projected to triple over the next few years and will only increase if interest rates rise. Without changing our anticipated spending needs and reducing our debt levels, economic growth alone will not solve our fiscal problems: consumers and business will be forced to pay the burden of our spending and will constrain future growth.

We need a smaller, leaner government, not just for austerity sake, but to get us back on a sustainable track. Although it will not be comfortable as we adjust, we have to look no further than our Canadian neighbors to see it can – and must - be done so that we may put our country in a better position to give to our children. Canada made bold budget changes in the 1990's and turned a 9% budget deficit into a surplus in 4 years. Their experience teaches that we need to examine everything and rigorously scrutinize where our money is going. As the GAO report issued earlier this week indicates, we have become expert at duplicating spending programs across multiple agencies, costing taxpayers tens of billions every year. As Benjamin Franklin said "Beware of little expenses; a small leak will sink a great ship". It is time to eliminate duplicative investment and determine what is necessary and what is not, just as a family must determine its budget based on its needs.

Our investments have to be more selective and only where the private sector cannot fill the role. Given a recent World Economic Forum report that ranked the U.S. 68th among developed countries in its efficacy of public spending, we must determine whether we need to spend the money first, and then how the money can be spent more effectively. Spending billions of taxpayer dollars on projects that the private sector already addresses - such as national broadband when 95 percent of the country already has access - doesn't fit the bill as necessary or wise.

Finally, increasing our global competitiveness requires investment – both public and private. We need to make sure private investment can lead the way, and use public spending only when it is strategically necessary. Public spending that crowds out private investment is counterproductive and must be avoided.

In addition to removing or reducing some of the burdens on growth, there are other areas where Congress can be proactive to stimulate growth, including proactive energy policies, stimulating trade, and generally making the U.S. an easier place in which to conduct business. I look forward to the testimony and working with our colleagues to address these issues.

MARSHA BLACKBURN
7TH DISTRICT, TENNESSEE
DEPUTY WHIP

COMMITTEE ON
ENERGY AND COMMERCE

Congress of the United States
House of Representatives
Washington, DC 20515–4207

WASHINGTON OFFICE
217 CANNON HOUSE OFFICE BUILDING
WASHINGTON, DC 20515
TELEPHONE: (202) 225–2811

DISTRICT OFFICES
7975 STAGE HILLS BOULEVARD
SUITE 1
MEMPHIS, TN 38133
TELEPHONE: (901) 382–5811

198 EAST MAIN STREET
SUITE 1
FRANKLIN, TN 37064
TELEPHONE: (615) 591–5161

1850 MEMORIAL DRIVE
CLARKSVILLE, TN 37043
TELEPHONE: (931) 503–0391

March 3, 2011

Honorable John R. Fernandez
Assistant Secretary of Commerce
National Economic Development Administration
Department of Commerce
1401 Constitution Ave, NW
Washington, D.C. 20230

Dear Assistant Secretary Fernandez,

Thank you for testifying this morning before Committee. Per the Committee's request I would like for you to submit answers to the following questions. Your agency has photos posted on your website of international travel to Lyon, France and Brussels, Belgium in November and December of 2010. Additionally, your website indicates EDA officials will travel to Hanover, Germany in April 3-8, 2011. Please submit to this Committee in writing all past international travel over the past 2 years, the purpose of that international travel including itinerates, the cost of that international travel and names and positions and federal status (ie, career or political appointee) of the staff attending all international trips. I would also like to know if attendees travelled in coach or business class and specific costs of flights. Additionally, please detail with similar information the Hanover, Germany trip and all planned future international trips.

Furthermore, can you explain to me the purpose of EDA's participation in these international trips? If EDA is promoting U.S. competiveness and exports abroad, isn't this role of the Foreign Commercial Service? During his State of the Union address, the President singled out Export.gov as government waste and duplication. Do you believe one more agency's presence in promoting U.S. exports abroad is necessary? If so, do you believe the FCS is unable to do its job effectively?

Sincerely

Marsha Blackburn

Marsha Blackburn
Member of Congress

U.S. ECONOMIC DEVELOPMENT ADMINISTRATION

The Honorable Adam Kinzinger

1. **In his 2012 Budget, President Obama eliminated $16 million in funding for the Trade Adjustment Assistance program, a program that provides matching grants to small businesses that have been impacted through trade. In your testimony, you mention that EDA supports customized solutions that enable businesses to flourish in this globalized economy. Do you believe the TAA program failed to meet these goals and would you support restoring funding to the TAA program?**

The Administration believes that the Federal Government can make investments such as those that are made under the Trade Adjustment Assistance for Firms (TAAF) program in a more cost-effective and timely manner using other Economic Development Administration (EDA) and Department of Commerce programs, such as EDA's Economic Adjustment Assistance (EAA) program and the National Institute of Standards and Technology's (NIST's) Manufacturing Extension Program (MEP).

The President's proposed fiscal year 2012 budget prioritizes continued investment in high-impact programs while making the tough choices necessary to address the country's long term fiscal needs. EDA's Economic Development Assistance Programs are designed to increase the overall competitiveness of communities and can make positive impacts that extend beyond the individual firms served by the TAAF program. Moreover, support provided through EDA's other Economic Development Assistance Programs is delivered with a much higher degree of administrative efficiency. TAAF resources are passed through 11 Trade Adjustment Assistance Centers (TAACs). These TAACs, which are chosen non-competitively, must spend a higher percentage of the TAAF funds for administrative costs compared to EDA.

The following is an example of investments through EDA's other programs that are helping companies and communities compete in the global marketplace.

Northeast Ohio, JumpStart:

Northeast Ohio has long struggled with severe job loss in its auto manufacturing industry caused by intensifying international competition. In 2004, 34 manufacturers in Northeast Ohio announced that they would lay off 3,400 workers. To respond to these losses, in 2005, EDA invested $735,000 in Economic Adjustment Assistance (EAA) funds (and an additional $1.5 million in 2008) in Northeast Ohio's JumpStart program to help the region transform into an innovation- and entrepreneur-based economy. JumpStart provides development assistance to early stage entrepreneurs to maximize company growth and job creation. EDA's EAA investment has helped JumpStart achieve strong results in the region – including the generation of an additional $90 million in regional economic output and the creation of 644 jobs (Ziona Austrian, *Economic Impact of JumpStart, Inc. on Northeast Ohio, 2009*, Cleveland State University, Maxine Goodman Levin College of Urban Affairs, April 2010).

Northeast Ohio's progress has been recognized nationally, which has given JumpStart the opportunity to pilot new work engaging with communities outside of Northeast Ohio to catalyze their entrepreneurial ecosystems.

2. **In GAO's report titled "Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue" (GAO-11-318sp), the office found that 52 programs in four agencies fund entrepreneurial efforts. There is little evidence that your department has taken steps to communicate with the other agencies or leverage the funding and strengths to promote the overall goals of the duplicative programs. The GAO report also highlights your department's failure to provide accurate analysis of its programs. We are in an age when we can no longer afford negligent waste. What is your plan to provide corrective action to ensure the EDA leverages its assets to promote growth and limit duplicative process and waste?**

The President is very committed to reshaping the Federal Government's programs and organization to meet the needs of a 21st century economy. He's directed agencies to break down silos and avoid duplication of services. The GAO report raises an important issue; however, it may overstate the amount of duplication of Federal programs while understating the significant amount of coordination between Federal agencies in existing programs. While the report identifies a large number of "economic development" programs, it's likely that many are very narrowly targeted for a specific need or issue. Consequently, not all of the programs can be used for the same purposes.

EDA is the only Federal agency that has the sole mission of economic development. Its programs provide flexible funding opportunities to support "bottom up" strategies – not "Washington solutions." Additionally, EDA's investments require local matching funds from public and private sources, thus ensuring that Federal tax dollars are effectively leveraged. EDA is instrumental to the President's goals of accelerating long-term economic growth, enhancing America's long-term competitiveness, and restoring fiscal responsibility to its government.

Due to EDA's historic, singular focus on job creation, the agency plays a key role in shaping Federal policy for fostering economic development. In this leadership role, EDA has built upon its long practice of coordinating with other Federal agencies and its knowledge of best practices in economic development to create several new initiatives designed to more strategically advance regional economic development. These initiatives formally leverage each partner's complementary activities to advance regional economic development in the broadest sense. As one example, EDA recently collaborated with the Small Business Administration (SBA), the Department of Labor (DOL), the Department of Energy (DOE), the National Science Foundation (NSF), the National Institute of Standards and Technology (NIST), and the Department of Education (ED) on the Energy Regional Innovation Cluster Initiative (E-RIC) to develop and implement a cross-cutting, collaborative approach built on best practices to stimulate sustainable economic development. Because all of these agencies have varying focuses, programmatic objectives, and eligible recipient entities, they all have unique and complementary niches related to economic development. The strategic collaboration of these seven agencies allows the Federal Government to support a more overarching vision for economic development.

The Honorable Mary Bono Mack

1. **Your testimony stated that the FY2012 budget proposal is a fiscally responsible plan that proposes to reform how government does business such as by reorganizing and cutting waste. You also testified that there is a "tremendous amount of interagency collaboration" underway, and that "while there are a number of [economic development] programs...many of them are complementary but what is essential is that we get alignment and leverage so we are not duplicating and wasting taxpayer money."**

   a. **What are types of reorganization efforts do you anticipate as result of this interagency collaboration and review?**

The Administration has initiated a process to develop recommendations to streamline government programs focused on trade and competitiveness to make sure agencies and initiatives that support business and American competitiveness are best organized to provide that assistance. While that process moves forward, our focus continues to be on carrying out EDA's mission – helping U.S. businesses become and stay competitive in a global marketplace by investing in cutting edge research and programs that will enable U.S. businesses to succeed.

   b. **If any of these of these programs are found to be duplicative during your review, does the Administration support reducing such wasteful, duplicative spending?**

The President believes the Federal Government must learn to do more, with less. Under the leadership of Secretary of Commerce Gary Locke, we have done well with this approach at the Commerce Department for the past two years – all while helping create an environment where American businesses can be more innovative at home and competitive around the world.

The Department plans on saving $142.8 million in FY 2012 as part of the President's Administrative Efficiency Initiative. The Department is digging into how we handle acquisitions and other administrative functions to find places where we can leverage our buying power. We have a six-point plan to reform acquisitions in order to deliver greater savings, greater results, and greater efficiencies. Specific measures include saving taxpayers $57 million in FY 2012 through bulk buying and other smart purchasing strategies, stronger metrics to measure and increase performance, a new approach to requirements definition and validation, an enterprise-wide approach to identifying and managing high-risk projects, and a new Center of Excellence to best serve every bureau within the Department. Lastly, we anticipate savings in information technology through data center consolidation and slowing the replacement cycle for computer hardware.

EDA has also implemented reforms to improve efficiency and performance. Since 2009, EDA has cut the time it takes to award a grant from 128 days to 20 days on average.[1] Looking ahead, the President has issued a Presidential Memorandum directing each of the Federal agencies to work closely with all of their bureaus and departments to analyze the scope and effectiveness of their programs, areas of overlap and duplication, unmet needs, and possible cost savings. The Department of Commerce and EDA are working to reform our agency to maximize its efficiency and effectiveness so that it can best support American competitiveness and innovation.

[1] EDA's goal is to make funding decisions within 20 business days of each quarterly funding cycle deadline.

c. **Given your testimony that there are a number of economic development programs throughout the Federal government, how can we combine these programs to deliver the services more efficiently and cost effectively?**

In President Obama's State of the Union address, he articulated a broad vision for winning the future by out-innovating, out-educating, and out-building our global competitors. To further this vision, in January the President issued a Presidential Memorandum directing each Federal agency to work closely with all of their bureaus and departments to analyze the scope and effectiveness of their programs, areas of overlap and duplication, unmet needs, and possible cost savings. The Department of Commerce and EDA are engaged in this process and working to reform our agency to maximize its efficiency and effectiveness so that it can best support American competitiveness and innovation.

d. Please describe how the EDA's budget has changed over the last 5 years.

EDA's budget supports a variety of flexible economic development assistance programs that complement each other to support the economic goals of communities and regions throughout the U.S. The following is a brief overview of EDA's major activity categories:

- *Sustainable Economic Development*—EDA typically receives Congressional direction to allocate an amount of funds otherwise made available for its Economic Development Assistance Programs to support projects that foster economic competitiveness while enhancing environmental quality. Under this program, EDA supports innovative sustainable economic development projects that create jobs through, and increase private capital investment in, efforts to limit the nation's dependence on fossil fuels, enhance energy efficiency, and protect natural systems.

- *21st Century Infrastructure*—EDA supports the construction, expansion or upgrade of essential public infrastructure and facilities designed to help communities compete in the 21st Century. An example of EDA's work is this area is the science parks program that EDA administers pursuant to the America COMPETES Act. These parks provide public universities the opportunity to partner with private entities and to help bring innovative ideas and products to the market.

- *Partnership Planning*—under this program, EDA supports local and regional organizations (District Organizations, Indian Tribes, and other eligible entities) with their short- and long-term planning efforts.

- *Technical Assistance*—under this program, EDA provides focused assistance to public and nonprofit leaders to help in economic development decision making (e.g., project planning, impact analyses, feasibility studies). The Technical Assistance program also includes the University Center program, which makes the resources of universities available to the economic development community.

- *Research and Evaluation*—under this program, EDA supports research of cutting-edge economic development practices, as well as information dissemination efforts to national audiences.

- *Economic Adjustment Assistance*—under this program, EDA provides a wide range of technical, planning, and public works and infrastructure assistance in regions experiencing adverse economic changes that may occur suddenly or over time (e.g., strategy development, infrastructure construction, and revolving loan fund capitalization).

- *Regional Innovation Program*— this program will be specifically targeted to support Growth Zones, a collaborative, multi-agency effort to stimulate regional economic development. Specifically, the program will support a nationwide competition to encourage 20 communities to develop and implement regional strategic plans that identify how the community can build on assets and link to drivers of regional economic growth in order to stimulate job creation, business expansion and creation, and enhanced regional prosperity.

- *Wireless Innovation Fund (WIN)* — As part of the Wireless Innovation and Infrastructure Initiative (WI3), EDA would support a Wireless Innovation Network (WIN) a challenge program designed specifically to leverage public/private partnerships to build or upgrade the 21st century innovation inputs that foster regional competitiveness. Through the new WIN challenge program EDA will catalyze public and private community investments to demonstrate next generation technologies and applications drawing upon "bottom up" innovations.

- *Disaster Supplementals*—EDA often receives supplemental funding to help communities respond quickly and more resiliently to disasters.

The following table outlines how EDA's budget has changed over the last 5 years:

Economic Development Administration
Five Year Budget Table

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]					[illegible]
[illegible]					[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]				
[illegible]	[illegible]				
[illegible]		[illegible]			
[illegible]		[illegible]			

Disaster Supplemental Act, 2010			54,000		
EDAP Adjustments*	[illegible]	[illegible]			
Salaries and Expenses	30,832	32,800	38,000	38,000	40,631
S&E Adjustments*		7,350			
Total EDA Budget Authority	774,232	447,800	347,000	293,000	344,931

*

Enacted rescission of prior year unobligated balances, $5.7M.
Enacted rescission of prior year unobligated balances (EDAP), $15M
Transfer of $3M to S&E for administrative expenses associated with American Recovery and Reinvestment Act, 2009 (ARRA) (P.L. 111-5);
Transfer of $4Mto S&E for administrative expenses associated with management oversight and administration of Public Works grants (P.L. 111-8);
Transfer of $350K to S&E for administrative expenses associated with management oversight and administration of Trade Adjustment Assistance grants (P.L. 111-5, P.L. 111-8).

e. **If your budget is reduced, please describe where EDA would focus its efforts and what the likely result of prioritization of projects would be.**

EDA will continue to focus its efforts on the important tools for promoting the Jobs and Innovation Partnership and particularly, regional innovation clusters, the Administration's new framework for supporting sustainable economic development and encouraging the export potential of America's regions. Regional innovation clusters are proven job growth vehicles that also grow the economy, and are a critical component to our nation's future economic competitiveness. EDA provides technical assistance and implementation investments that directly support regional innovation clusters.

EDA will also focus its efforts to help facilitate the transition of distressed communities to ones that are competitive in the worldwide economy by the developing key public infrastructure such as technology-based facilities; research and development (R&D) commercialization centers; facilities for workforce development; wet labs; multi-tenant manufacturing facilities; research; equipping business and science parks with crucial infrastructure, including fiber optic cable; and telecommunications infrastructure and development facilities.

2. **The President announced the Startup America initiative at the end of January. You testified that since the initiative's creation, it has leveraged $100 million and created 950 jobs according to grantees. You also testified that under President Obama's Administration, EDA funded projects that grantees estimated created 161,500 jobs. In 2010, controversy erupted regarding the accounting methods used to estimate how many jobs were saved by the 2009 American Recovery and Reinvestment Act resulting in what some economists claimed was significant over-counting.**

   a. **Does the Administration believe accurate job creation numbers are essential to determining whether taxpayer dollars are used efficiently and effectively, particularly in times when resources are scarce?**

EDA is committed to tracking and reporting job creation numbers as efficiently, effectively, and accurately as possible. These numbers are an important part of identifying how effectively taxpayer dollars are spent. They are also one part of the performance measures that EDA uses to track and evaluate its investments.

b. If yes, please describe the steps EDA undertook to confirm the accuracy of the grantees' jobs claims, particularly the claim that the latest initiative created nearly 1,000 jobs in 30 days.

In my previous testimony, I discussed JumpStart as an illustration of the types of investments that would be supported through the Startup America Initiative. EDA made investments in JumpStart in FY 2005 and FY 2008. JumpStart is just one of the programs supported by Startup America, which was launched on January 31, 2011. Based on grantee estimates, these investments, in JumpStart and other programs supported by Startup America, are expected to create 950 long-term jobs, and leverage $100 million in private investment. EDA professionals evaluate grantee self-estimates at the time of award based on information contained in the application and EDA's knowledge of the region and similar types of investments. These self-estimates often are reliable and accurate. For example, according to a study by Cleveland State University, EDA's EAA investment has already helped JumpStart achieve strong results in the region, including the generation of an additional $90 million in regional economic output and the creation of 644 jobs (Ziona Austrian, *Economic Impact of JumpStart, Inc. on Northeast Ohio, 2009*, Cleveland State University, Maxine Goodman Levin College of Urban Affairs, April 2010). In addition, EDA requires applicants to provide letters from the project beneficiaries outlining the expected number of jobs they expect to create/retain and the amount of investment they will commit in the community as a result of the EDA project.

3. According to a survey conducted by the Council on Competitiveness, dozens of CEOs of manufacturers ranging from large, multi-nationals to small- and medium-sized businesses, identified tax policy, energy policy, trade policy, intellectual property protection, legal and regulatory reform, education reform, infrastructure investments, and immigration policy as all key to increasing our competitiveness and encouraging job growth. Please describe the Department of Commerce's opinion on these areas identified by the individuals who are responsible for creating jobs as critical speed bumps to job creation.

President Obama and his entire administration are focused on spurring private sector job creation in the near-term and putting in place the policies that will sustain economic growth into the future. To that end, the Administration is working to ensure that the United States is viewed as a premier location for businesses to locate—and this is especially critical in the case of manufacturing firms. This is especially important because they can create more ancillary economic activity than firms in other sectors, including generating 68 percent of exports and 70 percent of private sector research and development (R&D).

It is also the rationale behind the President's commitment to streamline government regulation, reforming the corporate tax system, and investing in innovation and science, technology, engineering, and math (STEM) education. The Obama Administration supports greater public and private sector investment to promote job creation in the domestic manufacturing sector. The Administration's FY 2012 budget request includes $148 billion for research and development (R&D), which provides the foundation for future innovation and economic growth. At the Commerce Department, the National Institute of Standards and Technology (NIST) conducts cutting edge research designed to promote innovation and technological advances in manufacturing which enhances American competitiveness.

On January 18, 2011, President Obama signed Executive Order 13563 outlining his regulatory strategy—one that supports robust economic growth and job creation, while protecting the safety, health, and rights of all Americans. This strategy builds on best practices of the past, while adapting to challenges the country faces today and establishing a smart path for the future. As part of the immediate implementation of this strategy, the President also issued a memorandum to the heads of Executive Agencies and Departments calling for more transparency and accountability in regulatory compliance, as well as a memorandum emphasizing the need to reduce burdens on small businesses wherever possible.

Another factor impeding our ability to attract and retain manufacturing investment is the current structure of our corporate tax system. At it is currently written, the tax code system causes costly distortions where some individual companies end up paying little, if any, in taxes, while the rest pay more than their fair share. This is why in his State of the Union address, the President called for reform to make the tax code fairer and simpler, promote economic growth, and support opportunity for middle class families.

The EDA Growth Zones initiative will play a critical role in supporting EDA's efforts to foster regional innovation clusters, promote the export potential of American regions, and encourage 21st Century innovation infrastructure.

Regarding immigration policy, the Obama Administration believes that allowing more foreign students with advanced degrees in critical science, technology, engineering, and math (STEM) areas to remain in the United States after the completion of their degrees is an idea that should be considered in the context of comprehensive immigration reform. When it comes to immigration, President Obama has said that we must put politics aside and offer a comprehensive solution that secures our border, enforces our laws, and reaffirms our heritage as a nation of immigrants. We believe our immigration policy should be driven by our best judgment of what is in the economic interest of the United States and what is in the best interest of the American people.

The President supports reforming and updating our patent system to strengthen intellectual property rights for inventors and improve efficiency of the patent system overall. This comprehensive patent reform legislation would make it easier for groundbreaking ideas to move from research labs or an inventor's garage and into the marketplace, by moving the United States to a first-to-file system and giving the U.S. Patent and Trademark Office the resources to accelerate patent examination and the underlying framework to improve patent quality.

The President has underscored his intention to present pending trade agreements to Congress once we have adequately addressed key outstanding concerns. Regarding the U.S.-Korea trade agreement (KORUS), in close consultation with Congress and interested stakeholders, we addressed the outstanding issues in December, and the agreement is ready for consideration now. This agreement is the most economically significant trade agreement in nearly two decades and will strengthen our trade and investment ties to Korea's $1 trillion economy. The U.S. International Trade Commission has estimated that tariff cuts alone in the agreement will increase exports of American goods by $11 billion, supporting over 70,000 American jobs. Additional American jobs will come from breaking down non-tariff barriers, by requiring strong protection and enforcement of intellectual property rights, and further opening Korea's $580 billion services market. For this reason, KORUS has already won widespread support from business, labor, agriculture, and services groups across the country.

With the same engagement and bipartisan cooperation as on the Korea agreement, we have taken steps to fulfill the President's intention to present our pending trade agreements with Panama and Colombia to Congress once we have adequately addressed key outstanding concerns. Panama has now passed and signed legislation to address outstanding labor concerns, and we expect Panama to complete action on tax transparency soon. On April 7, President Obama and President Santos announced agreement on an Action Plan Related to Labor Rights outlining steps the Colombian government needs to take on outstanding labor issues that will allow us to move forward with the U.S.-Colombia trade agreement. Going forward, we are committed to working with Congress to accomplish the President's comprehensive trade agenda this year – one that includes the three pending trade agreements, Trade Adjustment Assistance, our preference programs, and Permanent Normal Trade Relations with Russia. We will not be left behind as others secure greater market share at the expense of American exporters. To compete, we must access the world's fastest growing markets on a playing field that is both level and reflects our values as Americans.

4. **You testified that EDA estimates its return on investment to be $6.90 per dollar invested based on the Agency's historical portfolio and findings from a Rutgers study that evaluated outcomes of EDA's investments.**

    a. **Please describe the EDA's administrative costs in awarding and administering grants.**

The administration of EDA's Economic Development Assistance Programs (EDAP) is carried out through a network consisting of Headquarters offices located in Washington, DC, and six Regional Offices located in Atlanta, Austin, Chicago, Denver, Philadelphia, and Seattle. This network of Headquarters and Regional Offices that award and administer grants are funded out of the EDA Salaries and Expenses (S&E) account. In the FY 2012 Congressional Budget Request, EDA requested $40.6 million and 205 Full Time Equivalent (FTE) positions for the S&E account.

    b. **Please describe how the Department measures the success of its efforts, and whether these metrics are comparable to those used by private entities who must report their results to private investors.**

EDA utilizes its Government and Performance and Results Act (GPRA) measures to track and report on the success of its efforts. These measures are designed to assess the agency's capacity to create jobs and leverage private sector investment and improve community capacity. Many public sector economic development organizations utilize similar metrics, such as jobs created, to track and report their impacts.

    c. **Please describe how this success rate has improved or declined over the last 5 years.**

EDA has a strong record of successfully achieving its goals of encouraging job growth, leveraging private sector investment, and enhancing community capacity. EDA has met or exceeded its goals of supporting job creation and private sector investment in all but two occasions over the last five years. EDA's performance in achieving its goals for improving community capacity measures have decreased slightly, most likely due to the recent downturn in the economy.

    d. **Please describe whether any legal constraints exist that Congress should consider removing to improve the EDA's success rate.**

There are no existing legal constraints.

    e. **Please explain how the government chooses in which companies or projects to invest, and whether that, in effect, is the government picking winners and losers. Please describe any scoring or similar system used in identifying which projects will result in the most return on investment. Please also describe any other considerations the Department uses to identify grant recipients such as whether the project or company resides in an economically depressed area, and how such considerations rank in your decision matrix.**

By statute, EDA makes strategic investments to assist economically distressed communities become more competitive. EDA does not invest directly in private companies; rather it takes a bottom-up approach to supporting economic development. Specifically, EDA provides funding to State, local, Tribal, and non-profit entities to create the climate necessary for business and job creation. This includes investments in innovation infrastructure, technical assistance, planning, and revolving loan funds. In evaluating potential proposals, EDA has a multi-phase process to ensure that the most competitive projects are selected. This process includes an evaluation of a proposed project's technical merits and feasibility and how it fits with the agency's investment priorities and overall portfolio. All EDA investments are required to assist communities deemed distressed based on EDA's regulatory requirements. Generally, EDA uses Census and Bureau of Labor Statistics (BLS) data to make determinations on eligibility.

f. Please explain why the taxpayer should have any confidence that EDA will do a better job than private investors picking viable technology or ideas in which to invest.

EDA does not compete with the private sector in picking technologies or ideas. EDA investments are designed to assist distressed communities in leveraging their regional assets to create jobs and support regional economic growth.

g. Do you see any risk that EDA will fund projects that benefit politically-connected interests rather those with the most promising ideas? What safeguards are in place to prevent this?

EDA has a multi-phase process to ensure that the most competitive projects are selected. This process includes an evaluation of the proposed project's technical merits and feasibility and how it fits with the agency's investment priorities and overall portfolio. There are many checks in place throughout EDA's process. Each application is individually reviewed by many separate individuals within EDA, including engineers, environmental officers, EDA's Investment Review Committees, the Regional Director, and Headquarters representatives. All of these individuals inform EDA's investment decisions and ensure a balanced and equitable review of each application.

h. Please explain why these projects need Federal dollars if they generate such high returns.

EDA often provides the seed-capital necessary to catalyze private sector investment when other sources of funding are not available. EDA's dollars complement, but do not substitute for, private sector investments. EDA funds also provide technical assistance and crucial testing facilities to promising entrepreneurs and technologies. In this manner, EDA helps provide a level playing field for distressed communities to attract private sector investment.

i. Please describe whether the Commerce Department receives any of these returns to make additional grants, or whether those returns stay with the private entities that were subsidized by EDA grants.

EDA investments are designed to ensure that additional private sector dollars are invested in local communities. It is this additional investment, leveraged by EDA funding, that EDA measures as its return. The beneficiaries of these returns are the local/regional economies in which EDA invests.

j. If your answer is that the returns remain with the private entities, please explain why these private entities should retain such high returns earned through government subsidies.

Returns are generated by private entities and remain in the local community.

5. **A recent Reuters article reported that our international patent applications declined by 1.7 percent in 2010, to a level about 20 percent below 2007 levels. At the same time, China increased its filings by 56.2 percent, triple its 2006 figure. At the same time, South Korea and Japan grew their filings by 20.5 percent and 7.9 percent respectively, and of the 10 firms that filed the most applications, only one was a U.S. firm. While the U.S. still leads the world in the number of filings with close to 45,000 filings compared to China's filings of just over 12,000 in 2010, this appears to be a disturbing trend. Please describe whether policy makers should be concerned by this trend, and if so, how we address this trend.**

I have referred this question to the U.S Patent and Trademark Office (USPTO) since EDA is not involved with patent applications. USPTO Director David Kappos will be responding directly to the Committee.

6. **In the EPA's February regulatory impact analysis on new rules for commercial and industrial solid waste incineration units, the agency stated that "an increase in labor demand due to regulation may have a stimulative effect that results in a net increase in overall employment." Additionally, the agency stated that when regulations mandate equipment be replaced with equipment meeting new standards, that also is a "job-creating" activity.**

    a. **In the first instance, aren't these regulatory compliance employees really just an expense for the company? Are they innovating or producing anything other than paperwork? Will they create revenue that can then be re-invested in R&D or growth?**

    b. **In the second instance, won't requiring new equipment just create an artificial and temporary increase in jobs? Are these new jobs the result of innovation? Are they jobs creating products with long-term demand and a sustainable market?**

    c. **Is this belief that imposing new regulations that simply <u>cost</u> businesses money is more valuable than freeing up capital to invest in R&D, innovative products, and business expansion in line with the Administration's views on job creation and growth?**

As the EDA did not have a role in reviewing the Environmental Protection Agency's (EPA) regulatory impact analysis on new rules for commercial and industrial solid waste incineration units, I would refer you to EPA for appropriate comment. More generally, the Obama Administration recognizes the need for a more cost-effective, transparent, and smart regulatory system that supports the long-term economic strength and global competitiveness of the United States. To achieve this goal, President Obama signed an Executive Order in January outlining his regulatory strategy to support continued economic growth and job creation, while protecting the safety, health and rights of all Americans.

7. **A recent GAO report, GAO-11-318SP, raised concerns regarding economic development programs administered by the Department of Commerce, the Department of Agriculture**

(USDA), the Department of Housing and Urban Development (HUD), and the Small Business Administration (SBA). Among other things, the report states as follows: "Commerce's Economic Development Administration (EDA), which administers eight of the programs GAO is currently reviewing, continues to rely on a potentially incomplete set of variables and self-reported data to assess the effectiveness of its grants. The incomplete set of variables that the agency relies on to estimate the effectiveness of EDA program grants may lead to inaccurate claims about program results, such as the number of jobs created. Moreover, EDA staff request documentation or conduct site visits to validate the self-reported data provided by grantees only in limited instances."

a. **Do you agree with GAO's findings regarding the EDA? If not, why not?**

EDA's focus with performance evaluation is on assessing the outcomes of the agency's investments, as well as identifying mechanisms for ensuring continuous improvement. EDA utilizes a variety of tools to track performance and monitor the effectiveness of the Agency's investments. The agency's Government Performance and Results Act (GPRA) measures, which are one of the most well-known of these tools, are designed to capture the impact of EDA's investments on job creation, leveraging private investment, and improving community capacity. EDA's GPRA measures are not designed to evaluate the overall effectiveness of the EDA's investments, but rather are designed to communicate the outcomes of the agency's investments in specific areas outlined by the agency mission. EDA evaluates effectiveness at the project level by reviewing a range of data and information, including key deliverables, project outcomes, financials, and progress reports as part of the grant administration process.

EDA's GPRA data are based on self-reported information supplied by EDA grantees three, six, and nine years after an initial EDA investment. While EDA understands that there are limits to grantee self-reported data, EDA has worked to ensure that its system of validation and verification is as robust as possible given its historical funding constraints. GAO's observation that "EDA conducts limited checks on the data" does not seem to take into consideration the entirety of this system.

b. **Has the Commerce Department taken any steps to address GAO's findings? If so, what? If not, why not?**

c. **Does the Commerce Department plan to take any other steps to address GAO's findings? If so, what?**

In response to b and c, as part of its effort to focus on continuous improvement, EDA continues to work to issue clarifying guidance and tools to help improve performance reporting, and the agency continues to closely monitor that projects are following guidance on the use of attribution as previously recommended by GAO and previously implemented. Additionally, EDA continues to work to cultivate partnerships to identify ways to improve its mechanisms for gathering, assessing, and reporting performance data. These partnerships have included independent third-party program evaluations conducted by Rutgers University and Grant Thornton/ASR Analytics, which have validated EDA's current data review process.

d. **Under what circumstances does EDA request documentation or conduct site visits to validate data reported by grantees?**

When grantees submit data on their projects, EDA Regional Office staff, who have unique knowledge of regional trends and data as well as experience with the projects, review the information to ensure that the reported data is consistent with local realities and expectations. If submitted data does not make sense given their knowledge of the area and the project, the Regional Office staff contact the grantee and request additional information. Site visits are conducted by Headquarters personnel in each EDA region on a rotating basis; sites are chosen randomly from the set of projects that reported during the previous fiscal year. The number of site visits conducted on an annual basis is dependent upon available funding.

e. **How many times since March 1, 2009, has EDA requested documentation, conducted site visits, or taken other steps to validate grantee-reported data? Did any of these document reviews, site visits, or other investigations indicate that a grantee submitted inaccurate or incomplete data to EDA? If so, what if any steps did EDA take to address the submission of inaccurate or incomplete data?**

EDA does not track data on the number of times EDA personnel request documentation, conduct site visits, or take other steps to validate grantee-reported data. These methods of verification are undertaken on a routine basis throughout the life of an EDA grant. At the time of award, grantee estimates are expected to be substantiated through letters of commitment from beneficiaries of the grant or other third-party documentation, which is scrutinized by EDA personnel reviewing the application. During the course of the grant, EDA personnel typically make periodic site visits and receive regular reports providing updates on the project's progress. After the grant award, EDA personnel review recipient reported data to ensure that the reported data is consistent with local realities and expectations. If submitted data does not make sense given their knowledge of the area and the project, the Regional Office staff contact the grantee and request additional information. Site visits are conducted by Headquarters personnel in each EDA region on a rotating basis; sites are chosen randomly from the set of projects that reported during the previous fiscal year. The number of site visits conducted on an annual basis is dependent upon available funding. If any inaccurate data are identified during any of these reviews, EDA personnel are expected to work with the grantee to obtain the most accurate information, and ensure that the data are immediately corrected in EDA's database of record.

f. **Since March 1, 2009, have any third parties contacted the EDA to allege that grantees provided inaccurate or incomplete data regarding program results? If so, what if any steps did EDA take to address such allegations?**

EDA is not aware of any such allegations.

g. **Since March 1, 2009, what steps has the Commerce Department taken to improve coordination of economic development programs with USDA, HUD, and SBA?**

Due to EDA's historic, singular focus on job creation, the agency plays a key role in shaping Federal policy for fostering economic development. In this leadership role, EDA has built upon its long practice of coordinating with other Federal agencies and its knowledge of best practices in economic development to create several new initiatives designed to more strategically advance regional economic development. These initiatives formally leverage each partner's complementary activities to advance regional economic development in the broadest sense, including infrastructure, housing, social and community development, a skilled workforce, entrepreneurial talent, technology, and access to capital. As one example, EDA recently collaborated with SBA, DOL, DOE, NSF, NIST, and ED on the Energy Regional Innovation Cluster Initiative (E-RIC) to develop and implement a cross-cutting, collaborative approach built on best practices to stimulate sustainable economic development. Because all of these agencies have varying focuses, programmatic objectives, and eligible recipient entities, they all have unique and complementary niches related to economic development. The strategic collaboration of these six agencies allows the Federal government to support a more overarching vision for economic development.

Additionally, EDA partners with other Federal agencies in running a Regional Innovation Program (Growth Zones) and the Taskforce for the Advancement of Regional Innovation Clusters (TARIC). In the Growth Zones Initiative, EDA and its partners the Department of Housing and Urban Development (HUD) and the U.S. Department of Agriculture (USDA) foster regional innovation clusters, promote the export potential of American regions, and encourage 21st Century innovation infrastructure by providing strategic technical assistance and implementation investments to foster regional innovation clusters in urban and rural America. TARIC consists of a partnership between EDA, the International Trade Administration (ITA), NIST, SBA, DOL and ED. TARIC uses the unique economic and business development expertise of the Federal partners to promote and support economic development strategies that encourage high tech, sustainable, and green cluster development.

Subcommittee on Commerce, Manufacturing, and Trade
Made in America: Innovations in Job Creation and Economic Growth
March 3, 2011
Additional Questions for the Record
Chris Cummiskey

The Honorable Mary Bono Mack

1. **According to economists, we technically emerged from the recession in the summer of 2009 and have experienced modest growth nationally since then. You testified, however, that Georgia experienced a 21 percent increase in exports in 2010 over 2009. Please describe any specific factors, if any, to which you can attribute this significant growth in exports from your State.**

   2010 was a record year for Georgia exports with $28.7 billion, a 21% increase over 2009. When looking at the products exported, both at the 4-digit and 6-digit levels, we see increases in many product categories. This is good news for Georgia in that our increase in exports cannot be explained by a single sale of a high-dollar value item, such as an airplane. Starting in 2008, Georgia saw an increase in the number of small businesses that strategically targeted international markets as a means of diversifying their markets. Some of the increase in exports can be attributed to this strategic decision. However, there were two primary reasons for the increased exports. First, the exchange rates in 2010 made U.S. products more favorable leading to an increased demand for high-quality U.S. products at affordable prices. Secondly, worldwide economic growth of 5% outpaced U.S. economic growth of 3%, which gave more purchasing power to companies worldwide.

2. **According to your testimony, the Quick Start program has prepared more than 750,000 trainees since 1967, or an average of over 17,000 trainees per year. Please describe how many of these trainees have transitioned into jobs.**

   We do not have that specific number, but Georgia Quick Start estimates that 85% of tbe people trained are hired and go through post-employment training.

3. **You testified that Georgia's tax code (specifically, a low overall rate and limiting taxation to income earned only in Georgia) and limited regulatory environment are key to creating an environment that fosters business growth. Please describe how this regulatory and tax environment have contributed to that growth.**

   Companies are risk-averse and are therefore most likely to choose to locate or expand in a business climate that minimizes risk and enbances their chances of profitability. With a favorable tax code and fewer regulatory restrictions, companies are empowered to maximize these opportunities. Georgia's 6% corporate income tax is not only one of the lowest in the U.S., it has remained stable since 1969. Because companies seek a stable tax environment so they can plan for long-term growth, this tax rate has remained one of Georgia's strongest assets for its business growth.

   We also have statutory corporate tax credits based on job creation. Companies do not qualify for tax savings unless they create the jobs mandated by law under the BEST legislation.

   Georgia's regulatory environment is very balanced, accommodating the needs of businesses while protecting the quality of our air, land and water. Georgia is interested in protecting its environment. We also know that companies must have a reasonable time frame in which to plan and complete major renovations.

For instance, Georgia is unique in that it is one of a small handful of states whose environmental permitting program is consolidated with the U.S. Environmental Protection Agency (EPA) for the issuance of federal permits: a one-stop process that provides a faster turn-around than in most other states. The director of the Environmental Protection Division (EPD) of the Georgia Department of Natural Resources is authorized to grant all permits provided for by EPD-enforced laws. Major regulatory programs currently assigned to EPD are air quality control, water quality control and withdrawal, hazardous waste management, solid waste management and wastewater land application. The EPA allows the Georgia EPD to issue permits under the Federal Clean Water, Clean Air and Safe Drinking Water Acts.

4. **You testified that the Federal regulatory environment is challenging to your State's businesses, and that States should be permitted to adopt regulatory procedures that work best for them. Please provide examples of which regulatory procedures would be best adopted and administered at the State level.**

For example, states' business climates are often subject to shifting interpretations of federal policies, which make it difficult to communicate these policies accurately to companies, and difficult for them to plan for growth.

Also, there are often duplicative layers of state and federal agencies regulating the same activities, but states are most often better suited to determine the best course of action at the state and local level. Specific examples are:

- Air and water permitting – state environmental agencies have the inspectors on the ground and are in the best position to assess and execute permitting and regulating facilities that impact air and water quality. Requiring federal intervention is often costly and causes unnecessary delays for companies, who are used to moving quickly. In fact, EPA currently requires a 404 permit and the state requires a 401. These permits could be combined and expedited by allowing the state to issue one common permit.
- Workplace Standards – state government should be allowed to establish and regulate workplace rules as they see fit, particularly as it applies to unionization in the workplace. Right to Work states should be free to continue their policies of open workplaces. Unfortunately, federal proposals continue to try to undermine these efforts which will reduce efficiencies and productivity in the workplace. We also believe that education and cooperation with state agencies and local businesses is a more effective approach to workplace safety for companies than an over-reliance on federal enforcement.
- Transportation – planning and funding of roadways are best managed at the state level (while recognizing the exception of the federal interstate highway network). The current system of collection of a federal gas tax that is then inequitably returned to the states is an ineffective an inefficient means of funding state-level roadway projects, which can severely affect the supply chain for companies.
- Health Care – states should be given the flexibility to determine the mandated benefits and requirements for certification of health plans that are offered within their states. The increasing burden of federal mandates and regulations are contributing to the rising costs of health plans for companies.

Office of Representative Marsha Blackburn
217 Cannon House Office Building
Washington, D.C. 20515

Dear Representative Blackburn:

Thank you for the opportunity to testify before the House Energy and Commerce Committee, at the hearing entitled "Made in America: Innovation in Job Creation and Economic Growth."

First, as I described in my testimony, government does not have a revenue problem; it has a spending problem. According to CBO projections, federal outlays in 2020 are expected to be 25.2 percent of GDP, which is 20 percent higher than the historical standard. With those pending burdens, government should adopt the Hippocratic Oath and first to "do no harm." Increasing taxes won't stimulate economic growth and it won't dig us out of our fiscal hole.

Second, the federal government must show the courage to restrain entitlement spending. Nothing on the discretionary side will bring the federal budget back into balance. Spending on entitlements will equal 10.4 percent of GDP in 2011, growing to 12.5 percent in 2021. Most of this growth can be attributed to rising Medicare spending and the upward pressure from Affordable Care Act outlays. A serious approach to ensuring fiscal solvency should address rising health care entitlements.

Third, once tax cuts are avoided, the federal government should embark on a pro-growth tax reform plan that not only addresses our fiscal needs, but also recognizes our fragile business environment. A plan that avoids inefficient tax subsidies but promotes the upward mobility of Americans is preferred.

Fourth, reforming the nation's corporate tax structure can also help to promote growth and remove inefficiencies that drive businesses overseas. We need to move to a territorial tax system that allows the U.S. to compete with other industrialized nations. A territorial system with lower corporate tax rates will increase our competiveness and could actually bolster federal revenue.

Fifth, rolling back the built-in spending increases since 2008 will go a long way toward restoring budget stability. Rolling back discretionary allocations to 2008 levels, as envisioned by Representative Paul Ryan, is a strong first step, and it will show the world that we are serious about fiscal reform.

Regarding areas that we need to cut, first I would echo the findings from a recent Government Accountability Office (GAO) report that recommends ending the Volumetric Ethanol Excise Tax Credit. With heavy tariffs on foreign ethanol and an existing law mandating ethanol use, ending approximately $6 billion in federal subsidies is a prudent choice.

Second, direct payments to the agricultural industry could be reduced. According to GAO, 62 percent of farm program expenditures were distributed to the largest 12 percent of farmers in 2008. Placing income eligibility limits to some direct payments could save billions of taxpayer dollars.

Third, rescinding unspent Stimulus funds would save billions. The Stimulus is more than two years-old and unspent funds are an easy target for spending reductions.

Finally, federal entitlements are the largest and most important pieces of our budget, and reforming them is no longer optional; reform must be passed soon. The President's Fiscal Commission included a thoughtful plan to heal Social Security. This would involve gradually increasing the retirement age, slowing the growth in future benefits for high income earners, and enhancing benefits for low-wage workers.

Reforming health care entitlements presents a more difficult, but nevertheless more pressing problem. A responsible plan that reforms Medicare, Medicaid, and reduces the most onerous provisions of the Affordable Care Act will go a long way toward solving our fiscal crisis.

I hope these answers were responsive to your inquiries. If you have any further questions please feel free to contact me or my staff.

Sincerely,

Douglas Holtz-Eakin
President
American Action Forum

Office of Representative Mary Bono Mack
104 Cannon House Office Building
Washington, D.C. 20515

Dear Representative Bono Mack:

Thank you for the opportunity to testify before the House Energy and Commerce Committee, at the hearing entitled "Made in America: Innovation in Job Creation and Economic Growth."

First, I'd like to address how deficits impact economic growth and job creation. Unprecedented deficits will generate incredible pressure for tax hikes. Indeed, even modest deficits caused some policymakers to introduce legislation that eliminated the tax cuts of 2001 and 2003. Large and sustained federal deficits ultimately lead to upward pressure on interest rates, which would in turn reduce capital available for private industry. This makes it more difficult for businesses to operate, expand, and hire new workers.

The problem with deficits this large and this severe is that they could cause a fiscal crisis, of the kind seen in Greece and Ireland. If financial markets become wary of our ability to repay our debt, interest rates could spike, further deepening federal deficits.

Second, based on the American Action Forum's recent research, spending cuts trump tax increases when countries attempt to close large budget deficits. Countries achieve the best fiscal results when they rely on spending reductions, as opposed to tax increases.

The key to recovery is sustained economic growth; as an expansion continues more and more people participate in the labor market, turning recipients of government programs into taxpayers. This is why reducing a budget gap with tax increase is so harmful. The short-term revenue gain is counterbalanced with reduced economic growth, both today and in the future.

Third, the fiscal problem over the current decade cannot be solved by revenue increases and sustained economic growth alone. Under the President's Budget proposal, federal revenue collections will reach 20 percent of GDP by 2010, an historic high. The federal government has never collected revenues as high as 25 percent of GDP and no economist or politician expects Congress to raise that much revenue. This is a spending problem, and entitlement reform and real spending restraint can turn a potential sovereign debt crisis into a path for fiscal solvency.

Fourth, CBO actually projects a deficit of $1.3 trillion in Fiscal Year 2020. And they estimate that $900 billion alone would be service on previous debt. Presumably, the remaining amount would represent the current account deficit.

Fifth, research and development, continue???

Sixth, by enacting pro-growth tax reform we can lower rates, expand the revenue base and eliminate inefficiencies in tax collection. There is a broad consensus among economists that corporate tax reform could increase federal revenue collections. According to a recent CBO study, middle-class workers bear the burden of 70 cents out of each dollar of corporate income tax. One reason for this impact is that the U.S. is the only industrialized country that engages in the destructive practice of "Worldwide Taxation."

We need to move to a territorial tax system that allows the U.S. to compete with other industrialized nations. A territorial system with lower corporate tax rates will increase our competiveness and could actually bolster federal revenue.

Seventh, the vast majority of economists recognize the benefits of foreign trade. The U.S. has long been a world leader in trade, promoting the value and benefits of free markets. The facts are straightforward: 95 percent of consumers are in other countries; if we want more people buying U.S. products, we will have to sell to foreign markets.

U.S. workers can compete with anyone in the world but we must ensure that U.S. products are available at the lowest possible price, which in turn means that we don't place punitive tariffs on imported goods and we must ensure foreign countries act in kind. Free trade agreements represent the best international vehicle for enhancing American competitiveness and prosperity.

Finally, the appropriations process controls budget authority, not actual outlays or spending. Budget authority can be thought of as deposits into a checking account, and outlays would represent checks that the federal government writes. Cutting deposits would eventually reduce federal spending, but not immediately.

In addition, some of the cuts in the CR rescind unspent balances; the equivalent of withdrawing money from a checking account to eliminate the ability to spend. This eliminates the ability to spend money in the future, but it doesn't eliminate money from ongoing programmatic support.

I hope these answers were responsive to your inquiries. If you have any further questions please feel free to contact me or my staff.

Sincerely,

Douglas Holtz-Eakin
President
American Action Forum

March 18, 2011

Ms. Deborah L. Wince-Smith
President and CEO
Council on Competitiveness
1500 K Street N.W.
Washington, D.C. 20005

Dear Ms. Wince-Smith:

Thank you for appearing before the Subcommittee on Commerce, Manufacturing, and Trade on Thursday, March 3, 2011, to testify at the hearing entitled "Made in America: Innovations in Job Creation and Economic Growth."

Pursuant to the Rules of the Committee on Energy and Commerce, the hearing record remains open for ten business days to permit Members to submit additional questions to witnesses, which are attached. The format of your responses to these questions should be as follows: (1) the name of the Member whose question you are addressing, (2) the complete text of the question you are addressing in bold, and then (3) your answer to that question in plain text.

To facilitate the printing of the hearing record, please respond to these questions by the close of business on Friday, April 1, 2011. Your responses can be e-mailed to the Legislative Clerk, in Word or PDF format, at Peter.Kielty@mail.house.gov.

Thank you again for your time and effort preparing and delivering testimony before the Subcommittee.

Sincerely,

Mary Bono Mack
Chairman
Subcommittee on Commerce,
Manufacturing, and Trade

cc: The Honorable G.K. Butterfield, Ranking Member,
Subcommittee on Commerce, Manufacturing, and Trade

Attachment

Subcommittee on Commerce, Manufacturing, and Trade
Made in America: Innovations in Job Creation and Economic Growth
March 3, 2011
Additional Questions for the Record

The Honorable Mary Bono Mack

1. **You testified that "global economics is not a zero-sum game" and that a job created in another part of the globe does not necessarily equate to a job loss in the U.S. Please briefly explain this statement.**

The belief that a job gained in another country equates to a job lost in America is predicated on the faulty assumption that the global market is stagnant, and that new goods, services and accompanying technologies will not account for greater economic growth and job creation. Consider the widespread proliferation of mobile phones, portable music players, GPS devices and other innovative products. Regardless of the location of the facility, the production of these goods has not taken away from American jobs; it has simply added to the global job pool. It is also important to note that the research, development, testing and sales of these products all create jobs in the U.S for American workers.

Additionally, when the role of productivity is considered, the disparity in new job creation between the U.S. and emerging manufacturing powers, often a catalyst for discussions about "lost" American jobs, is less severe. On average, U.S. workers are 10 times more productive than their Chinese counterparts, meaning that our ability to produce widgets fundamentally requires fewer workers. Consequently, direct comparisons of jobs gained and lost is a poor proxy for understanding the broader economic dynamics.

In short, the global economic equation will remain "plus-sum" as long as we continue to create new, innovative and technologically advanced products for consumption in the U.S. and abroad. By extension, job creation will also be "plus-sum" as new workers and production facilities are required to create in-demand goods and services.

2. **In relation to government regulations, you testified that we need a benchmarking process to analyze the impact of regulations, and that we must diminish the cost and complexity of regulatory compliance.**

   a. **Please provide any estimates you have describing the cost government regulations imposed on the manufacturing industry.**

Part of the challenge facing the manufacturing sector is that statistics relating to compliance costs vary dramatically across subsectors. It is evident, however, that the same regulatory structure governing the production of automobiles may not be the most appropriate framework with which to govern the production of medical devices, clean energy technologies or telecommunication products.

The "one size fits all" approach to regulation has created an unnecessarily complex compliance web that manufacturers of all size have to negotiate. This extends to include overlapping regulations at the federal, state and local levels, a reality that further hampers the competitiveness of U.S. manufacturing firms.

A streamlined approach to regulation, one which accounts for variation across industry subsectors, is a critical step moving forward. With easy to understand regulations, and straightforward compliance process, U.S. manufacturers can ensure the safety of their employees, their products and the environment, without compromising their competitive edge.

b. Please also describe the impact of those regulations on the manufacturing sector's growth.

The existing regulatory framework facing U.S. manufacturers is cumbersome, outdated and inefficient. As a result, the regulatory barriers facing start-up enterprises are often overwhelming and retard growth of the sector. Moreover, compliance challenges often slow or prohibit existing firms as they seek to expand operations and hire new workers. In a global environment with compressed windows of opportunity, the inability to move quickly means the difference in being the industry leader and being unable to field a competitive product in a saturated market. We need to endow our manufacturers with every advantage possible, and clear regulations with straightforward compliance processes are critical steps for us to take in this process.

c. Please describe any specific suggestions you have regarding what a benchmarking process should entail.

In benchmarking regulation best practices, it is important to learn from, and improve on the regulatory environments U.S. manufacturers' largest competitors face in other markets. It would be important to learn from the regulatory process in places like Singapore, Germany, Japan and other advanced manufacturing economies to better understand the difference between effective and excessively burdensome regulatory apparati.

3. A recent Reuters article reported that our international patent applications declined by 1.7 percent in 2010, to a level about 20 percent below 2007 levels. At the same time, China increased its filings by a 56.2 percent, triple its 2006 figure. At the same time, South Korea and Japan grew their filings by 20.5 percent and 7.9 percent respectively, and of the 10 firms that filed the most applications, only one was a U.S. firm. While the U.S. still leads the world in the number of filings with close to 45,000 filings compared to China's filings of just over 12,000 in 2010, this appears to be a disturbing trend. Please describe whether policy makers should be concerned by this trend, and if so, how we address this trend.

While this trend is indeed alarming, it is important to not lose sight of the fact that, despite a relative decline in patent applications, the U.S. still filed almost four times the number of patents in 2010 than did China. Regardless, there are many steps that could and should be taken in the U.S. to advance the patent application process.

I applaud recent measures enacted by the Patent Office to streamline this process, but feel more could and should be done to more closely align the time required to receive a patent with the global pace of business. Our ability to remain competitive in foreign markets is contingent on appropriate protection of intellectual property, and we cannot afford to have America's big new ideas sidelined by inefficient bureaucratic processes.

Additionally, this trend highlights the importance of putting into place a manufacturing infrastructure capable of exploiting new ideas regardless of there origin.

4. **You testified that we must strengthen IP protection, particularly in emerging markets. Please describe any specific examples or recommendations you may have.**

While no silver bullet exists, it is critical to ensure that American firms operating in emerging markets are afforded due protection under international law and existing trade agreements. The office of the USTR must aggressively pursue cases of IP violation to ensure that American companies don't see their intellectual property commandeered by foreign firms.

As I have said above, the U.S. government must also expedite the approval process for legal protection of intellectual property through reforms in the patent process. We are beginning to learn that the only true protection for intellectual property is to continue the innovation process, meaning an agile and lean patent system is also needed.

By out-innovating competition, intellectual property protection can become a less serious threat to competitiveness. In China, we see emphasis placed on new product design and development; an insurance policy of sorts to hedge against the risk of IP violations. Greater innovation and faster product development can allow manufacturers to stay a step ahead of the competition and ensure the security of their investments in research and development.

Response from Rhone Resch
President and Chief Executive Officer, Solar Energy Industries Association
in response to questions from
The Honorable Mary Bono Mack,
Chairman of the Subcommittee on Commerce, Trade, and Manufacturing,
Hearing entitled
"Made in America: Innovations in Job Creation and Economic Growth"
held on March 3, 2011.

Questions from the Honorable Mary Bono Mack

1. **Please describe how the costs to consumers of solar power compare to the cost of other sources of energy, such as coal, oil, natural gas, and nuclear.**

   Solar power is the fastest growing electric generation technology in America today and is increasingly competitive with other energy sources. (SEIA/GTM Research "U.S. Solar Market Insight: 2010 Year-in-Review" March 2011) The average cost of solar photovoltaic (PV) installations dropped roughly twenty percent last year alone and the solar industry expects costs to continue to decline. (SEIA/GTM Research "U.S. Solar Market Insight: 2010 Year-in-Review" March 2011)

   The cost of solar electricity varies based on location, technology and size and can be as low as twelve cents per kilowatt-hour today. (Lazard "Levelized Cost of Energy Analysis – Version 3.0" June 2009) While this is more than the cost of electricity from an old, fully-depreciated fossil or nuclear plant, it is less expensive than constructing and operating new nuclear power plants or clean coal generation facilities with carbon capture and storage. (Lazard "Levelized Cost of Energy Analysis – Version 3.0" June 2009)

   The Energy Information Administration (EIA) cost estimates for solar power plants have dropped in recent years while cost estimates for other technologies have risen. (Energy Information Administration "Updated Capital Cost Estimates for Electricity Generation Plants" November 2010) For example, according to EIA, solar photovoltaic capital costs dropped 25% in 2010, a dramatic decrease. ("Updated Capital Cost Estimates for Electricity Generation Plants" November 2010) In addition, while EIA cost estimates for solar tend to lag actual progress in cost reduction, even its high estimates for solar are lower than those estimated by EIA for clean coal technologies and nuclear power. ("Updated Capital Cost Estimates for Electricity Generation Plants" November 2010) Finally, solar water heating is cost competitive in many settings from sunny Hawaii and Florida up to New England where it replaces expensive heating oil. As the cost of solar energy systems continues to fall, more families, businesses and utilities across America will choose solar as a cost-effective clean energy solution.

2. **Please explain why the government should subsidize significantly more expensive energy with millions of taxpayer dollars.**

   Like other sectors of the U.S. economy—including aviation, housing, and agriculture—energy industries receive support from the federal government in the form of research and development, direct payments, and tax incentives. (Pew Subsidyscope, www.subsidyscope.org) For example, through the Atomic Energy Commission, the federal government led the effort to commercialize nuclear power.

   Traditional technologies have, to-date, received far more support than solar technologies. (Management Information Systems "Analysis of Federal Energy Expenditures for Energy Development" September 2008)

   Tax incentives for today's newer energy sources help level the playing field with energy sources that have been subsidized by the federal government for many decades. (Management Information Systems "Analysis of Federal Energy Expenditures for Energy Development" September 2008) Solar incentives help to diversify the nation's portfolio of energy resources, strengthen its national security, provide hundreds of thousands of new jobs to Americans, improve air quality, and regain our international leadership in cutting-edge technologies and manufacturing.

3. **If the government forces utilities to purchase expensive solar power, a more expensive source of energy than traditional sources, please explain whether that would increase the cost of electricity to the consumer and businesses, thereby increasing the overhead cost of businesses and making them less competitive, and cause businesses to shed jobs in order to cover the added costs of the increased energy expense.**

   First, as discussed above, according to EIA and others, solar photovoltaic capital costs are lower than key competing resources such as new clean coal generation and nuclear power. Second, solar power is different from most traditional electricity sources in that its cost is paid up front but the fuel is free forever. Third, solar produces power on peak, when demand and costs of traditional generation are high, which enhances its value. In addition, significant improvements have been made in storage technologies for Concentrating Solar Power that enable solar plants to produce power when the sun is not shining. Fourth, utilities are hedging their bets against the volatile costs of fossil fuels by locking in solar today. (SEIA "Utility-Scale Solar Projects in the United States: Operational, Under Construction and Under Development" February 2011) Fifth, solar is the fastest growing energy sector in the nation today, and is adding tens of thousands of jobs each year, not shedding them. (The Solar Foundation, Cornell University & Green LMI "National Solar Jobs Census 2010" October 2010) The more utilities, businesses and homeowners invest in solar, the more Americans will benefit from stable, well-paying careers.