WHERE THE JOBS ARE: EMPLOYMENT TRENDS AND ANALYSIS

HEARING

BEFORE THE

SUBCOMMITTEE ON COMMERCE, MANUFACTURING, AND TRADE

OF THE

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C O N T E N T S

WITNESSES

WHERE THE JOBS ARE: EMPLOYMENT TRENDS AND ANALYSIS

WEDNESDAY, FEBRUARY 15, 2012

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON COMMERCE, MANUFACTURING, AND TRADE
COMMITTEE ON ENERGY AND COMMERCE,
Washington, DC.

The subcommittee met, pursuant to call, at 10:08 a.m., in room 2123 of the Rayburn House Office Building, Hon. Mary Bono Mack (chairman of the subcommittee) presiding.

Members present: Representative Bono Mack, Blackburn, Bass, Harper, Lance, Cassidy, Guthrie, Olson, McKinley, Kinzinger, Butterfield, Gonzalez, Towns, and Waxman (ex officio).

Staff present: Charlotte Baker, Press Secretary; Kirby Howard, Legislative Clerk; Brian McCullough, Senior Professional Staff Member, Commerce, Manufacturing, and Trade; Gib Mullan, Chief Counsel, Commerce, Manufacturing, and Trade; Shannon Weinberg, Counsel, Commerce, Manufacturing, and Trade; Michelle Ash, Democratic Chief Counsel, Commerce, Manufacturing, and Trade; and Will Wallace, Democratic Policy Analyst.

Mrs. BONO MACK. Good morning. As the economy—as the American economy struggles to regain its footing, we are going to spend a great deal of time this year as a subcommittee exploring both the obstacles and opportunities for job creation. Today we will hear from a respected panel of experts who will join us in a wide range of discussion about employment trends in America and what factors are driving and shaping these trends.

I also want to thank everyone here for your ongoing commitment and efforts aimed at creating new economic opportunities and new jobs for Americans.

And now the Chair recognizes herself for an opening statement.

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

Last year when I began chairman of the subcommittee, I encouraged all of my colleagues to join me in an effort to make "Made in America" matter again.

Well, today we are actually starting to see a renaissance of sorts in manufacturing with companies like Caterpillar, General Motors, Master Lock, Sauder Furniture, General Electric, Ford, and many other companies all bringing jobs back to the U.S. But is this trend sustainable, or will jobs return to America in dribs and drabs instead of droves? This is the first in a series of hearings we will hold this year looking closely at ways to stimulate job creation and economic opportunities.

I believe we have a window of opportunity, but it could close on us quickly if we don't take action. China's overwhelming manufacturing cost advantage over the U.S. is shrinking fast. Within 5 years a Boston Consulting Group analysis concludes that rising Chinese wages, higher U.S. productivity, and weaker dollar increase Trans-Pacific shipping costs and a variety of other factors will virtually close the cost gap between the U.S. and China for many goods consumed in North America.

This is our chance, in fact, the best chance we have had in decades to make "Made in America" matter again. But to be successful we must remove the roadblocks and barriers businesses are facing today when it comes to job creation. Embracing tax reform, regulatory reform, and tort reform are just some of the things that Washington can do to help jump start real job growth in America.

But here is the good news. The data issued by the Bureau of Labor Statistics shows a recent uptick in monthly job creation with the jobless rate declining to 8.3 percent. Now, here is the bad news. To date we have had 36 straight months of unemployment above 8 percent, the longest such streak since the great depression. Today too many people are still suffering. That is why we need to work closely together to create forward-looking policies which will create economic growth in America, not stifle it.

Clearly the lack of job opportunities remains a dark, ominous cloud over Main Street, USA, with the average duration of unemployment for job seekers lasting more than 40 weeks.

The bottom line: unemployment today remains stubbornly and unacceptably high with nearly six million more unemployed workers right now than there were just prior to the beginning the recession in 2007.

Additionally, many economists suggest this number does not, in fact, represent the true unemployment rate. After factoring in a number of people who are under-employed, such as part-time workers in search of full-time employment, and those who have completely given up hope and exited the job market altogether, the Bureau of Labor Statistics reports the effective unemployment rate stands at a staggering 15.1 percent.

What is more, in comparison to recent recessions the rate of our job recovery this time is much weaker, too. For instance, at a comparable point in the recovery from the 1981, to 1982, recession, the U.S. economy had added 6.2 million jobs above pre-recession levels, a growth of 6.8 percent. Yet while the U.S. economy added nearly two million jobs over the past year, the employment level today reflects a net loss with America's non-farm workforce approximately 4 percent below pre-recession levels.

Today industry experts are divided and see things differently when gazing into their crystal balls. The Boston Consulting Group, which is testifying before us today, projects the U.S. has the potential to add up to three million new jobs in the manufacturing sector alone over the next decade. The chief factor in support of his upbeat forecast is the decreasing cost advantage of manufacturing in China due to the rapid rise in Chinese wages.

On the other hand, a study recently conducted by the Harvard Business School involving nearly 10,000 graduates reveals a more pessimistic view, a sense that America has a deepening, competitiveness problem. At the heart of this viewpoint is a sense that our Nation is falling behind in fostering an environment conductive to job creation.

The U.S. tax code, uncertain political environment, and burdensome and sometimes unpredictable regulatory regime, a decline in education system, and the lack of a skilled workforce were cited as contributed factors to this dreary assessment.

So as we examine the data and analyze the trends, is the glass half full or half empty when it comes to our future? While I am a big Clint Eastwood fan, I don't buy the idea that it is halftime in America. I think we are in the fourth quarter, we are still trailing in the game, and we need to drive the length of the field to win. That will take great teamwork and a smart game plan, but working together and for the good of all Americans I know that we can do just that.

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

Opening Statement of the Honorable Mary Bono Mack
Subcommittee on Commerce, Manufacturing, and Trade
Hearing on "Where the Jobs Are: Employment Trends and Analysis"
February 15, 2012
(As Prepared for Delivery)

Last year, when I became chairman of this subcommittee, I encouraged my colleagues to join me in an effort to make "Made in America" matter again.

Well today, we're actually starting to see a renaissance, of sorts, in manufacturing – with companies like Caterpillar, General Motors, Master Lock, Sauder Furniture, General Electric, Ford and many other companies all bringing jobs back to the United States. But is this trend sustainable or will jobs return to America in "dribs and drabs" instead of droves? This is the first in a series of hearings we will hold this year, looking closely at ways to stimulate job creation and economic opportunities.

I believe we have a window of opportunity – but it could close on us quickly if we don't take action. China's overwhelming manufacturing cost advantage over the United States is shrinking fast. Within five years, a Boston Consulting Group analysis concludes that rising Chinese wages, higher U.S. productivity, a weaker dollar, increased Trans-Pacific shipping costs and a variety of other factors will virtually close the cost gap between the U.S. and China for many goods consumed in North America.

This is our chance – in fact, the best chance we've had in decades – to make "Made in America" matter again. But to be successful, we must remove the roadblocks and barriers businesses are facing today when it comes to job creation. Embracing tax reform, regulatory reform, and tort reform are just some of the things Washington can do to help jumpstart real job growth in America.

Here's the good news: data issued by the Bureau of Labor Statistics shows a recent uptick in monthly job creation, with the jobless rate declining to 8.3 percent. Now here's the bad news. To date, we have had 36 straight months of unemployment above 8 percent – the longest such streak since the Great Depression. Today, too many people are still hurting. That's why we need to work closely together to create forward-looking policies which will create economic growth in America – not stifle it.

Clearly, the lack of job opportunities remains a dark, ominous cloud over Main Street, U.S.A., with the average duration of unemployment for job seekers lasting more than 40 weeks.

The bottom line: unemployment today remains stubbornly and unacceptably high, with nearly six million more unemployed workers right now than there were just prior to the beginning of the recession in 2007.

Additionally, many economists suggest this number does not, in fact, represent the true unemployment rate. After factoring in the number of people who are under-employed – such as part-time workers in search of full-time employment – and those who have completely given up hope and exited the job market all together, the Bureau of Labor Statistics reports the "effective" unemployment rate stands at a staggering 15.1 percent.

What's more – in comparison to recent recessions—the rate of our job recovery this time is much weaker, too. For instance, at a comparable point of the recovery from the 1981-to-1982 recession, the U.S. economy had added 6.2 million jobs above pre-recession levels, a growth of 6.8 percent.

Yet while the U.S. economy added nearly 2 million jobs over the past year, the employment level today reflects a net loss – with America's non-farm workforce approximately 4 percent below pre-recession levels.

Today, industry experts are divided and see things differently when gazing into their crystal balls. The Boston Consulting Group, which has a representative testifying before us today, projects the United States has the potential to add up to 3 million new jobs in the manufacturing sector alone over the next decade. The chief factor in support of this upbeat forecast is the decreasing cost advantage of manufacturing in China due to the rapid rise in Chinese wages.

On the other hand, a study recently conducted by the Harvard Business School involving nearly 10,000 graduates reveals a more pessimistic view: a sense that America has a "deepening competitiveness problem." At the heart of this viewpoint is a sense that our nation is falling behind in fostering an environment conducive to job creation.

The U.S. tax code, an uncertain political environment, a burdensome and sometimes unpredictable regulatory and legal framework, a declining education system, and the lack of a skilled workforce were cited as contributing factors to this dreary assessment.

So, as we examine the data and analyze the trends, is the glass half full or half empty when it comes to our future? While I'm a big Clint Eastwood fan, I don't buy the idea that it's halftime in America. I think we're in the fourth quarter...we're trailing in the game...and we need to drive the length of the field to win.

That will take great teamwork and a smart game plan. But working together – and for the good of all Americans – I know that we can do it.

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Mrs. BONO MACK. And with that I now am handing the ball off to the ranking member of our subcommittee, Mr. Butterfield of North Carolina. Mr. Butterfield, you are recognized 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, for holding today's hearing, which I understand is going to be the first of several job-related hearings the subcommittee will hold this year.

There is no more important issue to working Americans than the ability to get and keep a job, provide for their families, and ensure that when their children grow up, they can succeed, too.

The causes of the most recent economic recession are many, and they are certainly complex. While the solutions can also be complex, one thing is certain; the creation of jobs benefits the entire American economy, and in recent monthly employment reports, we have begun to see the fruits of that labor, but there is still much work to be done, and I agree with the chair on that.

On day 1 of his administration, President Barack Obama inherited an economy in the worst shape since the Great Depression, a tremendous national debt was inherited, a crippled manufacturing sector and auto industry, and he became the Commander in Chief of not one but two wars in the Middle East. Just 3 years ago, 3.6 million jobs had been lost and businesses were eliminating more than 700,000 jobs each month. By March of 2010 we reversed that course, and by the end of 2010 American businesses would go on to create more than one million net jobs.

But with the national unemployment rate at 8.3, much more still needs to be done to return us to full employment. One of the keys to returning America to lasting prosperity is education. However, the cost of college remains a major barrier to those wanting to attend, and those barriers are particularly acute for minority citizens. In a June, 2011 report by the College Board, the cost of college was cited as one of the biggest roadblocks to gaining an education. The report find that in order to regain the Nation's once preeminent international position in educational attainment, we must begin to matriculate and graduate populations of American students who traditionally have been underrepresented at the postsecondary level. Only 26 percent of African-American men hold at least an Associate's Degree, compared with almost 50 percent for while males. Those numbers are reflected in current employment statistics with 13.6 percent of African-Americans unemployed compared to 7.4 percent of white citizens unemployed.

I am encouraged by the President's 2013 budget proposal which includes $8 billion, $8 billion for community colleges to help train workers in high-growth industries. The President proposed the creation of a new community college to career fund. That would be administered by the Department of Labor and Education. This effort could lead to over two million unemployed Americans finding good-paying jobs, paying into the system, and help to reduce the debt.

The Bureau of Labor Statistics report on employment for 2010 through 2020 projects that 20.5 million jobs will be created over the course of the decade, many in industries requiring significant education or training. It is, therefore, imperative, Madam Chairman, that we invest significantly in these areas in order to build the strong workforce necessary to succeed in an increasing competitive global economy.

And so I say in—I look forward to hearing from today's witnesses and thank each of you, each of the four of you, for so graciously coming today and giving us your time. Thank you very much. I look forward to the testimony.

[The prepared statement of Mr. Butterfield follows:]

STATEMENT OF CONGRESSMAN G. K. BUTTERFIELD
DEMOCRATIC RANKING MEMBER

HOUSE COMMITTEE ON ENERGY AND COMMERCE
SUBCOMMITTEE ON COMMERCE, MANUFACTURING, AND TRADE

HEARING: "WHERE THE JOBS ARE: EMPLOYMENT TRENDS AND ANALYSIS"
FEBRUARY 15, 2012

Chairman Bono Mack, thank you for holding today's hearing, which I understand is the first of several jobs-related hearings our Subcommittee will hold this year. Madame Chair, I'm sure you'd agree there is no more important issue to working Americans than the ability to get and keep a job, provide for their families, and ensure that when their children grow up, they can succeed, too. The causes of the most recent economic recession are many and are indeed complex. While the solutions can also be complex, one thing is certain...the creation of jobs benefits the entire

American economy and in recent monthly employment reports we have begun to see the fruits of that labor. But there is still much work to be done.

On day one of his administration, President Obama inherited an economy in the worst shape since the Great Depression, a tremendous national debt, a crippled manufacturing sector and auto industry, and became the Commander in Chief of not one, but two wars in the Middle East. Just three years ago, 3.6 million jobs had been lost and businesses were eliminating 800,000 more jobs each month. By March 2010, we reversed course, and by the end of 2010 American businesses would go on to create more than one million net jobs. But, with the national unemployment rate at 8.3 percent, much more still needs to be done to return us to full employment.

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Fund" that would be administered by the Departments of Labor and Education. This effort could lead to over two million unemployed Americans finding good paying jobs, paying INTO the system and help to reduce the debt.

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I look forward to hearing from today's witnesses and thank each of you for being so gracious with your time today.

Thank you very much.

Mrs. BONO MACK. Thank the gentleman, and in accordance with committee rules, Chairman Upton has yielded his 5 minutes to me, and I will yield the first 2 minutes to Ms. Blackburn of Tennessee.

OPENING STATEMENT OF HON. MARSHA BLACKBURN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TENNESSEE

Mrs. BLACKBURN. Thank you, Madam Chairman. Welcome to our guests, and I think we all welcome the series of hearings that we are going to focus on jobs and job creation in the country, and I want to start by talking about a time-tested formula that always works.

Less regulation plus less taxation plus less ligation equals more innovation and more job creation. It is a formula that we need to grow this economy to give American businesses and manufacturers the certainty that they need to expand and to allow the U.S. to be successful when they compete internationally.

If you go back and listen to some of the testimony that we had in Mr. Guthrie's manufacturing briefing last week, you see from these manufacturers how difficult it is to be globally competitive and create jobs when the Obama administration basically has their boot on the neck of innovation. We have seen nothing but regulatory explosion from this administration.

Let me give you an example of this. Just last year the Obama administration issued close to 4,000 burdensome and restrictive new regulations. In 2011, the Federal Register printed nearly 80,000 pages of new and additional regulations. The Federal Government has over 291,000 regulatory agency employees. Total cost to Federal regulations is estimated to be at $1.75 trillion annually. Now, keep in mind that is about twice the amount that the IRS collects in Federal income taxes.

Just this morning Gallop released a poll where an overwhelming majority of small business owners were surveyed. Eighty-five percent indicated that they are not looking, not looking for new workers. Asked why, 48 percent of those that were surveyed said they are not hiring due to concerns about possible rising healthcare costs, the uncertainty of Obama Care. Forty-six percent said they were worried about new government regulations. With what we saw last year, is there any wonder that they are worried about that?

I think this is one of the reasons that we also are seeing our labor force participation rate at the lowest level that they have been in recent memory. It is more than just healthcare and regulations, and I am looking forward to our witnesses and hearing what you have to say today.

I yield back.

Mrs. BONO MACK. I thank the gentlelady. The Chair now recognizes Mr. Bass for 1 minute.

OPENING STATEMENT OF HON. CHARLES F. BASS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW HAMPSHIRE

Mr. BASS. Thank you, Madam Chairman, and thank you for having this important hearing.

I think it is important over and above the very cogent remarks of my friend from Tennessee to remember that it is important for, in addition to low regulation, low taxes, it is important to promote firstly the creation and growth of small businesses in this country, and I know we will be dealing with these issues on the floor of the House in the next couple of weeks.

It is also very important not to close our borders to free trade. In my State one out of every four jobs in New Hampshire is directly related to our State's ability to export its products beyond the borders of the United States. It is important also not to fall prey to the idea that we can tax companies into staying in the United States. What we can do is hold business in the United States by making them competitive and giving them the ability to trade their products across our national borders.

And with that, Madam Chairman, I thank you for the hearing and yield back.

Mrs. BONO MACK. Thank you, Mr. Bass.

The Chair is pleased to recognize Mr. Waxman for 5 minutes.

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

Mr. WAXMAN. Thank you, Madam Chair. Thank you for holding this hearing, and focusing attention on job creation and economic growth, which should be our immediate priorities, and I hope this hearing will contribute to this effort.

At last we are starting to see promising news on the jobs front. The number of unemployed Americans has declined by more than a million in the past 6 months. Yet too many Americans are still out of work, and we must do everything we can to ensure that the job numbers continue to improve.

The financial crisis that ripped through our economy in 2008 was the worst our country has faced since 1929. These two events have much in common. Both were brought about by excesses at Wall Street, both resulted from asset bubbles, both followed periods of reckless deregulation.

My colleagues, Mr. Butterfield, indicated when President Obama took office, he inherited an economy that had already shed 3.6 million jobs and was losing 800,000 more each month. In addition he faced paying for two wars that added billions to our national debt.

No one action turned the economy around or can turn the economy around, but efforts including the Recovery Act, the rescue of General Motors and Chrysler, and billions of tax dollars in tax relief to working Americans have helped. Although factors such as what might go on in the European debt crisis could change our trajectory, the U.S. economy is on the right path. But we won't have a full recovery until unemployed people can find work, and we know the economy is growing, and that in economist terms the recession is over, but while this may be lagging indicator, our focus has to be on getting people to work.

I know some Republican members think we need severe cuts in the Federal budget that put gapping holes in our safety net while giving tax breaks to the wealthiest Americans. That is the American equivalent of medieval bloodletting, a cure that makes the disease worse. In the aftermath of a recession like the one we have just experienced with 12.8 million Americans still unemployed, more than 42 percent of them unemployed for 27 weeks or more, just leaving the economy alone and cutting Federal spending is not an option.

I am pleased that we are going to have a conference agreement on extending the payroll tax cut, paying for some more unemployment benefits, and keeping the promise to the seniors under Medicare that their doctors will be paid so they can still—people can still get access to those physicians.

But the Congress needs to work with this administration on long-term adjustments that must be made to ensure that the U.S. economy is one that rewards fair play and hard work. The recent budget by this administration for fiscal year 2013 shows its commitment to restoring middle class security by attacking wasteful spending and instead investing in education, innovation, and infrastructure, the building blocks for an economy that works for all Americans.

I appreciate this opportunity to make this statement, and I yield whatever—I yield back my time. Thank you.

Mrs. BONO MACK. Thank you, Mr. Waxman.

Today we turn our attention to four very knowledgeable witnesses joining us. Each of our witnesses has prepared an opening statement that will be placed in the record. Each of you will have 5 minutes to summarize that statement in your remarks. Our panel today includes Harold Sirkin, Managing Director of Boston Consulting Group; John Berlau, Director, Center for Investors and Entrepreneurs at the Competitive Enterprise Institute; John Abowd, Edmund Erza Day Professor of Economics at Cornell University; and John Schmitt, Senior Economist, Center for Economic and Policy Research.

Good morning, gentlemen, and thank you all for coming. You will, again, be recognized for 5 minutes. To help you keep tract of time there are the lights on the table in front of you. When the light turns yellow, you will have 1 minute to finish your remarks. Please remember to turn the microphone on when you are ready to speak, and Mr. Sirkin, we are pleased to recognize you for 5 minutes.

STATEMENTS OF HAROLD L. SIRKIN, SENIOR PARTNER AND MANAGING DIRECTOR, BOSTON CONSULTING GROUP, INC.; JOHN BERLAU, DIRECTOR, CENTER FOR INVESTORS AND ENTREPRENEURS, COMPETITIVE ENTERPRISE INSTITUTE; JOHN ABOWD, EDMUND EZRA DAY PROFESSOR OF ECONOMICS, DIRECTOR OF LABOR DYNAMICS INSTITUTE, SCHOOL OF INDUSTRIAL AND LABOR RELATIONS, CORNELL UNIVERSITY; AND JOHN SCHMITT, SENIOR ECONOMIST, CENTER FOR ECONOMIC AND POLICY RESEARCH

STATEMENT OF HAROLD L. SIRKIN

Mr. SIRKIN. Chairman Bono Mack, Ranking Member Butterfield, and other distinguished members of the subcommittee, good morning, and thank you for the opportunity to testify on “where the jobs are”.

While many negative comments have been made about the state of U.S. manufacturing, I would like to paraphrase, Mark Twain and say "The death of U.S. manufacturing has been greatly exaggerated."

We have heard the pronouncements of the death of U.S. manufacturing before. In the 1970s conventional wisdom said, Japan, Inc., with its low cost cars, televisions, and other manufactured goods was going to wipe out U.S. manufacturing. Americans were going to be farmers and bankers. Children were sent to schools to learn Japanese, the language of their new masters.

But that didn't happen.

In the 1990s, conventional wisdom also said that the Asian Tigers from Hong Kong, Singapore, South Korea, and Taiwan were going to wipe out U.S. manufacturing. But that didn't happen either.

And in the past decade, conventional wisdom has said the China was going to wipe out U.S. manufacturing.

And that is not going to happen either.

Why? Our economy is designed to respond quickly to threats, unlike any other economy in the world. We are not a country that protects, we compete. Our internal competition is fierce. Companies are forced to be competitive or die.

And the results of all this competition are breath taking. The U.S. produces 2.5 times as much manufacturing value added then we did in 1972, and we do this with 30 percent less labor. We are among the most productive economies in the world, far more productive than Germany and Japan.

Each time we are attacked, we don't give up. We respond, we adapt, and we thrive. It is what we are as a Nation.

The threat from China is large, a nation of 1.3 billion people with a non-democratically elected government that can move fast and subsidize industries. And when China entered the WTO in 2001, wages in China were only 58 cents per hour on average. At that rate, outsourcing to China was a no-brainer decision for companies in many industries.

But the economics of China are rapidly changing. Wages are rising at about 15 to 20 percent a year. The Yuan, a controlled currency has been rising at 4 percent per year and most economists believe would be rising even faster if it wasn't controlled. And while productivity in China is rising at 7 percent a year, an incredible pace for any economy, it is swamped by wage and Yuan increases. And today the average U.S. worker is 3.4 times as productive as the average Chinese worker.

The tide is turning in favor of the U.S. China is just getting more expensive. Companies that went to China for ultra-cheap wages are finding it not so cheap, and they are beginning to rethink their decisions.

We project that at sometime around 2015, we will reach a tipping point for seven key categories of goods where the cost to produce in China will be just 10 percent lower than in the U.S.

While 10 percent is a very important difference to companies, when you include all the costs associated with producing in China to serve the U.S. market like the transportation to ship goods, the inventory costs for the 2 to 3 months of shipping, the risk of obsolescence, and the intellectual property capital theft and country risk, and just being five to 7,000 miles away from the customer and not understanding their needs, the 10 percent differential disappears.

These seven categories include computers and electronics, appliances and electrical equipment, transportation goods, plastics and rubber, machinery, furniture and fabricated metals. These account for two-thirds of the $300 billion we import each year from China.

In June we estimated that the impact, including the manufacturing multiplier, would be about two to three million jobs over the decade.

Given what we have seen since June, we believe that our estimate is conservative because we have seen far more re-shoring from China already than our models predicted. Companies like NCR, Ford, Coleman, Nat Labs, and many others have re-shored. We are also seeing companies from Japan and Europe recognizing that they can produce much more economically in the U.S. for consumption in the U.S., coming to the U.S., and many of them are using or are considering using the U.S. as an export base; companies like Siemens for power turbines now exporting to Saudi Arabia, Rolls-Royce for Jet engines that will appear around the world, and Toyota are seeing the U.S. as a low cost manufacturing location.

Once again our amazing economy is responding. Once again manufacturing is growing in the U.S. because of our underlying advantages. While this is just taking hold now, government policy can help accelerate the trend. Whether it is providing funds to train American workers, reforming our tax system, or finding ways to level the playing field with our competitors, our government can make a difference.

Creating more good paying jobs is something that all Americans, whether they are Democrats, Republicans, or Independents can agree on. We all need to work together to create good jobs for our children and their children and ensure that our economy remains strong for generations to come.

Thank you.

[The prepared statement of Mr. Sirkin follows:]

TESTIMONY OF

HAROLD L. SIRKIN
SENIOR PARTNER AND MANAGING DIRECTOR
THE BOSTON CONSULTING GROUP

BEFORE THE COMMITTEE ON ENERGY AND COMMERCE,
SUBCOMMITTEE ON COMMERCE, MANUFACTURING, AND TRADE
U.S. HOUSE OF REPRESENTATIVES

"WHERE THE JOBS ARE: EMPLOYMENT TRENDS AND ANALYSIS"

FEBRUARY 15, 2012

Chairman Bono Mack, Ranking Member Butterfield and other distinguished Members of the Subcommittee, good morning and thank you for the opportunity to testify on "where the jobs are".

I'm Hal Sirkin, a Senior Partner and Managing Director at The Boston Consulting Group. BCG is a global management consultancy, with almost 5,000 professionals based in 42 countries.

While many negative comments have been made about the state of US manufacturing, I would like to paraphrase, Mark Twain and say "The Death of US Manufacturing has been greatly exaggerated".

We've heard pronouncements of the death of US manufacturing before. In the 1970s conventional wisdom said, Japan, Inc, with its low cost cars, televisions and other manufactured goods was going to wipe out US manufacturing. Americans would be farmers and bankers. Children were sent to schools to learn the language of their new masters.

But that didn't happen.

In the 1990s, conventional wisdom also predicted that the Asian Tigers (from Hong Kong, Singapore, South Korea and Taiwan) were going to wipe out US manufacturing. But that didn't happen either.

And in the past decade, conventional wisdom has said the China was going to wipe out US manufacturing.

And that's not going to happen either.

Why? Our economy is designed to respond quickly to threats, unlike any other economy. We are not a country that protects, we compete. Our internal competition is fierce – companies are forced to be competitive or die.

And the results of all this competition are breath taking. The US produces 2.5 times as much manufacturing value added then we did in 1972. And we do it with 30% less labor. We are among the most productive economies in the world far more productive than Germany and Japan.

Each time we are attacked, we don't give up. We respond, we adapt and we thrive. It is what we are as a nation.

The threat from China is large – a nation of 1.4 billion people with a non-democratically elected government that can move fast and subsidize industries. And when China entered the WTO in 2001, wages in China were only 58 cents per hour on average. At that rate, outsourcing to China was a no-brainer decision for companies in many industries.

But the economics of China are rapidly changing:

Wages are rising at about 15-20% per year.

The Yuan, a controlled currency has been rising at 4% per year and most economists believe would be rising even faster if it wasn't controlled.

While productivity in China is rising at 7% - an incredible pace for any economy, it is swamped by the wage and Yuan increases.

And today, the average US worker is 3.4 times as productive as the average Chinese worker.

The tide is turning in favor of the US. China is just getting more expensive. Companies that went to China for ultra-cheap wages are finding it not so cheap. And they are beginning to rethink their decisions.

We project that sometime around 2015, we will reach a tipping point for seven key categories of goods where the cost to produce in China will be just 10% lower than in the US (rather than the 20%+ lower that companies have gotten accustomed to).

While 10% is a very important difference to companies, when you include all the costs associated with producing in China to serve the US market like the transportation to ship goods, the inventory costs for the 2-3 month of shipping, the risk of obsolescence of goods as they are transported, the risk of intellectual capital theft, the country risk, and just being 5,000 to 7,000 miles from the customer and not understanding their needs, the 10% differential disappears.

These seven categories include: Computers and Electronics, Appliances and Electrical Equipment, Transportation Goods, Plastics and Rubber, Machinery, Furniture and Fabricated Metals. These account for 2/3 of the $300 billion we import from China each year.

In June we estimated that the impact, given the manufacturing multiplier would be 2-3 million jobs over the decade.

Given what we've seen since June, we believe that our estimate is conservative because we've seen far more re-shoring from China already than our models predicted. Companies like NCR, Ford, Coleman, Nat Labs and many others have re-shored jobs. We are also seeing companies from Japan and Europe recognizing that they can produce much more economically in the US for consumption in the US. And many of them are using or are considering using the US as an export base – companies like Siemens for power turbines, Rolls-Royce for Jet engine parts and Toyota are seeing the US as a low cost manufacturing location.

Once again, our amazing economy is responding. Once again manufacturing is growing in the US because of our underlying advantages. While this is just taking hold now, government policy can help accelerate the trend. Whether it is providing funds to train American workers, reforming our tax system or finding ways to level the playing field with our competitors, our government can make a difference.

Creating more good paying jobs is something that all Americans whether they are Democrats, Republicans or Independents can agree on. We all need to work together to create good jobs for our children and their children and ensure that our economy remains strong for generations to come.

Thank you.

Mrs. BONO MACK. Thank you, Mr. Sirkin.

Mr. Berlau, you are recognized for 5 minutes.

STATEMENT OF JOHN BERLAU

Mr. BERLAU. Chairman Bono Mack, Ranking Member Butterfield, and distinguished members of this subcommittee, thank you so much for inviting me to testify on behalf of my organization, the Competitive Enterprise Institute in this hearing asking the important question of where the jobs are.

In answering this question I will focus not on particular locations or industries but rather on the characteristics of the firms that for the past few decades have been most responsible for job creation. The respected Kauffman Foundation in Kansas City, Missouri, has done some convincing research on this question, and its findings have been embraced by many in public policy, including President Obama's Council on Jobs and Competitiveness.

And on a net basis the bulk of where the jobs are or have been created is at young firms of all sizes as noted by the President's Jobs Council report. Over the last 3 decades young firms less than 5 years old have created 40 million new jobs. Especially important among these companies are innovative, high-growth firms referred to as gazelles that are found to both double their revenues and employment every few years and are found in every sector and every region.

Unfortunately, a series of adverse financial regulations have stunted these young firms' growth by making it much more difficult for them to access capital through means such as launching an initial public offering.

Now, some of these rules like Dodd-Frank have been enacted in the past couple of years, but others like the Sarbanes-Oxley Act of 2002, were promulgated ironically in the supposedly deregulatory era of the last decade.

As the President's Jobs Council notes of Sarbanes-Oxley and other rules enacted in the aftermath of the Enron implosion, well-intentioned regulations aimed at protecting the public from the misrepresentations of a small number of large companies have unintentionally placed significant burdens on the large number of smaller companies.

This regulatory overhang explains part of the slower-than-expected recovery. According to the Treasury Department's IPO Task Force, the long-term decline in the number of IPOs, a decline that began more than 5 years before the financial crisis hits, may have cost the economy as many as 22 million jobs not created over the past decade.

Now, the good news is there is an emerging bipartisan consensus on scaling back some regulations that specifically burden these firms. In fact, in one week in November this House passed four bills with more than 400 votes for each measure to ease regulatory barriers to accessing capital through online social networking and general advertising to venture capitalists and angel investors. But despite the near unanimous support for these measures in this body, they still linger in the U.S. Senate some 3 months later.

Now, also tomorrow your colleagues in the House Financial Services Committee are slated to mark up H.R. 3606, the Reopening

American Capital Markets to Emerging Growth Companies Act. This is a bill with widespread bipartisan support that is designed to smooth the IPO process for these young firms by a 5-year exemption from some of the most onerous provisions of Sarbanes-Oxley, Dodd-Frank, and other burdensome rules.

Given the ingenuity of American entrepreneurs and the broad-mindedness of investors who fund them, clearing away irrational regulations might very well lead to a future hearing entitled, Where the Jobs Aren't. This House has passed an essential access to capital bills, and the Senate needs to be told to, in the phrasing of the President, pass these bills now.

Thank you again for inviting me to testify, and I look forward to answering your questions.

[The prepared statement of Mr. Berlau follows:]

Competitive Enterprise Institute

STATEMENT OF:

JOHN BERLAU

DIRECTOR, CENTER FOR INVESTORS AND ENTREPRENEURS

COMPETITIVE ENTERPRISE INSTITUTE

Before the

UNITED STATES HOUSE OF REPRESENTATIVES

COMMITTEE ON ENERGY AND COMMERCE

SUBCOMMITTEE ON COMMERCE, MANUFACTURING AND TRADE

Regarding:

"Where the Jobs Are: Employment Trends and Analysis"

February 15, 2012

Chairwoman Bono-Mack, Ranking Member Butterfield, and members of this subcommittee, thank you for the opportunity to present testimony of behalf of my organization, the Competitive Enterprise Institute, in this hearing asking the important question of "where the jobs are."

Another way of asking this question is, "where are new jobs most likely to be created." In my testimony, I will focus not on particular locations or industries, but rather on characteristics of the firms for the past few decades have been most responsible for job creation. Scholars affiliated with the Ewing Marion Kauffman Foundation in Kansas City, Mo., an institution that has won widespread acclaim for the research it produces on entrepreneurship and its role in economic growth, have a convincing answer to this question, an answer that has been embraced by many in public policy including President Obama's Council on Jobs and Competitiveness

On net, where the jobs "are" or have been created, is at firms of all sizes from zero to five years old. As noted by the Obama Jobs Council report[1], "over the last three decades, young firms less than five years old have created 40 million new jobs," accounting for "all net new jobs" during that period. Especially important among these companies are innovative high-growth firms referred to as "gazelles" that are found to double both their revenues and employment every few years and are found in every sector and region.

Unfortunately, a series of adverse financial regulations, many of which were enacted and promulgated in the supposed "deregulatory" era of the last decade, have stunted these firms growth by making it much more difficult for them to access to capital through means such as launching an initial public offering. As the Obama Jobs Council notes, "Well-intentioned regulations aimed at protecting the public from the misrepresentations of a small number of large companies have unintentionally placed significant burdens on the large number of smaller companies."

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[1] http://files.jobs-council.com/jobscouncil/files/2011/10/JobsCouncil_InterimReport_Oct11.pdf

This regulatory overhang may explain part of the slower-than expected recovery. According to the Treasury Department's IPO Task Force[2], the long-term decline in IPOs over the last decade may have cost the economy **as many as 22 million jobs not created during that period.**

The good news is that there is an emerging bipartisan consensus on scaling back regulations that burden these firms, with proposals to do so being embraced by both the House leadership and the Obama administration. Contrary to media reports, members of the House from both parties and the administration are finding common ground on some jobs bill, particularly regarding access to capital. In fact in one week this autumn, this House passed four bills with near-unanimity -- more than 400 votes for each measure -- to ease regulatory barriers to access to capital. These bills, still lingering in the U.S. Senate, would lift barriers to innovations such as "crowdfunding," in which smaller firms can utilize social networking to raise seed capital, and make it easier for entrepreneurs to connect with venture capitalists and angel investors through general advertising.[3]

Your colleagues in the House Financial Services Committee are also slated this week to mark up a bill designed to smooth the IPO process for these young firms by creating a so-called on-ramp of regulatory relief. H.R. 3606, the Reopening American Capital Markets to Emerging Growth Companies Act of 2011 sponsored by Reps Stephen Fincher (R-Tenn.) and John Carney (D-Del.), exempts firms going public from some of the most burdensome provisions of the Sarbanes-Oxley Act of 2002 and the Dodd-Frank financial overhaul of 2010, and also eases rules for firms providing analyst research of these companies. These rules would only kick in after the company has been public for five years or reaches a market cap of $1 billion, whichever comes first.

My organization, the Competitive Enterprise Institute, is a Washington-based free-market think tank that since its founding in 1984 has studied the effects of all types of regulations on job growth and economic well-being. As we have said before, we follow the regulatory state from "economy to ecology," and

[2] http://www.sec.gov/info/smallbus/acsec/rebuilding_the_ipo_on-ramp.pdf
[3] The bills are H.R. 1070, H.R. 1965, H.R. 2930, and H.R. 2940.

propose ideas to "regulate the regulators" and hold them accountable so that innovation and job growth can flourish in all sectors.

Our theme on job growth has been "liberate to stimulate," because as our Vice President Wayne Crews has observed, one doesn't need to teach – or subsidize -- grass to grow. Rather, remove the rocks obstructing its growth, and it will grow wide and tall. In September, we released a "Ten-Point Jobs Plan"[4] with recommendations ranging from lifting barriers to energy exploration to reforming our visa process to allow more high-skilled immigrants to contribute their talents to this country and help build more firms essential for job growth.

But of all the regulations out there facing entrepreneurs, among the most important are those affecting access to capital, which is my area of policy scholarship. All startup firms, from food service to biotechnology to so-called green energy, need capital through debt and/or equity. The debt side has gotten much attention with the credit crunch and the resulting lack of loans for small and midsize businesses. But the equity side – financing company growth by issuing shares of stock – is equally important. To put it simply, every dollar a firm can raise by an offering of stock to an investor is one less dollar the firm has to raise by begging to borrow it from a bank.

But regulatory burdens over the past decade – such as the Sarbanes-Oxley Act and restrictions on the compensation of analysts covering small firms for investment banks, along with looming burdens of Dodd-Frank, have skewed emerging growth firms away from going public and toward more debt financing of growth, as well as toward mergers and acquisition rather than initial public offerings. This has stark implications for job growth

As noted by President Obama's Jobs Council, 90 percent of job creation by public firms occurs after they go public. Yet many emerging growth firms never go public, and instead are acquired by larger firms.

[4] http://cei.org/news-releases/ceis-ten-point-plan-create-jobs

"This clearly hurts job creation," the council noted, because "the data clearly shows that job growth accelerates when companies are going public, but often decelerates when companies are acquired."

In the few years, the number of American firms launching initial public offerings (IPOs) of stock has sunk to its lowest level, by some measures, since the 1970s. This fact is often assumed to be just another symptom of a slow recovery following a horrendous financial crisis. But it's important to note that this marked decline began even before the financial crisis and goes all the way back to the early part of the last decade. The number of IPOs in every year since 2001 has lagged behind not just the boom years of the late 1990s but also the early years of that decade when the U.S. was mired in a recession. The IPO Task Force notes that there were about 50 more IPOs in 1991 than there were in 2006 and 2007, relatively good years for economic growth.

Furthermore, the size of firms launching these IPOs has increased. The Jobs Council notes that in the 1990s, 80 percent of IPOs were for firms with market capitalization below $50 million. In the next decade, the inverse was true, with IPOs of this smaller size accounting for only 20 percent of the shrunken total.

The big-name IPOs of the past year are a tribute to American innovation, but they also illustrate the problem. Groupon and LinkedIn had market caps exceeding $1 billion by the time they went public. Facebook, which has yet to go public, may have a market cap as high as $100 billion before it lists its shares on a public exchange.

By contrast, when Home Depot went public in 1981, the company had only opened four stores. It and other companies of its size accessed the public markets to raise capital to grow. In contrast, IPOs are launched today mostly to provide liquidity in private firms in which growth has already taken place.

And with specific regard to Home Depot, the firm's co-founder Bernie Marcus has said many time the company likely never could have gotten off the ground if Sarbanes-Oxley and other of today's regulations had been in effect. "We could never succeed today," Marcus bluntly told radio host Hugh Hewitt.

On top of this for all its cost – and the annual cost of just one section, that of the 404(b) mandate to for auditors' certification of "internal controls" comes to an average of $2.3 million per firm according to the Securities and Exchange Commission – Sarbanes-Oxley has failed in its initial goal of stopping scandals at large public companies. Countrywide, Lehman Brothers, and MF Global skated through their Sarbanes-Oxley certifications, while smaller firms were hobbled by its red tape and accounting minutiae (which has included reports of the auditing of such trivial items such as employee passwords and possession of office keys) Financial analyst Janet Tavakoli recently said, Sarbanes-Oxley did nothing. It didn't work. It was a total waste."

On the debt side of the ledger, there are also plenty of laws and regulations that block access to capital while achieving little benefit for consumers, investors, or the financial system. One example is an arbitrary lending cap on the business loans credit unions can make to their members. No5 matter the safety and soundness of the loans, credit unions can never make these in excess of 12.25 percent. In this case too, there are bipartisan efforts to clear these barriers, with the Small Business Lending Enhancement Act being sponsored by Ed Royce (R-Calif.) in the House (H.R. 1418) and Mark Udall (D-Colo.) in the Senate (S. 509).

Given the ingenuity of American entrepreneurs and the broad-mindedness of the investors who fund them, clearing away irrational regulations might very well lead to a hearing entitled "where the jobs aren't." The House is has passed some essential access-to-capital bills, and the Senate needs to be told to, in the words of the president, pass these bills now.

Thank you again for inviting me to testify, and I look forward to answering your questions.

Mrs. BONO MACK. Thank you very much.

Dr. Abowd, you are recognized for 5 minutes.

STATEMENT OF JOHN M. ABOWD

Mr. ABOWD. Chairman Bono Mack, Ranking Member Butterfield, and members of the committee, thank you very much for this opportunity.

I am an economist but I am also a teacher, and we don't do our talks without pictures, so I brought some pictures, and we are going to play them, and I am going to hope that—my goal is to show you the dynamics of the American labor market work through both the way in which people are hired and fired and the way in which jobs are created and destroyed, and there are some surprising patterns in these creations and destructions and hiring and separations.

And I think the first chart that I want you to look at just shows how the recession spread its way across the economy, starting in 2004, quarter four. As the graph gets green, that is good outcomes. As it gets brown, those are bad outcomes, and this is the growth rate of jobs spread across the country.

So, as you can see, the growth rate of jobs basically went south after the recession started. A more telling measure is what we call stable jobs, which are jobs that last for a full calendar quarter. This one shows that those also went south, not when the recession started, but after the recession had been underway for awhile. So there is 2005, mostly green, 2006 and 2007, there is the start of the recession. There is 2008, the fourth quarter, when it really kicked in, 2009, 2010, it hasn't come back very much.

What is happening? Well, what is happening is that employers have basically stopped hiring into these stable jobs, so I am going to skip figure three and go straight to figure four here. This is the rate at which employers hire into these long-term stable jobs, and as the economy progresses from 2004 through to 2010, you can see that here is the start of the recession in 2007, and right here in 2009, that is—the recession has already ended, and the hiring rate is at the lowest level of any of these graphs that I have shown you, and then in 2010, it has basically not come back very much. The latest data that you can do for jobs that last 6 months is basically 2010, quarter four. When the Census Bureau releases the quarterly workforce indicators in a few months—in a few more weeks, rather—for the current quarter, we will have 2011, quarter one.

So it is important that employers have stopped hiring into these stable jobs. In addition, the creation rate of these stable jobs, which is the next figure, figure five, slowed early on in the recession. That is the separation. I need creations. Number five. That was right. Yes.

What the creations show is that the creation rate didn't slow nearly as much as the accession rate. So jobs were being created. They are being created pretty much continuously, but they slow down during the recession, and they show down a lot right after the recession and then come back up in 2010 a bit.

All right. So we have both that there is less hiring and that there are fewer creations. On the flipside, there are also more separations and more destructions, but not nearly as many as you think.

Most of the downturn in the economy wasn't accomplished by massive amounts of job destruction and massive amounts of separation. Basically the separation picture—green is now good still, so it is the negative of the separation rate.

The separation rate didn't tank as you can see from these figures. Green is good, and the next figure seven, the destruction rate didn't tank. Tank is the technical term for head south. As you can see, it stays mostly green in the economy, indicating that the jobs weren't being destroyed at massive rates, these stable jobs, compared to the rates at which the hiring went down.

So what went wrong? If you will skip straight to figure 10, what has gone wrong is, the rate of movement in the economy, the ability of workers to move around and to get to new jobs where they are created, that has seriously gone south. It is at very low rates, and generally that churning rate isn't cyclical. So the fact that it has been so low in this recession is a serious issue for the labor market to recover. As you can see, it went very brown in 2009, quarter four, and it is still very brown in 2010, quarter four. If the workers can't move around to find the new jobs, and if the businesses can't adjust to find the new jobs, this excess separation, this excess reallocation, won't occur, and the biggest benefit of the recession, to move high-valued labor into high-valued jobs, doesn't happen.

So what I urge you to do is to promote policies that will put the fluidity back into the labor market and to get this churning rate going again.

Thank you very much for your time.

[The prepared statement of Mr. Abowd follows:]

Testimony of

John M. Abowd
Edmund Ezra Day Professor of Economics
Director, Labor Dynamics Institute
School of Industrial and Labor Relations
Cornell University

Before the
House Committee on Energy and Commerce
Subcommittee on Commerce, Manufacturing and Trade
United States House of Representatives

HEARING: Where the Jobs Are: Employment Trends and Analysis

Room 2123 Rayburn House Office Building
9:30am
February 15, 2012

Thank you, Chairman Bono Mack, Ranking Member Butterfield, and distinguished Members of the Committee. It is a pleasure to appear before you today to discuss the subject "Where the Jobs Are: Employment Trends and Analysis."

My Cornell colleague Lars Vilhuber, Executive Director of the Labor Dynamics Institute, and I have prepared a briefing for you today on the trends in employment and wages that we have constructed from newly-released local labor market data prepared by the U.S. Census Bureau's Local Employment Dynamics federal/state partnership. These data are called the Quarterly Workforce Indicators (QWI).

It is no secret that the recession of 2007-2009 caused enormous displacement and pain in labor markets across the country. As is common in recessions, labor market movements lagged movements in the overall economy. Specifically, most local labor markets began to have substantial recession-related losses of employment in the second half of 2008, well after the recession had begun, and many did not bottom-out until 2010 or later. Many economists recognize that one of the roles a recession plays in the economy is to facilitate the reallocation of employment and capital from businesses that are no longer profitable to businesses that are more profitable or with better future prospects for profitability. This reallocation activity is masked when one considers only net employment growth, but it is an essential part of the labor market's adjustment and promotes future employment growth.

To focus attention on the gross flows in the labor market and their role in economic reallocation, economists distinguish between movements of individuals (gross worker flows) and those associated with businesses (gross job flows). The gross worker flows are accessions (hiring and recalls) and separations (quits, layoffs, retirements, and firings). The gross job flows are creations (increases in the employment of a given business establishment) and destructions (decreases in employment of a given business establishments). Gross worker and job flows are tied together by a simple arithmetic relation. The difference between accessions and separations must equal the difference between creations and destructions, and both of these differences are equal to the net change in employment between the beginning and ending of the period to which the gross flows apply. We call the difference between employment at the end of the period and employment at the beginning of the period net job growth. It is the net number of new jobs created (or destroyed, if the difference is negative). When net job growth is positive, total employment is increasing.

Both types of gross worker flows are necessary to reallocate individuals to new employment opportunities. The worker reallocation rate measures the overall pattern of worker movements by stating the sum of accessions and separations as a percentage of average employment in the period. Similarly, both types of gross job flows contribute to the reallocation of employment. The job reallocation rate reflects this by stating the sum of creations and destructions as a percentage of average employment in the period.

The worker reallocation rate always exceeds the job reallocation rate. The reason is that there is a natural level of turnover of employees even when a business is neither growing nor shrinking. Some hiring is necessary to replace the employees who separate even when the business is not changing size.

Indeed, if this did not happen, businesses would shrink whenever an employee left. It turns out that this affluence of worker movements is good for the economy. Churning, the excess reallocation rate, measures the difference between the worker and job reallocation rates. Churning is not particularly cyclically sensitive. But in the 2007-2009 recession, churning declined declined sharply, and has only weakly recovered although there are some promising signs.

The Quarterly Workforce Indicators permit economists to study the dynamics of local labor market adjustments in great detail: geography, industry, age, gender, race, ethnicity, and education can all be controlled and studied separately, or in combination. The briefing that we have prepared for you today shows graphically how the labor market evolved over the period from 2004Q4 to 2010Q4, the latest available data. [1]

The QWIs also permit, for the first time in our national statistical system, the study of the dynamics of longer duration jobs. These jobs are called stable jobs because, in order to be recorded in the data, the job must have lasted at least one full calendar quarter. Statistically, such jobs have an expected length of at least six months. Even more importantly, stable jobs correspond to the intuitive notion of a "good" job—reliable work generating steady earnings. Employment, accessions, separations, job creations, job destructions, and all the reallocation rates can be measured in the QWIs for stable jobs, as well as for all jobs. Stable jobs are also used to produce monthly earnings measures that correspond to the earnings of workers with full-quarter attachment to the labor force.

The beginning quarter of our analysis, 2004Q4, serves as a reference period, chosen because it is approximately midway between the official onset of the 2001 and 2007-2009 recessions. The Census

[1] It may seem unusual that the current data end in last quarter of 2010, but this occurs because the QWIs are based on administrative reports from the unemployment insurance records of participating states. The data are reported to the Census Bureau six months after the completion of a calendar quarter. The QWIs are released one quarter later. Hence, the data that we are using for this report were released by the Census Bureau in January, 2012, and are based on administrative records through 2011Q1. Many variables in our analysis cannot be computed for 2011Q1 because they require input data from 2011Q2. The latest QWI data can be found on the Census Bureau's web site at http://lehd.did.census.gov/led/datatools/qwiapp.html. The Labor Dynamics Institute at Cornell provides a comprehensive ensemble of all QWI data for all available states, which is also updated every quarter, on the Cornell VirtualRDC at http://www.vrdc.cornell.edu/qwipu/.

Bureau does not seasonally adjust the QWIs, so we have focused on the fourth quarter of each year in order minimize the influence of seasonal factors and still show you the latest data. We will be summarizing more than 94 million data points using animated maps of the United States. Each map shows every county in the U.S. for which data are available on a thermal scale that is based on the data for the reference quarter (2004Q4). Counties that are around the median value of a particular indicator for the reference quarter are uncolored (white). Counties that are above the median for the reference quarter are shaded in increasing green intensities. Those that are below the median are shaded in increasing brown intensities. When the labor market is performing at about the same level and distribution as in 2004Q4, the maps show varying intensities of green and brown. When the labor market improves nationally, the maps become primarily green. When the labor market deteriorates nationally, the maps become primarily brown.

The Overall Level of Employment and the Net Job Growth Rate

Figure 1 maps the net growth rate in overall employment over time. The initial labor market picture, from 2004Q4, shows that the highest net employment growth rates at that time were in the South, Southwest, and in the middle Atlantic along the coast. The lowest employment growth rates at that time were in the upper Midwest and Northwest. The rest of the map is a patchwork of light green (mildly higher growth rates) and light brown (mildly lower growth rates). The benchmark is the median county net employment growth in 2004Q4. Areas that are white had median net job growth rates.[2] Now watch the labor market evolve over time (click the figure to launch the animation). Employment growth improves in 2005Q4 (more areas are dark green), slows in 2006Q4 (more of a patchwork of light greens and browns), and improves in some areas and worsens in others by 2007Q4 (the 2007-2009 recession begins officially in December 2007). Then, in 2008Q4, the bottom falls out (vast areas of dark

[2] There are no QWI data for Massachusetts, New Hampshire, and Washington, DC. Those states and the District of Colombia have joined the Local Employment Dynamics federal/state partnership, but their data were not yet available as of February 12, 2012.

and light brown; very little green of any shade). The situation is not much better in 2009Q4 (the recession officially ended in June 2009), nor in 2010Q4. Over most of the country net employment growth was very substantially lower than it was in 2004Q4 for more than three years from 2007Q4 to 2010Q4.

Figure 1 Animated Map of the Local Job Net Growth Rate
(Click to play animation. Windows Media Player)

The Growth Rate of Stable Jobs and the Earnings of Stable Job Holders

Stable jobs last at least one full calendar quarter and are expected to last much longer than that statistically. Figure 2 is the animated map of stable job growth rates. At the starting point in 2004Q4, stable jobs grow at rates show mostly gentle local variation. Most of the map is light brown, white, or light green. There are a few large patches of dark green, most notably in the southwest and around the Gulf of Mexico. Watch what happens in Gulf when Katrina strikes before 2005Q4. The dark green becomes a large patch of brown—lots of stable jobs were interrupted by Hurricane Katrina. Otherwise, the labor market is about the same as it was one year earlier. By 2006Q4, stable job growth in the Gulf has largely recovered, and the stable job growth rates in the rest of the country are slightly lower than they were the year before (the graph has a stronger brown shade). Further deterioration can be seen in the 2007Q4 map. Then, in 2008Q4 the bottom falls out, and the map goes mostly brown. It continues to be mostly brown in 2009Q4 and 2010Q4. Stable jobs have simply not recovered by 2010Q4 in most of the country.

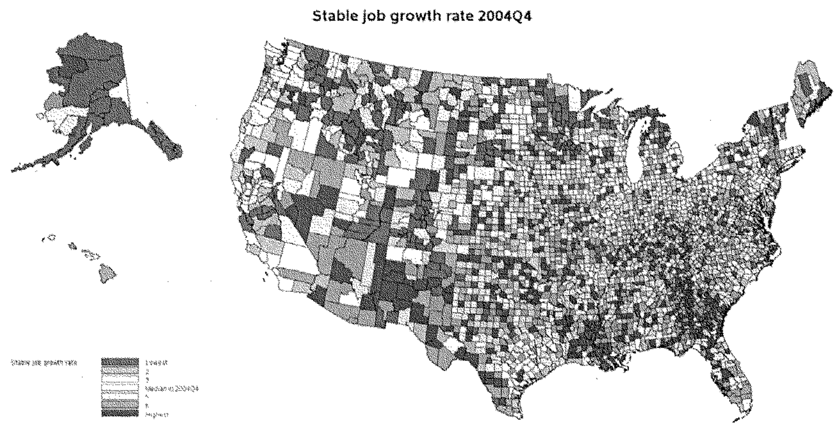

Figure 2 Animated Map of the Local Stable Job Growth Rate (Click to play animation. Windows Media Player)

Stable job growth matters because such jobs provide predictable monthly earnings that grow over time at rates that are largely independent of the business cycle. This isn't a profound point. I'm simply saying that a person who has a reliable (read: stable) job can do financial planning and can reasonably expect to have the income that is consistent with the planned consumption even if there is a recession. The bigger risk is losing one's stable job, not suffering a profound earnings cut. Figure 3 provides the animated map of the rate of change of the monthly earnings of stable job holders. You can see that it is just as green in 2010Q4 as it was in 2004Q4, 2007Q4, and 2008Q4, and it is most green in 2009Q4—just after the economy came out of the 2007-2009 recession. The map is brownest in 2005Q4 and 2006Q4. It might seem strange at first, but all the graphic is showing is that those who retained their stable jobs, did a bit better in 2009Q4 than those who retained their stable jobs in 2004Q4. We already saw in Figure 2 that the growth rate of stable jobs was very low during the period from 2007Q4 on. We'll see in a few minutes that the situation was even worse than those growth rates imply.

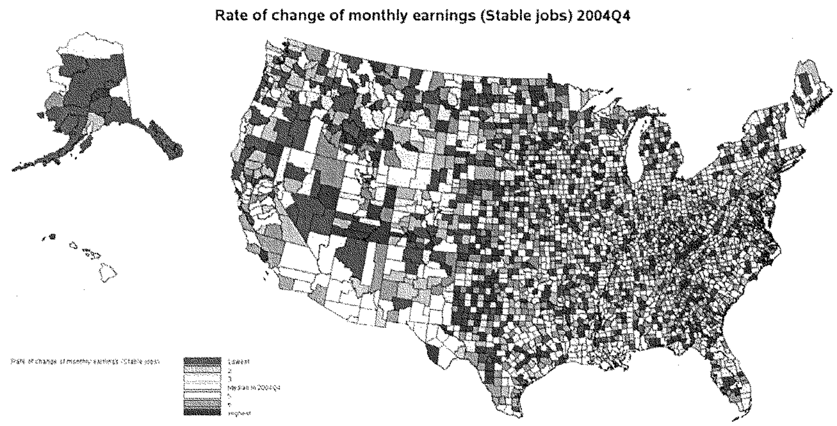

Figure 3 Animated Map of the Growth Rate of Monthly Earnings of Stable Job Holders (Click to play animation. Windows Media Player)

The Gross Flows of Workers and Jobs: Stable Job Accessions and Creations

An individual can't enjoy a stable job unless that person is hired into one. The accession rate for stable jobs tells a very dramatic story. As the animation in Figure 4 shows, in 2004Q4 employers were hiring above the median rate for that quarter along the Atlantic coast in the South, along the Gulf coast and in the Southwest. In most of the rest of the country, the rates were either at the median or mildly nearby (light brown, white, and light green). Only the upper Midwest and upper Northeast were the rates substantially below the median. The situation improves substantially in 2005Q4 (much more green), and levels off in 2006Q4 (about the same as in 2004Q4. Then, the stable job accession rate starts to deteriorate markedly in 2007Q4, as the recession starts. By 2008Q4, brown dominates most of the map (worse performance compared to 2004Q4). And in 2009Q4, the country is a sea of dark brown.

The stable job accession rate has plummeted by this time. Employers are simply not hiring workers and keeping them around very long. The situation has improved by 2010Q4, there is still much more brown (worse performance than the median in 2004Q4). The improvement is a hopeful sign, but there is still a long way to go. From the workers' viewpoint, it remained very difficult to get hired into a stable job in 2010Q4.

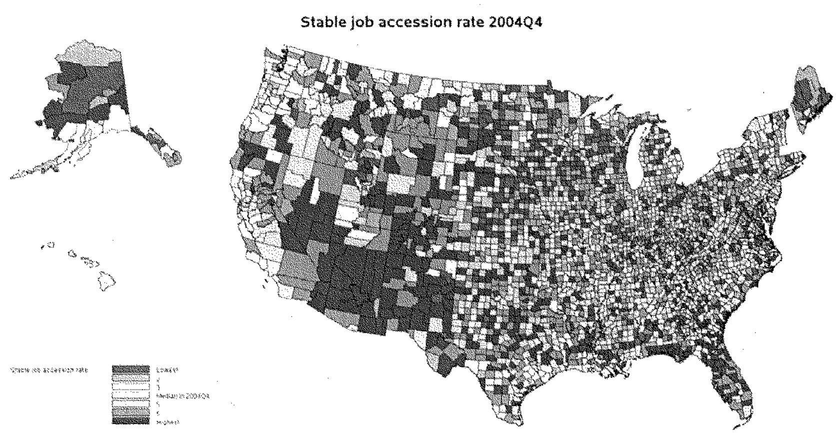

Figure 4 Animated Map of the Local Stable Job Accession Rate
(Click to play animation. Windows Media Player)

From the employers' viewpoint, the story is very similar. Figure 5 provides an animated map of the stable job creation rate. From 2004Q4 through 2007Q4, employers created stable jobs at rates that were very similar over time with geographic variation that was also stable across the country. Then, in 2008Q4, the stable job creation rate fell in most local markets to levels below the 2004Q4 baseline (preponderance of light brown in the map). In 2009Q4, the employers created scarcely any jobs compared to the rates in 2004Q4 (preponderance of dark brown in the map). The last quarter of 2010 shows some recovery—the stable job creation rates were increasing, and the map shows rates (and thermal color patterns) that are much closer to those of the baseline period. Recovery of the stable job creation rate is essential to recovery in the labor market. It puts a floor on the stable job accession rate because a growing business must usually hire more than one person into a stable job to create a new one.

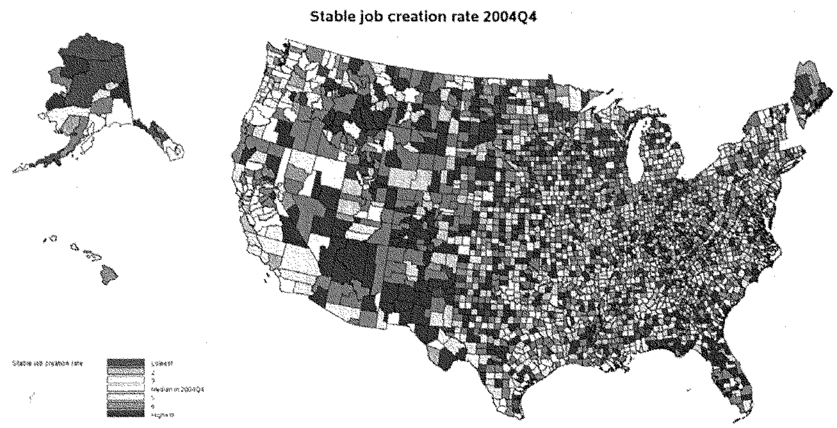

Figure 5 Animated Map of the Local Stable Job Creation Rate
(Click to play animation. Windows Media Player)

The Gross Flows of Workers and Jobs: Stable Job Separations and Destructions

Pay very close attention to the information in Figure 6, which shows the pattern of separations from stable jobs (worker flows) and Figure 7, which shows the pattern of stable job destructions (job flows), again with reference to the situation in 2004Q4. In order to make these figures comparable to the other figures in this briefing, the graphs get greener when the separation and job destruction rates go down, not up. They get browner when the separation and job destruction rates increase, not decrease. This is because separations and job destructions have the opposite effect on net employment growth from accessions and job creations. All other factors constant, if separations decline then employment grows, and similarly for job destructions.

Your eyes are not tricking you. The greenest year in Figure 6 is 2009Q4, right after the recession ended, other years have a mix of brown and green that is quite similar to the reference period 2004Q4. What happened? Separations did indeed slow down during the recession, implying that, from a worker flow viewpoint, much more of the decline in stable employment was due to reduced hiring than increased separations. Other data, primarily from the Current Population Survey and the Job Openings and Labor Turnover Survey, show that the decline in separations occurred because of a decline in quits, while the rate of firing actually increased. Nevertheless, from a worker flow accounting viewpoint, the decline in stable job employment was primarily due the massive decline in stable job accessions documented above.

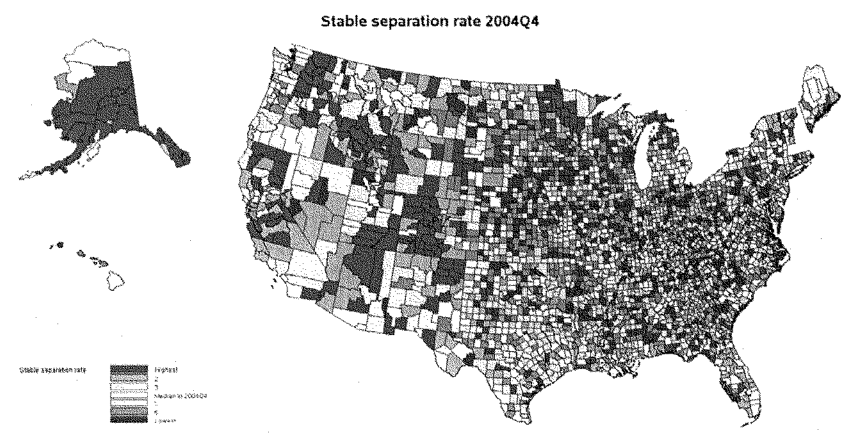

Figure 6 Animated Map of the Local Stable Job Separation Rate
(Click to play animation. Windows Media Player)

Stable job destructions, as shown in Figure 7, also did not rise precipitously during the recession, although they did rise somewhat after the recession, as shown by the fact that 2010Q4 has more brown shading than the other years. As we saw with the worker flows, it was the precipitous decline in job creations, and not a large rise in job destructions, that brought about the massive decline in stable jobs that occurred during the recession.

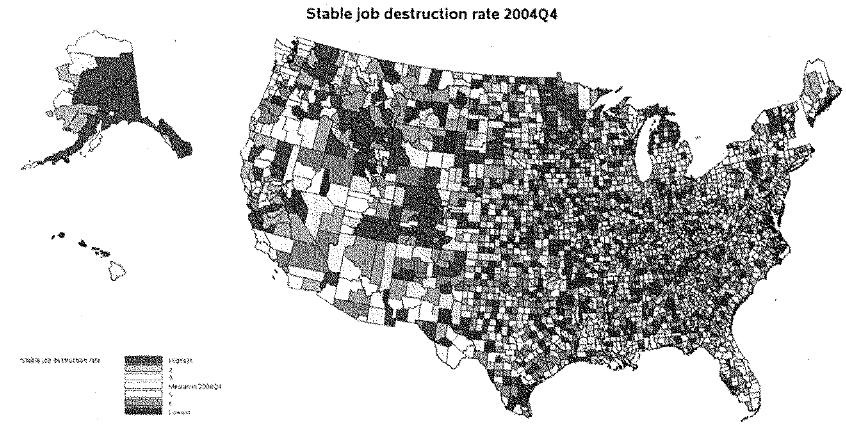

Figure 7 Animated Map of the Local Stable Job Destruction Rate (Click to play animation. Windows Media Player)

Worker, Job and Excess Reallocation Rates

Figures 8, 9 and 10 display the stable job worker, job and excess (churning) reallocation rates. Reallocation rates are somewhat counterintuitive. The worker reallocation rate for stable jobs is the sum (not the difference) of the accession and separation rates for stable jobs. The job reallocation rate is the sum of the stable job creation and destruction rates. Finally, the stable job excess reallocation rate (churning) is the difference between the worker and job reallocation rates.

Figures 8 and 9 demonstrate that both the worker and job reallocation rates fell during the recession, with the declines in the worker reallocation rate being deeper. These two rates are not usually cyclically sensitive, although that view is based primarily on the job reallocation rate for manufacturing, which is the only reallocation rate for the U.S. that has been followed for decades. But look closely at Figure 10. The consequence of the worker reallocation rate falling more during the recession than the job reallocation rate, and across many local labor markets, was that churning fell precipitously. Even in 2010Q4 it is very low in many local labor markets (light and dark brown) compared to its level in 2004Q4. Churning is the grease that keeps labor markets flexible and able to adapt to changing conditions. In the U.S., workers and employers both rely on churning to speed adjustments and to allow individual workers to find good matches with employers. The substantial decline in churning that has continued even after the recession has ended is very likely an important contributor to the slow recovery of the labor market.

Worker reallocation rate (Stable jobs) 2004Q4

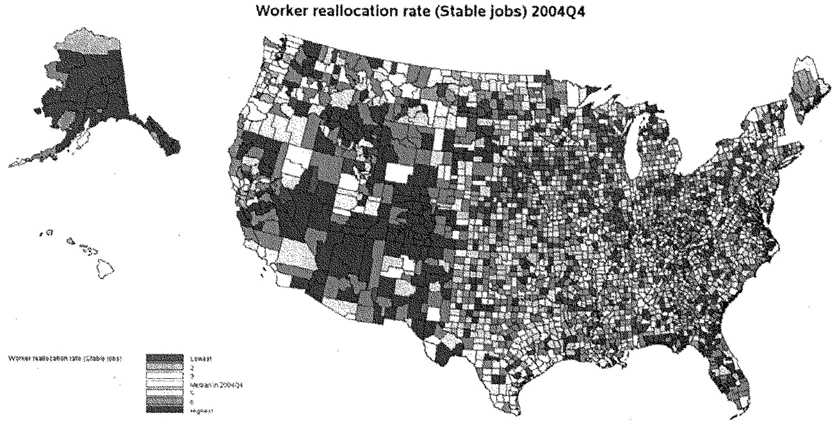

Figure 8 Animated Map of the Local Worker Reallocation Rate (Stable Jobs)
(Click to play animation. Windows Media Player)

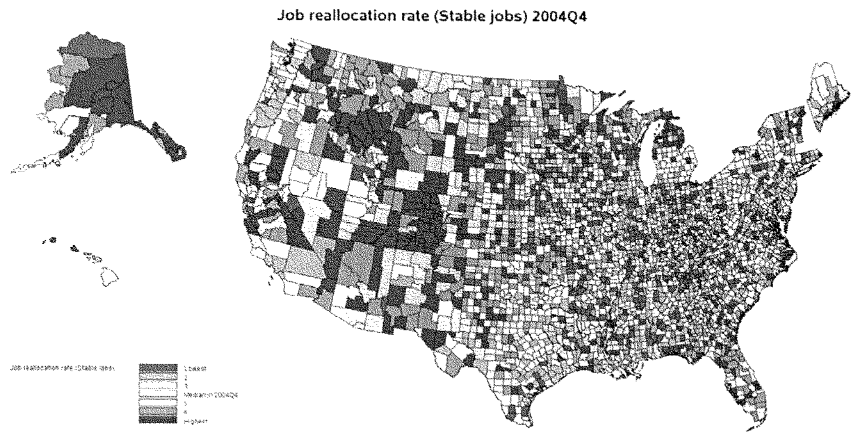

Figure 9 Animated Map of the Local Job Reallocation Rate (Stable Jobs)
(Click to play animation. Windows Media Player)

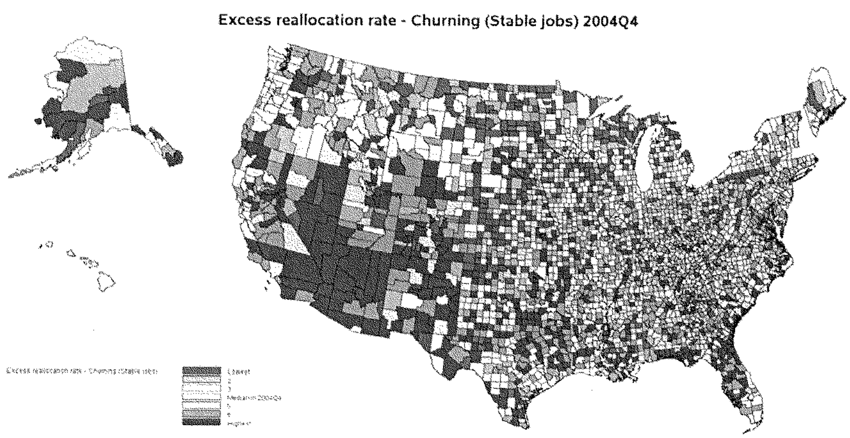

Figure 10 Animated Map of the Local Excess Reallocation Rate—Churning (Stable Jobs)
(Click to play animation. Windows Media Player)

Conclusion

I have attempted in this testimony to describe and analyze what happened in the U.S. labor market both spatially and temporally from 2004Q4 to 2010Q4, the latest date for which the Census Bureau source data, the Quarterly Workforce Indicators, are complete enough to do the analysis. More recent data are released every quarter. Some labor market indicators, like the unemployment rate, which is released within weeks of being collected, suggest that this market is finally picking up. Some of the QWIs, following along with much greater delays, support this view. We are waiting to see if the stable job accession rate will continue to improve, since it has a long way to go in most parts of the country before it returns to its pre-recession levels. The stable job destruction rate, on the other hand, while not declining precipitously in most local labor markets during the recession, shows signs of increasing in 2010Q4 data. If this continued throughout 2011, the labor market could stay in its lack-luster state for much longer.

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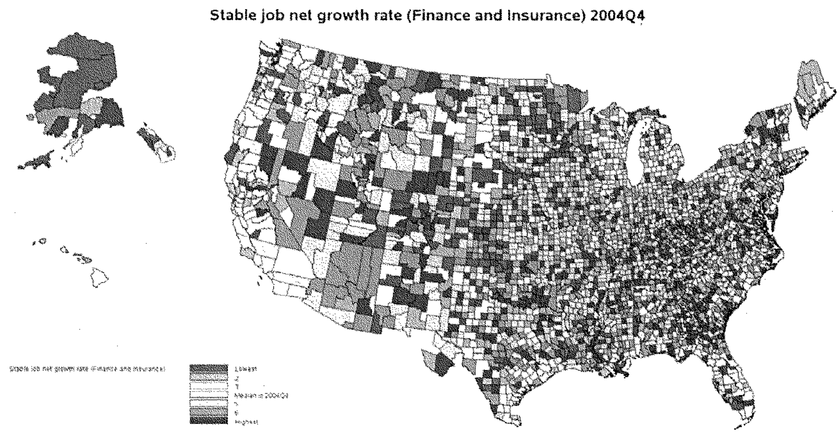
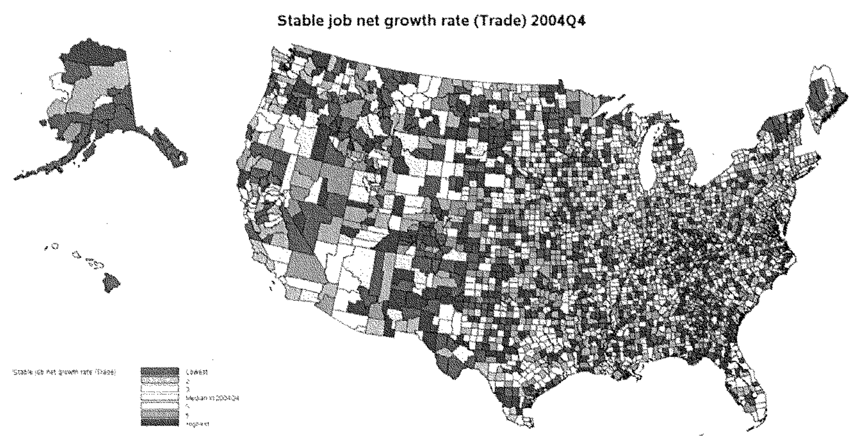
Appendix: Additional Animated Maps

This appendix contains maps of the stable job net growth rate for four NAICS sectors that figured prominently in the recession of 2007-2009: Manufacturing, Finance and Insurance, Wholesale and Retail Trade, and Construction.

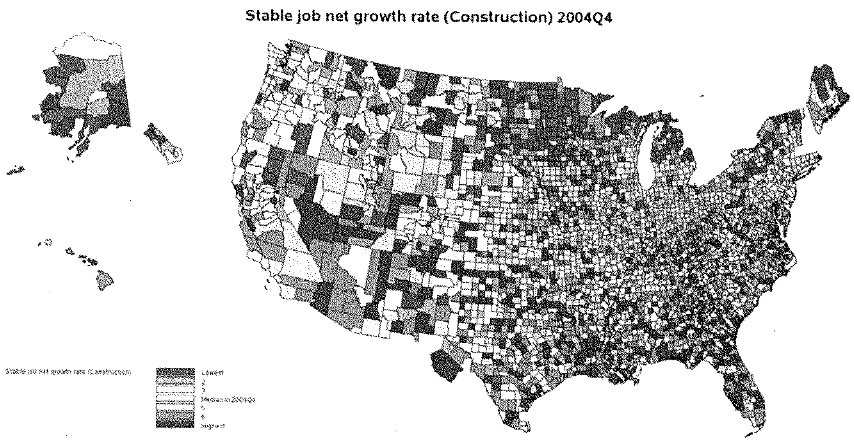
Appendix Figure 1 Animated Map of the Local Stable Job Net Growth Rate for Manufacturing (Click to play animation. Windows Media Player)



Appendix Figure 2 Animated Map of the Local Stable Job Growth Rate for Finance and Insurance (Click to play animation. Windows Media Player)



Appendix Figure 3 Animated Map of the Local Stable Job Growth Rate for Wholesale and Retail Trade (Click to play animation. Windows Media Player)



Appendix Figure 4 Animated Map of the Local Stable Job Growth Rate for Construction (Click to play animation. Windows Media Player)

Mrs. BONO MACK. Thank you, and Dr. Schmitt, you are recognized for 5 minutes.

STATEMENT OF JOHN SCHMITT

Mr. SCHMITT. Good morning, Chairman Bono Mack, Ranking Member Butterfield, and distinguished members of the subcommittee, thank you for inviting me to testify this morning. My name is John Schmitt, and I am a Senior Economist at the Center for Economic and Policy Research, where I specialize in labor market issues.

The labor market is in a stronger position today than at any time in years. The unemployment rate is down to 8.3 percent from a peak of 10 percent, and the private sector has created 3.5 million jobs since March, 2010. The American Recovery and Reinvestment Act has played an important role in this turnaround. According to the Congressional Budget Office, the Recovery Act is responsible for saving or creating one to three million jobs in 2010, 900,000 to 2.7 million jobs in 2011, and 400,000 to 1.1 million jobs this year.

As many economists said at the time, the biggest problem with the Recovery Act was simply that it was not big enough to address the size of the jobs crisis was face.

But despite some encouraging recent data, the labor market is not out of the woods. There are 5.5 million fewer jobs today than there were in 2007. After factoring in natural growth in the labor force which increases about 900,000 potential workers each month, the total jobs deficit stands at almost 10 million today.

At the current pace of job growth about 200,000 jobs per month, we won't close this gap and return to 2000, levels of unemployment until 2019, 7 years from now. Even though unemployment has been falling, it remains very high by historical standards. Rates are particularly high for African-American workers, almost 14 percent, and Latino workers, over 10 percent.

Meanwhile, measures of long-term unemployment, under employment, and what my colleague Janelle Jones and I refer to as long-term hardship, have barely improved at all in the recovery. Sustained high unemployment has led some to suggest that structural problems are the biggest barrier to reigniting job growth. I believe this view is mistaken. The two most commonly cited versions focus on extended unemployment benefits or an alleged mismatch between skills workers have and the skills employers need.

On unemployment benefits, the best evidence, however, suggest that the unemployment insurance system increases the average duration of unemployment by only a few weeks and increases the overall unemployment rate by only a few tenths of a percentage point. At the same time unemployment benefits also inject income into communities, sustained consumer spending as well as private sector employment.

One recent estimate, for example, suggested a $45 billion extension in unemployment benefits for 2012 could create a half a million jobs this year.

Nor is skills mismatch a serious structural barrier to growth. Media counts sometimes feature employers who want to expand but just can't find the right workers. The data, however, provide little evidence that these anecdotal experiences are widespread. If skilled workers were in short supply, we would expect to see two things.

The first is an increase in the hours worked by current workers, as employers use their existing workforce to meet rising demand. In fact, average hours remain below their pre-recession levels.

If skills were in short supply, we would also expect employers to raise wages in order to attract the kinds of workers they need. This is basic economics. When something is in short supply, its price goes up. In fact, again, we see no signs of rising wages in the economy.

The real barrier to faster job creation at the moment is a lack of demand. The economy is currently operating substantially below the limits set by the existing capital stock and the available supply of labor. The binding constraint is not the productive capacity of the economy but rather a lack of demand in the economy for the goods and services that we are already capable of producing.

What the economy needs are continued efforts to sustain and restore demand. In the short and medium term government deficits are an important tool for getting the economy back on course. A large-scale jobs program built around repairing our physical and social infrastructure would be ideal.

Short of that, however, three immediate measures would help. First, an extension of the unemployment benefits, second, an extension of the payroll tax cut, and third, increased Federal support for State and local governments.

The labor market is looking brighter now than at any point in years, but enormous challenges remain. The way forward requires measures that will sustain and spur private sector demand.

Thank you very much.

[The prepared statement of Mr. Schmitt follows:]

Summary

Testimony Before the House Committee on Energy and Commerce
Subcommittee on Commerce, Manufacturing, and Trade
on "Where the Jobs Are: Employment Trends and Analysis"

John Schmitt
Senior Economist, Center for Economic and Policy Research
February 15, 2012

The labor market is in a stronger position now than at any time in the last four years.

The American Recovery and Reinvestment Act (ARRA) of 2009 played an important role in getting the economy back on track, but the ARRA was too small and the economy is not, by any means, out of the woods.

Even if recent favorable trends continue, we will not be back to the number of jobs we had in 2007 until 2014, and we will not be back to the 2007 rate of unemployment until 2019.

The biggest barrier to more rapid job growth is a lack of consumer and investment demand. Consumers are still recovering from the massive loss in housing wealth and have cut back their spending accordingly.

In the short-term, government spending is key to sustaining and restoring private-sector demand. A large-scale, federally funded jobs program would be ideal. Short of such a measure, four other policies are key to promoting consumption and investment: (1) extension of unemployment insurance benefits; (2) extension of the payroll tax cut; (3) expanded federal assistance to cash-strapped state-and-local governments; and (4) a more competitive value for the U.S. dollar (which, in the long-run, could help to create as many as five million additional jobs in manufacturing).

The problems facing the labor market are not "structural." Unemployment insurance benefits have only a small negative effect on the unemployment rate, which is more than offset by their role supporting consumer spending. And the available evidence suggests that anecdotal reports of "skills shortages" are not widespread.

Testimony Before the House Committee on Energy and Commerce
Subcommittee on Commerce, Manufacturing, and Trade
on "Where the Jobs Are: Employment Trends and Analysis"

John Schmitt
Senior Economist, Center for Economic and Policy Research
February 15, 2012

Good morning Chairwoman Bono Mack, Ranking Member Butterfield, and Members of the Subcommittee. Thank you for inviting me to testify this morning. My name is John Schmitt. I am a Senior Economist at the Center for Economic and Policy Research (CEPR) here in Washington, DC, where I specialize in labor-market issues.

The labor market is in a stronger position now than at any time in the last four years. The private sector has been creating jobs, on net, for the last 23 months --a total of about 3.5 million jobs since March 2010 (**Figure 1**). The unemployment rate is down to 8.3 percent, from its October 2009 peak of 10.0 percent (**Figure 2**).

The American Recovery and Reinvestment Act (ARRA) of 2009 played an important role in righting the economy after the crash in the housing bubble triggered a recession and a full-scale financial panic. According to estimates by the Congressional Budget Office (CBO), the ARRA was responsible for saving or creating between 1.3 and 3.3 million jobs in 2010 and 900,000 and 2.7 million jobs in 2011. This year, even as ARRA spending phases out, the CBO projects that the ARRA will increase employment by 400,000 to 1.1 million jobs.[1] Subsequent federal measures, including the extension of unemployment insurance and the temporary reduction in the payroll tax, have also had a positive effect on job creation by sustaining flagging consumer demand. As many economists said at the time that the ARRA was passed, the biggest problem with the bill was that it was not big enough to address the depth of the jobs crisis facing the country.

1 Congressional Budget Office, "Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output from April 2011 Through June 2011," Table 1. http://www.cbo.gov/ftpdocs/123xx/doc12385/08-24-ARRA.pdf.

Simple extrapolations of recent trends serve to put these recent developments into some perspective. If overall job growth continues at about 200,000 jobs per month, which is the average over the last three months, the economy will have two million more jobs in November than we have today. And if the unemployment rate continues to fall at the pace that it has since August 2011 --a decline of 0.8 percentage points in five months-- the national unemployment rate, which currently stands at 8.3 percent would hit 6.7 percent by November. Of course, simple extrapolations are not careful forecasts, and more formal analysis, including those made by Council of Economic Advisers, put the unemployment rate at the end of this year in the range of 8 percent.[2]

Despite some encouraging data over the past few months, the labor market is, by no means, out of the woods. During the 23 months that the private sector has been creating jobs, budget cuts have forced state-and-local governments to reduce employment by almost half a million (**Figure 3**). These figures don't capture the full impact of austerity at the state-and-local level, however, because they don't include related losses in the private-sector firms, many of them small businesses, that provide goods and services to state-and-local governments.

The recent acceleration in job creation is welcome, but slow by any reasonable benchmark. We still have about 5.5 million fewer jobs today than we did in December 2007, when the recession began. At the average rate of job creation achieved over the last three months, it would still take more than two years to get back to where we were before the recession got underway. But, the task is even more daunting because each month, demographic forces increase the size of the labor force by at least 90,000 new, potential workers (and some analysts suggest the figure is even higher). If we factor in the growth in the labor force since December 2007, the jobs deficit isn't 5.5 million jobs, but about 10 million (and growing by about one million jobs per year). At the current pace, closing the gap on this moving target would take over seven years; this means a return to the unemployment rate we had in 2007 would not

2 Jackie Calmes, "Obama Advisers Offer Rosier Jobs Outlook," *New York Times*, February 9, 2012, p. B9.

occur until 2019.

While unemployment has fallen in recent months, by historical standards, it remains high. In the entire postwar period, excluding the current downturn, only three years had an annual unemployment rate above the current 8.3 percent level. At no time in the postwar period has the unemployment rate been this high more than two and a half years into an economic recovery.

Unemployment rates are particularly elevated for the quarter of our adult population that is African American or Latino (**Figure 4**). Rates for these two groups have always been higher than the overall average, but even as the national unemployment rate has fallen to 8.3 percent, the rate for black workers is almost 14 percent and the rate for Latino workers remains above 10 percent.

Another area of significant concern are the stubbornly high rates of long-term unemployment and long-term hardship in the labor market. The share of the labor force that has been unemployed for six months or longer is still above where it was at the low point of the Great Recession in July 2009 and almost as high as the *overall* unemployment in 2007 (**Figure 5**). The Bureau of Labor Statistics' (BLS) expanded unemployment measure known as U-6 remains above 15 percent, almost double the official unemployment rate (**Figure 6**). This measure augments the standard unemployment rate by adding "discouraged workers" and others who would like to work but currently don't, as well as those who are working part-time but want full-time work. Many of these workers or potential workers have been in these difficult circumstances for long periods, but are not counted in the official measure of long-term unemployment. According to estimates that my colleague, Janelle Jones, and I recently produced, the share of people experiencing "long-term hardship" in the labor market is likely to be at least twice as large as the share that meet the official definition of long-term unemployment.[3]

Job creation is the most pressing problem facing economic policymakers today. What can we do to

3 John Schmitt and Janelle Jones, "Down and Out: Measuring Long-term Hardship in the Labor Market," Center for Economic and Policy Research Briefing Paper, January 2012. http://www.cepr.net/documents/publications/unemployment-2012-01.pdf

get the economy back to full employment? And what factors are holding us back?

Let me begin to answer these questions by being clear about what is *not* holding us back. So-called "structural" problems in the labor market have played little or no role in the huge increase in unemployment since 2007.

Sustained, high unemployment over several years has led some economic analysts to suggest that "structural" problems in the labor market are the biggest barrier to getting the economy back on track. The two most common structural barriers mentioned are the unemployment insurance system and an alleged mismatch between the skills workers have and the skills employers need. Neither of these concerns stands up to close scrutiny.

The best evidence on the direct impact of the unemployment insurance system shows that it increases the average duration of unemployment by a relatively short period --on the order of a few weeks-- and, as a result, increases the overall unemployment rate by a small amount --on the order of a few tenths of a percentage point.[4] A recent analysis by Berkeley economist Jesse Rothstein, for example, concluded that extensions of unemployment insurance benefits during the Great Recession raised the overall unemployment rate by between 0.2 and 0.6 percentage points (relative to a total increase in the unemployment rate of 5.0 percentage points from December 2007 level to its peak in 2010).[5] Rothstein's estimates suggest that half or more of this 0.2 to 0.6 percentage-point rise was the result of reduced labor-force exit --that is, receiving unemployment insurance encouraged workers, who otherwise would have given up looking, to stick with their job search.[6] The increase in

4 For recent research on the impact of unemployment insurance on unemployment duration and the unemployment rate, see Rob Valetta and Katherine Kuang, "Extended Unemployment and UI Benefits," FRBSF Economic Letters, April 19, 2010, http://www.frbsf.org/publications/economics/letter/2010/el2010-12.html; David Card, Raj Chetty, and Andrea Weber, "The spike at benefit exhaustion: leaving the unemployment system or starting a new job?" *American Economic Review*, vol. 97 (2007), no. 2, pp. 113–118; Raj Chetty, "Moral hazard vs. liquidity and optimal unemployment insurance," *Journal of Political Economy*, vol. 116 (2008), no. 2, pp. 173-234; and Jesse Rothstein, "Unemployment Insurance and Job Search in the Great Recession," National Bureau of Economic Research Working Paper No. 17534, October 2011.

5 Jesse Rothstein, "Unemployment Insurance and Job Search in the Great Recession," National Bureau of Economic Research Working Paper No. 17534, October 2011.

6 Unemployment insurance can lead people to continue to look for work because an active job search is a condition of

unemployment associated with workers being pickier about the jobs they eventually take was, in Rothstein's calculations, only between 0.1 and 0.3 percentage points.

These minimal direct impacts of unemployment insurance on the behavior of the unemployed, however, are only part of the story. Unemployment benefits also inject income into families and communities experiencing sudden, sharp declines in purchasing power. Because the unemployed are usually cash-constrained, benefits paid to them quickly make their way into the economy in the form of rent, car payments, groceries, and other necessities. At the end of last year, Economists Lawrence Mishel and Heidi Shierholz of the Economic Policy Institute estimated that a $45 billion extension in unemployment insurance benefits would, thanks to a high associated multiplier effect, increase the GDP this year by $72 billion, or roughly a half million additional jobs.[7] The impact of this direct cash infusion swamps the behavioral responses of unemployed workers receiving benefits.

"Skills mismatch" is not a serious structural barrier to more rapid job growth either. Proponents of this view argue that employers are eager to expand output, but are currently constrained by the lack of workers with available skills. Media accounts occasionally feature employers who say that they want to expand their operations, but can't find the kind of workers they need. But, even the best functioning economy will always have some employers, particularly the most innovative ones, that are looking for particular kinds of workers that are in short supply in that moment. This holds in the same way that there were some employers still hiring in the depths of the recession and some employers laying-off workers even at the peak of the last boom. To assess whether the economy is facing a structural mismatch, however, we must go beyond anecdotes. The available statistical evidence provides little support for the idea that the anecdotal experiences of employers facing skills shortages are widespread, let alone typical.

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receiving benefits.

7 Lawrence Mishel and Heidi Shierholz,"Labor market will lose over half a million jobs if UI extensions expire in 2012," Economic Policy Institute Issue Brief #318, November 4, 2011, http://www.epi.org/publication/labor-market-lose-million-jobs-ui-extensions/

The strongest argument against the existence of a skills shortage is what were are *not* seeing in labor market data. If skilled workers were in short supply, we would expect so see two things. The first is an increase in the hours worked by existing workers, who are likely to have some or all of the skills employers are looking for precisely because employers hired them in the first place. In fact, average hours worked have not risen substantially over the recovery and are still below their pre-recession level.

The second thing we would expect if we were facing a skills shortage is that employers would be raising wages to attract the kinds of workers they need. This is basic economics. When something is in short supply, its price goes up. But, again, we see no signs of upward movements in the wages for any broad group of workers. As just one example, after rising steadily in the 1980s and 1990s, the gap between what college-educated and high school educated workers earn has been flat for a decade.

One standard framing of the skills mismatch view also flies in the face of common sense. As economist Heather Boushey of the Center for American Progress testified before this committee last year:

> "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... 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."[8] [My emphasis.]

If structural problems in the labor market are not to blame for continued high unemployment,[9]

8 Heather Boushey, "Testimony Before the House Committee on Energy and Commerce, Subcommittee on Commerce, Manufacturing, and Trade," March 3, 2011, http://democrats.energycommerce.house.gov/sites/default/files/image_uploads/Boushey.Testimony%202011-3-3.pdf

9 For recent studies from Federal Reserve and International Monetary Fund economists that find only small increases in structural unemployment during the Great Recession, see: Mary Daly, Bart Hobijn, and Rob Valletta, "The Recent Evolution of the Natural Rate of Unemployment," Federal Reserve Bank of San Francisco, 2010, http://www.frbsf.org/publications/economics/papers/2011/wp11-05bk.pdf; Justin Weidner and John C. Williams, "What is the New Normal Unemployment Rate?" Federal Reserve Bank of San Francisco Economic Letter, February 14, 2011, http://www.frbsf.org/publications/economics/letter/2011/el2011-05.html; Regis Barnichon and Andrew Figura, "What Drives Movements in the Unemployment Rate? A Decomposition of the Beveridge Curve," Federal Reserve Board, Finance and Economics Discussion Paper 2010-48, 2010, http://www.federalreserve.gov/pubs/feds/2010/201048/201048pap.pdf; Aysegul Sahin, Joseph Song, Giorgio Topa, and Giovanni L. Violante, "Measuring Mismatch in

what is? The answer here is clear: a lack of demand. The economy is currently operating substantially below the limits set by the capital stock --factories, machinery, offices, software, equipment-- and the available labor supply. The binding constraint is not the productive *capacity* of the economy, but rather the *demand* for the goods and services that the economy is already completely capable of producing.

The sharp drop in demand has its roots in the collapse of the housing bubble in 2006, which devastated the construction sector and wiped out an important part of the wealth holdings of middle-class homeowners. As the housing bubble was inflating, Americans used their homes to top up their stagnating wages and slow-growing incomes. When the bubble burst --at the cost of $6 trillion dollars in housing wealth-- the process ran in reverse, with families cutting back on expenses to try to cover their losses. My CEPR colleague, Dean Baker, estimates that the decline in household consumption related to the drop in household wealth totals about 3 to 4 percent of GDP per year. This decline in spending set off a chain reaction.[10] Lower household spending led to lower incomes for other households, which led to additional cuts in spending. Firms, seeing their customers disappear, cut back on investment, further reducing demand in the economy. The financial crisis in 2008, which followed the bursting of the housing bubble and the onset of the recession, reinforced this downward spiral.

The ARRA, while far too modest in size, was an important step in helping to break this negative cycle. What the economy needs now is continued efforts to sustain and restore demand. With the unemployment rate still far above full employment, government deficits are an important tool for getting the economy back on course. A large-scale jobs program would be ideal, but, short of that, several measures would go a long way to help.

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the U.S. Labor Market," New York Federal Reserve, October 2011, http://www.newyorkfed.org/research/economists/sahin/USmismatch.pdf; Jinzhu Chen, Prakash Kannan, Prakash Loungani and Bharat Trehan, "New Evidence on Cyclical and Structural Sources of Unemployment," International Monetary Fund Working Paper No. 11/106, May 2011, http://www.imf.org/external/pubs/ft/wp/2011/wp11106.pdf.

10 Dean Baker, *The End of Loser Liberalism: Making Markets Progressive*, Washington, DC: Center for Economic and Policy Research, 2011, Chapter 2. http://www.cepr.net/index.php/publications/books/the-end-of-loser-liberalism. Baker also estimates that the collapse in residential construction initially reduced GDP another 4 percent, further fueling the effects described here.

- First, a further extension of unemployment insurance benefits would get incomes into the hands of a group that will spend those funds supporting the broader economy.
- Second, while less efficient as a jobs creator, an extension of the payroll tax cut would also help to support demand until the private sector is fully back on its feet.
- Third, increased federal support for state-and-local governments would help them to restore some or all of the almost half a million public-sector jobs lost in the last two years, not to mention the private-sector jobs built around supporting vital state-and-local government activities.
- Finally, at no cost to the U.S. Treasury, economic policymakers could act to restore the U.S. dollar to a more competitive level. A more sensible value for the dollar would dramatically improve the competitiveness of U.S. manufactured goods in export markets and here at home. In the long-run, a more competitive dollar could add five million manufacturing jobs to the economy.[11]

One additional policy that would help the employment picture regardless of the state of aggregate demand is "work-sharing." Work-sharing would allow employers facing the need for layoffs to cut the average *hours* of their workforce rather than the total *number of workers* --with workers receiving partial unemployment benefits to compensate for part of their reduced income. The policy enjoys support across the political spectrum --from my colleague, Dean Baker, to American Enterprise Institute economist Kevin Hassett.[12] Work-sharing systems are currently in place in about 20 states, but for a variety of program-design reasons are only infrequently used.[13] Work-sharing does not directly

11 Dean Baker, "The Necessity of a Lower Dollar and the Route There," Center for Economic and Policy Research Briefing Paper, February 2012, http://www.cepr.net/documents/publications/lower-dollar-2012-02.pdf.

12 See, for example, Dean Baker and Kevin Hassett, "Work-sharing could work for us," *Los Angeles Times*, April 5, 2010, http://articles.latimes.com/2010/apr/05/opinion/la-oe-baker5-2010apr05; and Kevin A. Hassett, "U.S. Should Try Germany's Unemployment Medicine," Bloomberg.com, November 9, 2009, http://www.aei.org/article/economics/fiscal-policy/us-should-try-germanys-unemployment-medicine/.

13 See Wayne Vroman and Vera Brusentev, "Short-Time Compensation as a Policy to Stabilize Employment," The Urban Institute, November 2009, http://www.urban.org/UploadedPDF/411983_stabilize_employment.pdf.

address the problem of aggregate demand, but it would much more equitably share the burden of unemployment; and because employers are able to retain their existing staff, work-sharing can leave the economy better positioned for growth when consumer and investment demand do eventually return A similar "part-time unemployment benefit" system in Germany is one reason why the unemployment rate there is actually lower today than it was before the Great Recession began.[14]

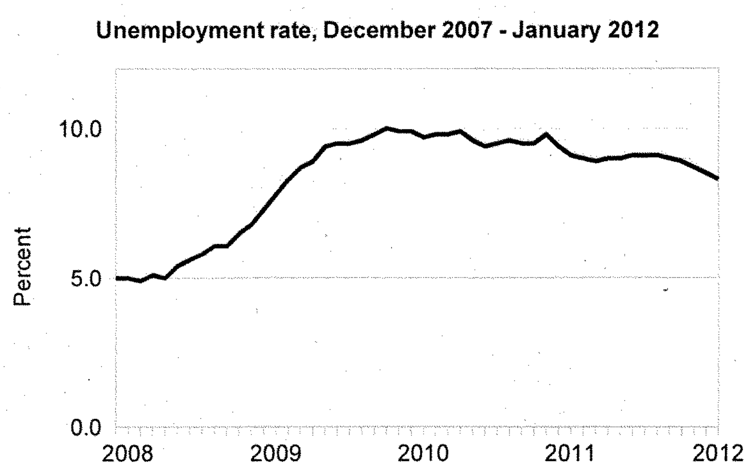
The labor market is looking brighter now than at any point in years. But, enormous challenges remain. The problems we face today are the result of a collapse in consumer and investment demand that derailed an economy that had been operating much closer to full employment. The way forward requires measures that will sustain and spur private-sector demand, including extended unemployment insurance benefits, a continuation of the payroll tax cut, renewed support for state-and-local governments, and a move toward a more competitive U.S. dollar.

14 John Schmitt, "Labor Market Policy in the Great Recession: Some Lessons from Denmark and Germany," Center for Economic and Policy Research Briefing Paper, May 2011, http://www.cepr.net/documents/publications/labor-2011-05.pdf.

Figure 1

Source: BLS.

Figure 2

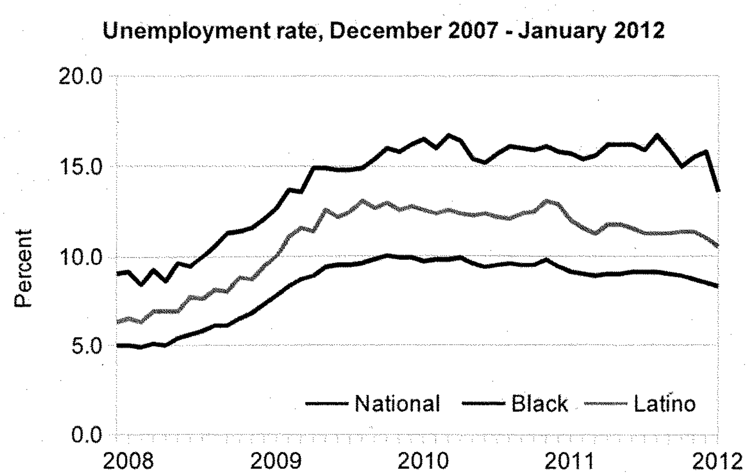


Source: BLS.

Figure 3

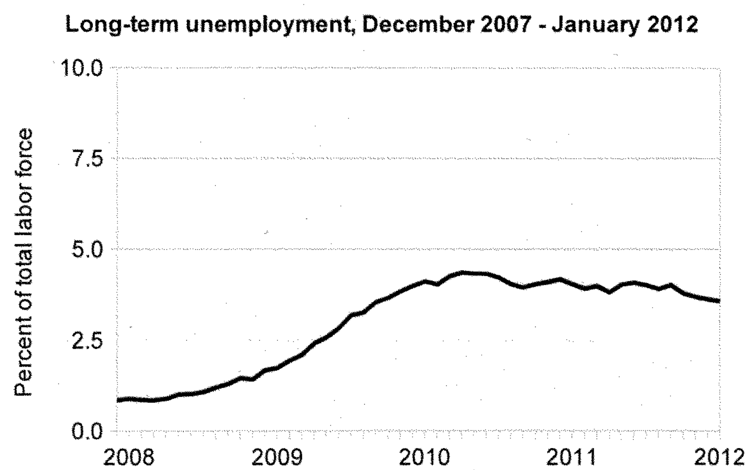
Source: BLS.

Figure 4



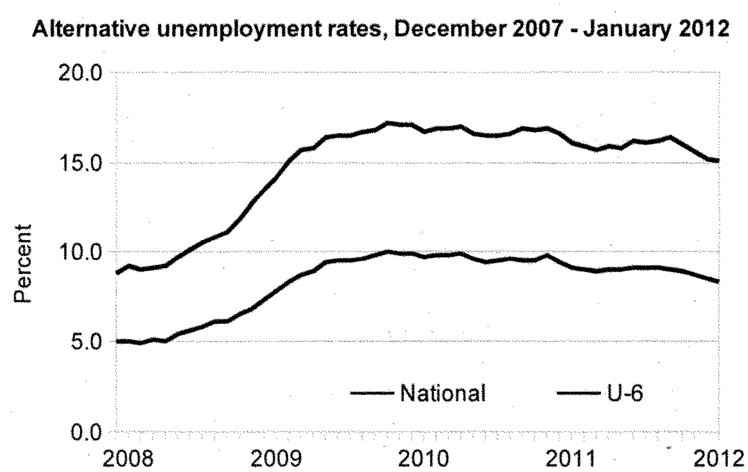
Source: BLS.

Figure 5



Source: BLS.

Figure 6



Source: BLS.

Mrs. BONO MACK. Thank you, Dr. Schmitt. I thank you all very much for your testimony and your expertise in these areas that are interesting to us all, and I recognize myself now for 5 minutes of questioning.

And my first question is to Mr. Sirkin. You mentioned in your written testimony seven categories of goods that will see only a 10 percent pure cost advantage to manufacture in China. Why aren't other categories such as apparel and footwear subject to the same narrowing of the cost gap and therefore, candidates to be manufactured in America?

Mr. SIRKIN. Well, the goods that we are talking about generally have a moderate amount of labor, so about 25 percent labor involved. If you go to shoes and apparel and categories like that, you are looking at more like 60, 70 percent labor. So it may in the long term come back to the U.S. but over the next decade it is unlikely for many of those to come back to the U.S.

Mrs. BONO MACK. And would it surprise you that a constituent in my district, Ms. Liat Talla, moved her manufacturing from China to California to produce her brand of apparel and blue jeans, even as she faces downward pricing pressure? And is this atypical for what we might expect for the apparel industry, or does it validate your analysis of the improving costs and quality differential to make products in the U.S.?

Mr. SIRKIN. Well, we are going to see examples of many different things happening, and on the premium side we are going to see apparel companies potentially coming back to the U.S. for reasons other than the exact costs but because of the need to have a very short supply chain.

I am very pleased that she is trying this. I think it is a wonderful thing for our country, and we need to have more entrepreneurs doing this, and if she is producing at a premium price, it will probably work quite well.

Mrs. BONO MACK. Thank you. I will pass along your words to her.

Mr. SIRKIN. Thank you.

Mrs. BONO MACK. Your report concludes the cost gap of manufacturing some goods in China will continue to narrow significantly enough so that U.S. companies may be able to manufacture their products in the U.S. again without loss of comparative advantage.

I understand that this is based on rapidly increasing costs in China including labor, land, and energy. What are the costs affecting decision to manufacture in the U.S. that are prone to increasing, and therefore, disrupting your analysis? For example, additional regulatory costs or higher energy costs, higher taxes.

Mr. SIRKIN. Well, a lot of those costs are obviously going to be decided on government policies, so it is hard to know exactly what will the rising costs and what won't. We are certainly in a time of uncertainty, but the ones that you mentioned are clearly things that could affect it.

I think the biggest driver, though, is the Chinese wage rate increases. The reality is they have over-stimulated their economy, they have controlled their currency, and what they are seeing is 15 to 20 percent wages growing a year, and that is the real thing that is going to help us in many ways.

Mrs. BONO MACK. All right. Thank you, and moving now to Mr. Berlau, it sounds like the President's Job Council report has some good, bipartisan ideas. Has the President or even Congress for that matter followed any of them?

Mr. BERLAU. Well, yes and no. One of the council reports recommends approval of the Keystone Pipeline, for instance, the President recently delayed that, but I would say on access to capital, the President has endorsed the concept and the House bills that has passed such as crowd funding which is making it easier to raise funds on—through online social networks and exempting from some of the SEC red tape and other things. I think the specifically, the administration specifically endorsed one of the bills and the concepts in some of the others to make public offerings easier and similar items.

The issue is that is somewhat puzzling because these bills, these four bills in November passed by more than 400 votes, one of them literally had one vote against it, but they have been lingering in the Senate for the past 3 months.

So, yes, we have seen progress in the House, we have seen the President embrace some of the bills. You have got Republicans and Democrats endorsing H.R. 3606 as far as the onramp for public firms, exempting them from some of the regulations from Sarbanes-Oxley and Dodd-Frank their first 5 years after being public, but just the Senate, these have just been lingering and with no sign that they are going to be brought to the floor.

Mrs. BONO MACK. All right. Let me jump ahead because I have only—less than 1 minute left. Several critics, including your copanelist, Dr. Schmitt, argue that the stimulus was not big enough and that the government should consider a second round.

Would you like to speak to that? What is the opportunity and costs associated with such an action?

Mr. BERLAU. Yes. I think you are right that opportunity cost is always an important economic concept. What could have been done instead of the stimulus to bring back the economy very rarely is the choice between the—taking one action and doing nothing. The stimulus, the cost of the stimulus means there is less money to do things that would be truly—bring back a vibrant economy like cutting the, some of the highest corporate tax rates in the world, and also there has been interesting new data from the Mercatus Center of George Mason University that 42 percent of the jobs in the Recovery Act were actually for those already employed. So there are some doubts on the stimulus effect.

Mrs. BONO MACK. All right. Thank you. My time has expired, and I am pleased to recognize Mr. Butterfield for his 5 minutes of questioning.

Mr. BUTTERFIELD. Thank you very much. I want to spend just a couple of minutes talking about regulatory uncertainty. Ms. Blackburn in her opening remarks a few minutes ago opined that employers aren't hiring because of regulatory uncertainty, and certainly we on this side of the aisle agree that regulations should be reviewed and streamlined where possible.

However, it is misleading to suggest that regulatory uncertainty has anywhere near the same importance in explaining unemployment as the massive affect of this recession an aggregate demands.

The Bureau of Labor Statistics data tracking mass layouts from '07, to the present support this conclusion. These data showed that among employers forced to undertake massive layoffs less than one-half of 1 percent cited government regulation or government intervention as the reason for the layoffs.

By comparison, a plurality of anywhere between 29 and 39 percent of employers cited lack of demand, and there was no statistical difference between employer responses during the Bush administration and the present Obama administration.

Let m go to you, Dr. Schmitt. Could you please discuss the extent to which you believe regulatory uncertainty has slowed the recovery?

Mr. SCHMITT. I think that regulatory uncertainty has probably played a very little if any role at all in the current situation we are facing. We can look at the historical experience of the United States at the end of the 1990s, which in some people's mind was a period of higher, greater levels of regulation, regulatory uncertainty say than the 2000s, even up until 2007. And that was a period of extremely rapid economic growth and extremely rapid job growth, in fact, the highest rate of job growth in the last 30 years.

By contrast, if we look at the recovery in 2001 from the 2001 recession, we saw private sector job growth was actually slower than private sector job growth in the current recovery. So I don't think that there is—there is certainly an opportunity for anecdotal experiences of people running into problems with particular pieces of legislation, regulation, but there is not any evidence of some economic affect that dominates.

Mr. BUTTERFIELD. All right. Let me try Mr. Sirkin on my second question. In your testimony, sir, you mentioned that companies from other countries are recognizing that they can more efficiently produce for the U.S. market by locating their manufacturing in the United States. Some are even using or considering using the U.S. as an export base.

Number one, can you or any of the other witnesses discuss what parts of the U.S. manufacturing sector are growing? For example, is it in automobiles, electronics, or power turbines or the like?

Mr. Sirkin?

Mr. SIRKIN. Yes. We are seeing this. The U.S. is a very productive Nation. We are about one-third more productive than Japan, and about 25 percent more productive per worker than Germany. So we are very productive.

At the same time, given the currency shifts, the U.S. worker is earning lower wages than in those countries for similar tenures. That makes the U.S. a very attractive place for companies to produce. At the same time we are the world's largest market, and so if I can manufacture in Japan or in Germany, I may choose to manufacture for U.S. consumption in the U.S. because it is fundamentally cheaper, and I will be more competitive.

At the same time when I do that versus producing in, let us say, Germany, I may have the opportunity to export, and if my factory in the U.S. is more productive and lower costs, it makes sense to be producing in the U.S. So we have an opportunity here because of the economic conditions that we see that will allow foreign companies to produce in the U.S., and we welcome them. We do not discriminate against foreign companies in our country, and at the same time in the example of Siemens for Saudi Arabia, we are exporting, Siemens is exporting six power turbines to Saudi Arabia to generate electricity from natural gas.

Mr. BUTTERFIELD. When you say we are strong, does that include assembly plants as well?

Mr. SIRKIN. There are assembly plants and then there are, of course, the supply chains that go with it because the U.S. is also lower costs. Consider Rolls-Royce manufacturing jet engine parts now in the United States because the cost of manufacturing in the U.K. or in Europe is far higher.

Mr. BUTTERFIELD. Can you discuss whether these plants are mostly assembling parts that are made overseas, or are the parts being made more and more here in our country?

Mr. SIRKIN. Well, as we saw in the automotive business when the Japanese came to the U.S. and the Koreans are coming to the U.S., what happens is originally they become assembly plants, and then the suppliers come over because the economics are better. It does take some time for that to develop, but we expect to see that in all these other industries.

Mr. BUTTERFIELD. All right. Thank you. I yield back.

Mrs. BONO MACK. Thank you, Mr. Butterfield.

The chair now recognizes Dr. Cassidy for 5 minutes.

Mr. CASSIDY. Dr. Abowd, I am also an academic, so my gosh, it is just fun to see Power Points, you know what I am saying, and those are very nice ones. I couldn't help but notice there seemed to be a strong correlation with green wherever there—it was something I would consider an energy State. Oklahoma, for example, my State, Louisiana, if you take out Hurricane Katrina effect, Texas going up that sort of belt in the Midwest.

So can you comment upon the impact of development of natural, of our domestic oil and gas resources and its affect upon the job market, particularly for those blue collar workers who have had the hardest time with employment?

Mr. ABOWD. Certainly. I would be happy to comment on that. We won't play the slides again. The point that I was trying to make and I think the point that you picked up with the slides is that the geographic variability in the way the recession moved through the economy and the way the recovery is moving through the economy is very striking, and so you could see that at the start there was already much more activity in the south and over on the southwest and up in a particular part of the Atlantic Coast. And in the north and particularly in the north and Midwest there wasn't, and those are long-term kinds of patterns in the economy.

So when there is a vibrant labor market, what happens is that the job creations are where the economic profit opportunities are highest, and those have to be allowed to play out, and the workers have to be able to get to those jobs, the businesses have to be able to——

Mr. CASSIDY. So I understand your point regarding churning. My point, though, the geographic distribution seemed to be strongly related to where there is domestic oil and gas production. So, for example, both Louisiana, Oklahoma, Texas had the good green most of the time, and going up through Colorado, North Dakota.

Is that my imagination, or is that true?

Mr. ABOWD. It is not your imagination, but I am not willing to attribute it to natural resource production, although that is certainly a possible cause. I am very reluctant to use the colors to do a specific analysis.

Mr. CASSIDY. Maybe associated by not causal.

Mr. ABOWD. Things like that are——

Mr. CASSIDY. Mr. Schmitt, your thing is hidden by the—you may be a doctor. I can't tell because of the water pitcher. I apologize.

I am struck that we have a problem with blue collar unemployment, and yet the President continues to speak about hiring more teachers and solar engineers, and you frankly kind of echoed that. It seems a strange way to hire blue collar workers is to put more money into programs which basically you have to have a Ph.D. sometimes in order to qualify for.

So there seems to be a mismatch there. How would you explain, how would you defend, if you will, more Solyndras when our problem is blue collar workers?

Mr. SCHMITT. I think that a key issue in terms of addressing the problems of blue collar workers is to try and get at the kind of infrastructure kinds of issues. I think that is where we have an——

Mr. CASSIDY. And you define infrastructure as?

Mr. SCHMITT. Infrastructure, transportation, improving——

Mr. CASSIDY. But you specifically talk about, you know, putting more money into public service type employees, which, again, I don't think of those as the people who are currently being whacked by the recession.

Mr. SCHMITT. I think that the impact of the recession has been pretty broad, and I think, therefore, we need to use a kind of——

Mr. CASSIDY. But I am correct when I say the blue collar workers, particularly non-college educated men, have been disproportionately affected, whereas those with Bachelors and upwards are frankly doing OK.

Mr. SCHMITT. I wouldn't say they are doing OK, but they have fared better in the recession than——

Mr. CASSIDY. So, again, the prescription that I am asking, and I don't mean to speak with compressed speech, but I have limited time, if the prescription the President continues to offer is more kind of, you know, OK, let us go to somebody who makes solar panels and hires a bunch of Ph.D.s and engineers, or let us hire more teachers or keep them employed—that seems a mismatch, if you will, between those who are disproportionately affected by this recession.

Mr. SCHMITT. I think that on the other hand it is also the case that there is an emphasis on trying to deal with the physical infrastructure, whether it is roads and public transportation or improving the physical infrastructure of our schools, where I think there is a big opportunity for blue collar workers.

Mr. CASSIDY. Now, you mentioned also in your testimony that the mean hours worked by employees and the mean wages remain stable. Is that an average across the economy, or is that industry specific? Because if you look at Petra Chemical where there has been a huge expansion and they tell me that they don't have enough trained workers for it, that if you looked at that, do you see within that particular industry that there has been an increase in the number of hours per worker or wage growth?

Mr. SCHMITT. I don't have access to the specific statistics at Petra Chemicals, but what I would say is the numbers that I did talk about are averages across the country, and I don't doubt that there could be circumstances where there are some industries that are facing difficulties.

My question would be do we see those same firms offering more money or installing training systems to try and get the workers that are.

Mr. CASSIDY. And that is my question, too, because if we are trying to find solutions for blue collar unemployment, we should look where they are being employed, and, again, frankly I think more public service dollars is kind of a mismatch.

I yield back. Thank you.

Mrs. BONO MACK. Thank you very much, Dr. Cassidy.

The chair is now pleased to recognize my friend from Texas, Mr. Gonzalez, for 5 minutes.

Mr. GONZALEZ. Madam Chair, thank you very much, and I want to thank the witnesses for their testimony this morning.

Dr.—is it Abowd?

Mr. ABOWD. Abowd.

Mr. GONZALEZ. Abowd. I am going to kind of—what I heard you say, and if I am wrong, you can correct me, but in essence jobs go where profits can be made. That is kind of a general theory, isn't it, and it makes sense, it is practical, and so on. Jobs are created where a profit can be made.

I mean, you are not going to create a job where you can't open the door to your business in the morning unless a profit is made. I think that is just—what I am getting at is I think in my own opinion, and I want you all to comment on this because I am going to go and read a couple of comments made by a couple individuals that you have heard of, I think there is something—the very nature of our economy is in trouble and has been transformed over a number of years, and we are not going to be undoing it in the very short term, and it is time for us to get very, very serious about undoing it.

And this is what I am getting at. This is David Stockman back in 2010. "The third ominous change in the American economy has been the vast expansion of our financial sector. The combined assets of conventional banks and the so-called shadow banking system, including investment banks and finance companies, grew from a mere $500 billion in 1970, to $30 trillion in September, 2008." That is David Stockman.

Now, some figures—our GDP a year and a half ago or so, let us say was at about $14.601 trillion. The total assets of the Bank of America, JP Morgan Case, Citigroup, Wells Fargo, Goldman Sachs, and Morgan Stanley stood at $8.977 trillion or 61.49 percent of GDP.

In the 1970s and 1980s financial firms comprised 15 percent of all corporate profits. By 2006, that had risen to 33 percent. I believe we have just been investing in money. We had been investing in financial instruments and not really investing in that which truly creates jobs in this country.

Now, some commentators would agree with this, and now former Fed Chief Paul Volcker, "I have found little evidence the vast amounts of innovation in financial markets have had a visible affect on the productivity of the economy."

The question is, Where are we directing our dollars, our investments, whether it is my 401, whether it is a pension and retirement fund? I don't think we are investing it in that which really produces jobs in this country. What we got addicted to was making money off of money, and it has not served us well, but I am not sure that we have moved forward in trying to remedy some of this in the past 2 years. Attempts have been made.

So I am going to start with just Dr. Abowd, where are we today with financial markets and the tremendous assets that they represent, and do they truly create the jobs that all four of you have been discussing and which members of Congress obviously have a great attention to be paid to through policy and legislation. And if you will just give me about 1 minute in the remainder of the time to Dr. Schmitt to—for his comments.

Mr. ABOWD. Thank you for the question. I will not take very long with my answer. I did prepare a slide on the financial sector that shows that it was also one of the sectors that suffered stable job losses in the recession but not nearly as badly as the construction sector, which basically is the bubble that was inflated by the financial services industry.

I fundamentally agree with you that the growth of the financial services industry wasn't entirely related to productive profit opportunities in that sector. It happened, and it happened for reasons, but it is going to take economists awhile to sort out, but other sectors of the economy like manufacturing and construction and trade also have to come back and jobs have to be created in those places in all conditions, recessions and booms. There are jobs being created in all the sectors and jobs being destroyed in all the sectors, and that removement of workers is what allows businesses that have profitable opportunities to grow and flourish.

The fact that over the course of 2 decades the financial services industry was pumped up by other factors is related but not part of what I was talking about.

Mr. GONZALEZ. Dr. Schmitt, just a few seconds.

Mr. SCHMITT. The financial sector, I think, is a huge part of the problem. I think if it was a lot smaller, there would be more possibility for productive economic investment because we are currently diverting resources that could be going elsewhere into that sector.

Mr. GONZALEZ. Thank you very much.

Mrs. BONO MACK. I thank the gentleman, and the chair recognizes Mr. Guthrie for 5 minutes.

Mr. GUTHRIE. Thank you. Over here on the end.

Dr. Schmitt, you said—I just caught something you said that unemployment, you said would increase—unemployment insurance's evidence is only increased by a few tenths. And that is not significant, the few tenths?

Mr. SCHMITT. Well, if you are in those few tenths, it is not very—it is obviously significant to you, but a few tenths of a percent on 10 percent, which is where we stood at the peak, is relatively small, and that is the negative effect on employment, but as I also emphasized, the fact that we are giving everybody or about 75 percent, 70, 75 percent of unemployed people benefits means that we are actually sustaining jobs in the communities where those unemployed people are because we are giving them income to bridge the gap.

Mr. GUTHRIE. My question, it seems there has been an agreement to extend those, but so I guess my question was if unemployment increases just a few tenths, and that is not significant, then for the last 3 or 4 months we have seen unemployment drop just a few tenths, which, you know, we are glad to see we are going in the right direction. Is that insignificant? I mean, if you are saying increasing it a few tenths isn't important, then decreasing it a few tenths, is that insubstantial?

Mr. SCHMITT. No. As I said, I think we have made some progress since August. The unemployment rate has gone from 9.1 to 8.3, which is more than a few tenths than what I am saying right now, but I also emphasize we are not out of the woods. I think we have a long way to go before we get back to anything approaching full employment.

Mr. GUTHRIE. Yes. That is what we are all here to talk about. We want people to get back to work, and so one of the things that I saw, I saw this a few weeks ago, I guess, is that if you took the growth rate coming—my father lost his job in the 1981-82 recession, so that is one that I remember, and Japan and Toyota—my dad worked for Ford—so those were our experiences. And so I have heard that if we had the same growth rate in year 3 or year 4, I think we are in year 4 now, but year 3 of the—same growth rate of year 3 of the '84, recession or '82, recession now, that we would have over 10 million or somebody even said 15 million new jobs. But even cut that by two-thirds because that seems a big stretch, we would be at full employment if we came out of the—if we were 3 years into the recession with the same growth rate of the '82, recession, we would have full employment today? Has anybody seen that or agree with that or dispute that?

Mr. BERLAU. If I may, there is some evidence that IPOs are actually counter-cyclical, that when the debt market is tight as it was in the early '90s recession with the S & L collapse, IPOs actually increased. There were actually more than 300 IPOs in 1991, and that is where you had companies that were relatively small like Starbuck's and Cisco Systems, unlike the big IPOs today that launch, they were able to utilize that process when they couldn't get gas, when they couldn't get bank loans, and that is what has been credited with helping the—actually helping laying—going from a recession in the '90s to the boom, but now a lot of these options are foreclosed because of the Sarbanes-Oxley auditing mandates and Dodd-Frank, whereas 80 percent of the IPOs in the '90s were with companies with market evaluations below 50 million. Today only 20 percent are.

Mr. GUTHRIE. And I want to get to a point we are always getting at with, though, is as you moved out of the recession in the early '80s, and then Japan went into theirs on the '90s, and one of my concerns, I was a freshman here when we started discussing the stimulus bill, it appeared to be a lot of the same prescription that

Japan followed in the '90s, which a lot of people say Japan in the '90s had the lost decade.

So that was the concern. Are we at a point where we—the American economy has been so adaptive. That has been our brilliance. I mean, in the 1980s my father lost his job, we were thinking Ford is out and never going to exist like it did before, and here we are, you know, GM is now the number one selling car again in the world, which is great.

But the question is we haven't recovered that quickly, and are we putting in prescriptions and policy regulations and borrowing 40 cents of every dollar to have a school teacher in a classroom? Is that hurting our recovery?

I know that we are moving in the right direction, but would we move far greater if we hadn't have—if we had gone down the path that they did in the early '80s? I mean, that is really my question.

And anybody is welcome to—but I do want to—let me stop at that, because I do want Dr. Abowd, you said if we change fluidity policies for labor, we are—what policies would you prescribe, and I only have 40 seconds. I am sorry, but that is interesting to me.

Mr. ABOWD. I won't go through a litany list of them but one of the big differences now from the recessions you were citing is that it happened in—with a housing price bubble that collapsed, and that definitely impaired the geographic mobility of workers and also impaired the geographic mobility of new businesses because they were caught up in some of the same financing arrangements.

So that is a big difference, and that is something that takes more than a few quarters to cure because of how much lost value there was. So that is——

Mr. GUTHRIE. So a manager in Atlanta can't move to Fruit of the Loom in Bowling Green for a job available because they are underwater in their house in Atlanta. Is that where you are—that kind of limits their mobility?

Mr. ABOWD. That is the kind of thing I am talking about. Yes.

Mr. GUTHRIE. OK. Thanks. I am sorry. I wish I had more time. I will yield back.

Mrs. BONO MACK. Thank the gentleman.

The chair recognizes Mr. Towns for 5 minutes.

Mr. TOWNS. Thank you very much, Madam Chair. Appreciate you having this discussion.

In the State of the Union, Mr. Schmitt, the President described a blueprint to put Americans back to work, and of course, when I go back to my district in Brooklyn, New York, people are saying that Congress isn't moving fast enough to create jobs, and I couldn't agree more.

If we follow your full policy recommendations, what immediate impact do you think we would see in the job market?

Mr. SCHMITT. I think the immediate impact will be to continue to see some positive job growth in the private sector that could see a continuation in the decline in the unemployment rate nationally. But as I emphasized, if we do just the things that I was proposing this morning, I think we are still facing a very long road to recovery. We need to do more than just those short-term measures.

On the other hand, I did mention in my written testimony, not this morning when I spoke, that one thing we could do that could have a long-term big impact would be to get the value of the dollar at a more competitive level, which would help to expand the manufacturing sector by making it more competitive.

Mr. TOWNS. Right. Thank you. If you panelists talked about the importance of having a stable job and its impact on consumption and demand, when I go back home, people talk to me about finding a stable job. Traditionally jobs in manufacturing have been very, very stable.

Mr. Sirkin, can you go into a little more detail about reassuring and things Congress can do to make it more attractive for manufacturers thinking about moving their operation, you know, to other places?

Mr. SIRKIN. Well, I think there are many things that we can do to make it easier for companies to do that. The first is awareness. One of the problems we have is that companies assume that it is cheaper to manufacture in China than in the U.S. I remember sitting in a boardroom one day with a company that had about 80 percent of its manufacturing in China, a U.S. company, and they were similarly just putting another plant in China because that is what is logical to them. We forced the question on the table, and their decision changed.

So the most important thing that we can do is get awareness that, in fact, the economics of China are changing and that you should be looking at it very carefully, and they shouldn't just do the math on what it looks like today but look 3 or 4 years in the future and take a look at it because you will find that if you have a plant, it is going to last for 25 to 30 years. And so making a decision today to put a plant in the ground in China may not be the most economic decision 5 years out.

So companies need to be just more aware that the U.S. is a reasonable option for the manufacture of many goods. In 2001, the Chinese worker was making 58 cents an hour. It was a very simple decision. It is getting more complicated now, and the tide is turning back towards the U.S.

So if I have one thing that I could ask people to do is to just build that awareness. We are a good place to manufacture. It is why foreign companies are coming to the U.S. as well to manufacture for U.S. consumption because it is more expensive where they are.

Mr. TOWNS. All right.

Mr. BERLAU. If I may.

Mr. TOWNS. Yes. Sure. Go ahead.

Mr. BERLAU. The President's Job Council report and the Kauffman Foundation have stated the findings that in some cases 100 percent of net job growth are created by firms 1 to 5 years old. Firms older than 5 years old have eliminated more jobs than they have created, and 90 percent of this job growth occurs after an IPO. The problem is there aren't as many IPOs for companies that are emerging growth companies, and you had sponsored some of the early bills to ease some of the burdens on smaller companies from Sarbanes-Oxley 404. Some of the IPOs we are getting now are already more than market capital of $1 billion after the growth has occurred, so they need more—every dollar a company can raise for an IPO is that less that they have to borrow or beg from a bank and more that they can devote to creating jobs and the companies most likely to create jobs.

Mr. TOWNS. Madam Chair, I see my time is running out, but I would like maybe to ask in writing if you would just sort of make a suggestion, a recommendation as what members of Congress might be able to do and put it in writing and give it back to us. I would like to just see that in writing as to what you suggest that Members of Congress should do. Other words, let us switch roles. Make me the economist and you a Member of Congress.

Mr. BERLAU. Glad to.

Mrs. BONO MACK. Be careful what you wish for, Mr. Towns.

The chair is happy to recognize Mr. McKinley for 5 minutes.

Mr. MCKINLEY. Thank you, Madam Chair.

Mr. Schmitt, I am just a little astounded with one of the comments you made. I would like you to maybe expound a little bit on it before I cut you off, but you said that the uncertainty is really not a factor. I really wish if you could provide us the information that supports that, some statistics, because I am just looking—I just in scribbling here list some of the companies that were in possibly within 20 miles of my home. They are no longer. Banner Fibreboard, Fostoria, Viking, Allied North, Solvay, Wheeling Pitt, Weirton Steel, Follansbee Steel, Purina. There are just numbers of companies that when we talk to them, they say it is absolutely the uncertainty that they are facing.

We talked about a bill we passed out of here earlier this year, that the Veritis Group said that without that bill because of the intrusion of the governmental, the EPA, it was going to cost 316,000 jobs. It was the Coal Combustion Residual Bill, the Fly Ash Bill, because the Federal Government stepped in and now they are threatening, they have got a stigma attached to all the fly ash that is being produced around America, and they want to call it a hazardous material.

So there is a stigma and uncertainly that is swirling around all 316,000 jobs to be lost because of this. The aluminum industry just last week, we had a meeting with them, and they told us that it is uncertainty in their utility bills that is causing them not to reopen and operate some of their facilities. They want to know what is going to be our utility costs.

We had the EPA back in February of last year pull a water permit from an existing coal mine in West Virginia 4 years after it had been in operation. I have never heard of that. It is unprecedented. It is now in Federal court, and the courts are challenging that significantly whether or not that intrusion into the process after a permit has been granted, all the hearings were held, 4 years operation, they had the right to step in and pull a permit and shut a company down?

Yet you sit here and say uncertainty is not a problem in America. I am not hearing that in my district.

Mr. SCHMITT. I think it is important to say, to ascertain what kinds of uncertainty, whether you are talking about regulatory uncertainty or whether you are talking about all the forms of uncertainty like exchange rate shifts, changes in the interest rate, how your competitors are going to act relative to you.

Mr. McKINLEY. Let me just—what your competitors are acting, how they are going to—China. OK. Here we had for the San Francisco bridge, they didn't use American steel, and it was so flawed that we had to send inspectors over to retool, remake a lot of that steel, yet because it was the lowest price, they are able to buy that from China. Our turbines for our wind turbines are coming from overseas. We have got even the Keystone Pipeline, from what I am hearing from testimony, that wasn't even manufactured—the steel didn't come from America.

What are we doing then about this uncertainty? If you see that this competition is coming in unfairly, and I mean that word, unfair competition coming in, how does that create certainty in the American manufacturer?

Mr. SCHMITT. I certainly share your concern that the trade agreements that we have agreed to and signed and ratified over the last few decades have created a lot of problems for U.S. manufacturers and for the particular cases that you are talking about.

But I think the other issue to think about is that to a certain degree that is a working the ref involved in these kinds of conversations. Any individual firm is going to be talking to the government officials that they deal with and saying, look. We are having trouble here. You got to help us out. When we look at the, not anecdotal data, but when we look at the evidence, when we look at the broader data, we see, for example, very rapid job creation in the '90s, and the other issue is right now corporate profits are at record highs. So the activity that firms are currently undertaking is actually giving a very high return to those companies.

Perhaps uncertainty is hanging over business's future decisions, but my point is just that the uncertainty around whether there are going to be customers or not far outweighs all of the other concerns at the moment.

Mr. McKINLEY. I am running out of time, but I have got a lot so all I am asking is, please, if you could submit where in God's name you came up with the idea that uncertainty is not a problem to manufacturers, I would sure like to read it.

Thank you very much.

Mr. BERLAU. I have an answer on regulatory uncertainty if another panelist wants to ask the question.

Mrs. BONO MACK. Thank you. I, too, echo Mr. McKinley's sentiments, too. I am confused myself about your answer, but I am happy to recognize Mr. Olson now for 5 minutes.

Mr. OLSON. I thank the chair for her continuing leadership and calling this hearing. I would also like to thank our witnesses for coming today and giving us your time and your expertise.

We are talking about the current obstacles that stand in the way of job creation and discussing the kinds of policies that will help create new jobs right here in America. That is what we all want to do.

Doubling down on the failed policies of wasteful spending has made our economy worse. It is not the answer, and yet this is exactly what our President is proposing in his 2013, budget.

I have said this in the past, and I will say it again, I will say it until I probably meet Saint Peter, I have a three-word solution to help fix this Nation's job performance. American energy development. American energy development. That is where the jobs are.

So I would like to start my questions today by asking all the witnesses for their view on what they believe to be the main obstacles for the creation of American energy jobs. And specifically, is there one, one Federal agency or specific regulations that in your views are hindering job creation in the energy sector? Or to put it another way that my folks back home can understand, which stallion do we need to break so we can pull the wagon instead of pulling the wagon apart?

I will start with you on the end, Mr. Sirkin.

Mr. SIRKIN. Sure. Well, I agree with you that American energy development is very important for our economy. Being more energy independent has lots of advantages both from the economy standpoint and from a national security standpoint.

I have not looked at, you know, what are the barriers to making this happen in our country. The economics of it are quite powerful given oil prices that are now looking at least over $110 a barrel, and obviously the natural gas reserves that we now have 100 years worth is a very important aspect of attracting businesses to this country because we have some very low-cost natural gas, and that is bringing the chemical companies who thought they would never come back to the U.S. coming back to the U.S.

So there are many good things, but what the barrier is, that is not something I have studied.

Mr. OLSON. Thank you for that question. Just to follow on those comments, though, I actually went out to the Eagle Ford Shale Plate in my home State of Texas this past weekend, and just to show you how not only jobs are being created there, but what a tremendous impact it has on the local community. One of our escorts was—they have a couple wells in Zapata County, which is a relatively economically-depressed county in my home State.

The gentleman told us that since they have been—the past 2 years they have been operating there, the sales tax revenue has gone up 3,000 percent. The property tax revenue, which is what we use to pay for our schools, has gone up 4,000 percent.

So, again, energy is not just about jobs. It is about quality of life. And continuing on with, let us see, number two, Mr. Berlau, again, the question, What agency of the Federal Government is the biggest hindrance?

Mr. BERLAU. Yes. Congressman Olson, thank you. Regulatory uncertainty is a factor in the energy industry and many other industries. My fellow witness had talked about surveys, firms laying off workers, I think as important are the surveys that much research has been on firms factors in whether or not firms expand, whether they launch IPOs, and there you can see that regulatory uncertainty is a big factor. Eighty percent of CEOs of smaller companies said they were—some of their biggest concerns about the implications of going public were the costs and risks of Sarbanes-Oxley and other compliance requirements.

And in the energy sector, yes, you have the looming regulations on fracking, on the delays in the Keystone Pipeline, but I think in all energy businesses and in energy sectors from Royal Exploration to green energy, its access to capital that they can't launch, and it takes so long that you have to be as big as Facebook to launch an IPO, and actually if you simplify some of these regulations, it would be easier both for companies in the green energy sector and into the traditional energy sectors to get the capitals they need.

Mr. OLSON. So it sounds like we need to form the tax codes and get our sky-high corporate tax rates down.

Mr. BERLAU. Yes, and our sky-high regulations.

Mr. OLSON. OK. I am sorry. Mr. Abowd. Abowd. I apologize. I got it written down there Abowd. My apologies, sir.

Mr. ABOWD. Well, I think the long-term prospects are best if we fix the energy distribution network so that more electricity can be delivered, especially for transportation purposes, stimulating growth in the production of alternative-powered vehicles, which are a huge growth potential. They are basically being held down by no standardized way to distribute the electricity to them. That I think would be the—where I would look for——

Mr. OLSON. OK, and finally, Mr. Schmitt, and I am out of time here, sir, so as fast, as quickly as possible.

Mr. SCHMITT. I am a labor——

Mrs. BONO MACK. Please turn your microphone on.

Mr. SCHMITT. I am a labor economist, and I don't follow the energy sector, so maybe I will just take a pass.

Mr. OLSON. OK. I appreciate that, and kind of following up on some of the questions by our chairwoman earlier about mentioning the bipartisan jobs that have been passed by the House of Representatives and are sitting over there wallowing in the United States Senate, I have got an updated list here, just hot off the press, and it is from the Republican Conference this morning, and I am happy to give you guys a copy of this. I am sure our Conference would be happy to give it to you so you can pull it out of your pocket like I did.

But this is a list of 29 jobs all across our economy empowering small business by reducing government barriers, fixing the tax code, boosting competitiveness for American manufacturers, encouraging entrepreneurship and growth, maximizing American energy production.

Again, I will get you guys this if you want it, put it in your pocket, you can pull it out and use it just like I did.

I yield back the balance of my time.

Mrs. BONO MACK. I thank the gentleman very much and thank all of our witnesses.

As we conclude our first hearing of the year, permit to also thank each and every one of our members for all of their hard work and dedication to these issues and a special thanks to my friend, Mr. Butterfield, who has been a joy to work with. I am looking forward to a great year.

I remind members that they have 10 business days to submit questions for the record, and I ask our witnesses to please respond promptly to any questions they might receive, and the hearing is now adjourned. Thank you.

[Whereupon, at 11:30 a.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

Statement of Rep. Ed Towns (NY-10)
Before the US House of Representatives
Energy and Commerce Committee
Subcommittee on Commerce, Manufacturing, and Trade

"Where the Jobs Are: Employment Trends and Analysis"

Wednesday, February 15th 2012

Thank you Chairman Bono-Mack and Ranking Member Butterfield for holding this hearing today on "Where the Jobs Are: Employment Trends and Analysis." Our economy has been slowly but steadily improving over the course of the past several months. According to Peter Hooper, an economist at Deutsche Bank, positive trends are developing in consumer spending, employment and in the stock market. Our unemployment rate has steadily been improving from a high of over 10 percent in 2009 to where we currently stand at 8.3 percent.

The economic turnaround we are experiencing is due in large part to the stimulus package that passed in 2009. The 111th Congress

passed the American Recovery and Reinvestment Act to avert a 1930's style depression. Many have forgotten that our economy was teetering on the brink of disaster in 2009, shedding over 800,000 jobs a month. The Recovery Act helped to put a stop to the massive layoffs that our economy was experiencing so that the American people could return to work. The Recovery Act included several tax incentives and investments to aid states and local governments get through the greatest economic down turn since the 1930's. All of these actions helped to slow and ultimately turn around our economy. Over the course of this recovery our economy has added 3.7 million jobs nationwide. In January the private sector added 257,000 new jobs making January the 23rd consecutive month of job growth. This trend will continue in 2012 if we continue to invest in our future growth and infrastructure needs, in order to accommodate a 21st century economy.

I am truly interested in hearing from our witnesses today about their plans for maintaining and improving job creation in our

country. Our first priority in this congress should be job creation. I am also interested in hearing from our witnesses about their perspectives on improving American competitiveness.

The United States ranks 48th out of 133 nations worldwide in science and mathematics. If this trend continues, how will our children be able to compete with other nations in the 21st century global economy? We must invest in our nation's educational system so that our children will be armed with the skills they require to "Win the Future".

I look forward to hearing from our witnesses today about how we may best reach this goal.

Thank you and I yield back the balance of my time.