Center for American Progress Action Fund

Testimony before
the U.S. House of Representatives Committee on Oversight and Government Reform,
Subcommittee on Regulatory Affairs, Stimulus Oversight and Government Spending
on "Take Two: The President's Proposal to Stimulate the Economy and Create Jobs"

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Thank you Chairman Jordan and Ranking Member Kucinich for inviting me to testify today. My name is Heather Boushey and I'm Senior Economist at the Center for American Progress Action Fund.

The American Jobs Act will create jobs, which is exactly what America needs Congress to prioritize. The American Jobs Act includes a number of key proposals that have recently had bipartisan support, including infrastructure investments, putting teachers back in schools, tax cuts targeted for small businesses, and help for the unemployed.

Presidents and Congresses of all political stripes—including the Bush administration—have embraced short-term, temporary fiscal expansion to create jobs in times of labor market weakness.[1] Each time, they worked as intended. We know this from an empirically grounded body of literature documenting the effectiveness of fiscal expansion and the importance of economic multipliers in creating jobs above and beyond those directly created by one firm or one government project.[2] And this isn't just the experience of the United States. Economies around the world reflecting a wide range of economic ideologies understand the importance of government action in the face of economic crises.

Independent economic forecasters are already weighing in and they agree that the plan will boost growth and employment:

- Mark Zandi, chief economist at Moody's Analytics, estimates that the plan will add 2 percentage points to U.S. economic growth next year, add 1.9 million jobs, and cut the unemployment rate by a percentage point.[3]

- Macroadvisors, a prominent financial planning firm, says the plans will boost the level of U.S. gross domestic product by 1.3 percent in 2012 and 0.2 percent in 2013 and will create 1.3 million jobs in 2012 and 0.8 million in 2013, relative to baseline.[4]

- Goldman Sachs economists estimate that it will bring a 1.5 percent increase in U.S. gross domestic product in 2012.[5]

The plan will address the fundamental issues facing the U.S. economy. The lingering consequences of the Great Recession—the housing crisis, the jobs crisis, the fear among businesses to invest their earnings despite record profits—continue to push against faster economic growth and job creation.

In short, the economy continues to suffer from a lack of demand. Monetary authorities have already pushed interest rates down to zero and fiscal policy is a critical policy tool for fighting unemployment. As Federal Reserve Chairman Ben Bernanke said in Jackson Hole in August, "Although the issue of fiscal sustainability must urgently be addressed, fiscal policymakers should not, as a consequence, disregard the fragility of the current economic recovery."[6]

The American Jobs Act builds on what we know works to get people back to work. The weight of the empirical evidence is that the steps taken in early 2009 were a down payment on the recovery. They brought the economy back from the precipice and created millions of private-sector jobs. Private employers have added jobs for 18 straight months for a total of 2.4 million jobs since the economy bottomed out in February 2010 and including more than 300,000 jobs in manufacturing since its low point in December 2009.[7] There is much more to be done, however, as this isn't enough jobs given the depth of the Great Recession.

Denying that there was any impact of fiscal expansion is an ideological stance, not one grounded in empirical analysis. Not that long ago, there was bipartisan agreement that recessions called for increased spending. In January 2008 Congress passed the Economic Stimulus Act, which injected more than $150 billion into the economy, with the support of 165 Republicans. President Bush signed it.[8] In the spring of 2008, Congress extended benefits for the long-term unemployed, with the support of 182 Republicans. President Bush signed it into law.[9] These policy actions had their intended effect by temporarily boosting spending. But the collapse of the housing bubble led to a contraction that has been deeper and darker than any in recent memory and employment declines mounted after the financial crisis of 2008 spilled over into the broader economy.

By taking decisive action to address the hemorrhaging of jobs and the fall in economic activity, Congress and the administration actually reduced the deficit, relative to where it would be today had no such action been taken. At the most basic level, government spending reduced unemployment and thus increased tax revenues. The current projected budget deficit for fiscal year 2011 stands at $1.3 trillion.[10] Had Congress done nothing to stop the hemorrhaging of jobs, economists estimate that the deficit would have ballooned to more than twice as large as it actually did, hitting $2.6 trillion in fiscal year 2011.[11]

The American Jobs Act is a measured approach that will boost job creation

The American Jobs Act includes a number of key proposals that have recently had bipartisan support. It invests in infrastructure and schools, targets aid towards small businesses, helps the long-term unemployed, and provides every working American with a payroll tax cut.

The American Jobs Act builds on what we know works to get people back to work in an economy like what we have now. The role of government in our economy is not, of course, limited to times of economic distress. Government investments in basic science brought us the Internet, the microwave oven, and satellite communications, and have led the fight against cancer. Government investment in new, innovative businesses has helped many companies grow into household names. The Small Business Investment Company Program, financed by the federal Small Business Administration, helped Nike Inc., Apple Inc., and FedEx Corp. grow into the global business powerhouses they are today.[12]

Government spending is also an important part of the economy. Millions of people work for the government and millions more are employed in government-funded work, and all those dollars flowing into the economy create even more jobs. For example, the Federal Highway Administration periodically estimates the impact of highway spending on direct employment, defined as jobs created by the firms working on a given project; on supporting jobs, including those in firms supplying materials and equipment for projects; and on indirect employment generated when those in the first two groups make consumer purchases with their paychecks. In 2007 $1 billion in federal highway expenditures supported about 30,000 jobs—10,300 in construction, 4,675 in supporting industries, and 15,094 in induced employment.[13]

Today, though, is a special time when it comes to the role of government. Unless Congress acts, the private sector will continue to generate insufficient demand. Because customers have less money to spend due to the collapse of the housing bubble and the ensuing high unemployment, businesses have little incentive to hire and invest. The federal government can help with this. It can take measures to create private-sector jobs by moving up investments that the public needs anyway—investments in roads and bridges; investment in changes that the country needs to make, such as the movement to a more energy efficient cleaner economy; investments in education and research and development. We know this most recently from fighting the Great Recession.

Investments in infrastructure—both human and physical capital—will put people to work now and yield lasting benefits for the economy, increasing growth in the long run. These are the kinds of investments that historically have had bipartisan support as they boost productivity for all American businesses while creating jobs. As AFL-CIO President Richard Trumka and U.S. Chamber of Commerce President Thomas Donohue stated, "With the U.S. Chamber of Commerce and the AFL-CIO standing together to support job creation, we hope that Democrats and Republicans in Congress will also join together to build America's infrastructure."[14]

The American Jobs Act will invest $140 billion in infrastructure. Based on economist Mark Zandi's most recent estimates, this should raise U.S. economic output by $220 billion.[15]

Key investments include:

Investing in our human capital. The American Jobs Act includes $35 billion to prevent up to 280,000 teacher layoffs and keep police officers and firefighters on the job. Because of ongoing budget shortfalls, local governments have been hemorrhaging employees—including nearly 300,000 teachers since April 2009, the most recent peak.[16] These layoffs not only add to the unemployment queue but will reduce future American competitiveness.

We know that this will be effective. As a result of the State Fiscal Stabilization Fund and other steps taken in 2009, the Department of Education reports that more than 400,000 teachers got to keep their jobs.[17] Direct aid to states, much of which benefited America's schools, to a large extent, created jobs in the private sector. Every increase of $100,000 in state aid increased employment by 3.8 jobs for a year, of which 3.2 jobs were outside the government, health, and education sectors.[18]

Investing in our nation's physical capital. The American Jobs Act includes $25 billion to modernize and upgrade our school infrastructure and an additional $5 billion to modernize community colleges. We know that there is great need for this kind of investment. The accumulated

backlog of deferred maintenance and repair amounts to at least $270 billion.[19]

The American Jobs Act also includes $50 billion in immediate investments for highway, highway safety, transit, passenger rail, and aviation activities. Here, too, we know there is great need: The American Society of Civil Engineers estimates that we need to spend at least $2.2 trillion over the next five years just to repair our crumbling infrastructure.[20] This doesn't even include things like high-speed rail, mass transit, and renewable energy investments we need to free ourselves from foreign oil and climate change. Of the $50 billion, $27 billion will make our nation's highway systems more efficient and safer for passenger and commercial transportation, $9 billion of investments will repair our nation's transit systems, $2 billion in funding will improve intercity passenger rail service, $2 billion will improve safety, add capacity, and modernize airport infrastructure across the country.

We know that investments in infrastructure will create jobs in the private sector:

- Increased investments in infrastructure saved or created 1.1 million jobs in construction industry and 400,000 jobs in manufacturing by March 2011 and **almost all of these jobs were in the private sector.**[21]

- By the end of 2010, $93 billion in investments to the green economy had created or saved nearly 1 million American jobs.[22] These 997,000 jobs include both the "green jobs" created directly by investment in specific industries and indirectly by their suppliers, as well as the additional jobs created when workers spend their incomes back into the economy.

- In fiscal year 2010 the U.S. Department of Agriculture's Rural Development Fund allocated more than $21.2 billion to seven USDA programs that invest in rural infrastructure, businesses, and homes. These programs upgraded public utilities and community facilities, provided broadband connections to businesses and homes, invested in rural businesses, and helped rural families purchase homes. In addition to improving quality of life, these investments resulted in more than 300,000 jobs for rural residents.[23]

The reason for this success is simple: Upgrading roads, bridges, and other basic infrastructure not only creates jobs but also paves the way for businesses small, medium, and large to benefit. Infrastructure investments lower the cost of doing business, making U.S. companies more competitive. And they put people to work earning good, middle-class incomes, which expands the consumer base for businesses.

The American Jobs Act lays the foundation for future infrastructure investments as well by creating a National Infrastructure Bank, or NIB, based on work by Sens. John Kerry (D-MA), Kay Bailey Hutchison (R-TX), Jay Rockefeller (D-WV), and Frank Lautenberg (D-NJ), and Rep. Rosa DeLauro (D-CT). The NIB will be a government-owned entity that will operate independently and be bipartisan, with no more than four of its seven-member board from the same political party.[24] Eligible projects would include transportation infrastructure, water infrastructure, and energy infrastructure. Loans issued by NIB would use approximately the same interest rate as similar-length U.S. Treasury securities and could be extended up to 35 years, giving the NIB the ability to be a "patient" partner side by side with state, local, and private co-investors. The NIB would finance no more than 50 percent of the total costs of any project.

This idea has bipartisan support. As Sen. Hutchison said of the NIB, "This common-sense proposal will help close America's widening infrastructure funding gap, create millions of American jobs in the next decade, and make the United States more competitive in the 21st century."[25]

The collapse of the housing bubble has devastated communities across the country as they are left with vacant properties, which further pull down asset values. Project Rebuild will invest $15 billion in proven strategies that leverage private capital and expertise to rehabilitate hundreds of thousands of properties in communities across the country, through rebuilding and repurposing distressed real estate, support for-profit development when consistent with project aims and subject to strict oversight, scale successful land bank models, and establish property maintenance programs to create jobs and mitigate "visible scars" left by vacant/abandoned properties.

The American Jobs Act builds on the success of bipartisan tax cuts and focuses specifically on small businesses. It will cut in half firms' payroll taxes on the first $5 million in payroll and will provide a complete payroll tax holiday for employers who create new jobs or increase wages, capped at applying to $50 million in new wages. Every firm will benefit but small firms will see a larger boost. It will also extend the 100 percent business expensing through 2012 ($5 billion), helps small businesses and entrepreneurs access capital, and streamlines regulations that small businesses have to abide by.

Tax cuts are an effective way to boost the economy when demand is low, although the multipliers are smaller than for other expenditures, such as unemployment benefits and infrastructure investments.[26] Based on recent experience, $50 billion in tax expenditures will generate $52.5 billion in additional economic activity and the $5 billion to extend 100 percent expensing will generate $1.45 billion.[27]

A business payroll tax cut has broad, bipartisan appeal and economists agree it will create jobs:

- The National Federation of Independent Business has said that a payroll tax holiday for small businesses "would … [help] struggling businesses reduce costs. … eliminating the payroll tax can reduce unemployment and keep people working during a period of slowed economic growth."[28]

- Sen. Orrin Hatch, the top Republican on the Senate Finance Committee, said he would "probably be for" an employer-side payroll tax cut.[29]

- In 2010, 50 House Republicans—including Michelle Bachmann and Select Committee on Deficit Reduction member Jeb Hensarling—co-sponsored legislation (The Economic Freedom Act of 2010) to halve employer- and employee-side payroll tax rates, and expand allowances for business expensing, along the lines of the president's plan.[30]

The complete tax credit for new hires also has broad appeal. Moody's Chief Economist Mark Zandi, for example, said last year, "At the top of the list is a temporary tax break for firms that in-crease their payrolls. Businesses may expand payrolls by giving their existing employees more hours, raising wages, and/or hiring more workers."[31]

The 100 percent expensing is an idea is popular with business groups. The National Federation of Independent Business called expensing a "big victory" for small business: "Bottom line – just about every small business can write-off the full amount of investments they want to make in 2010 and 2011."[32]

The American Jobs Act extends unemployment insurance to the long-term unemployed and implements reforms to help the unemployed find jobs. The key element is to extend the benefits to the long-term unemployed that will expire in December 2010, but there is also a list of new efforts specifically targeted at helping the long-term unemployed find work.

Unemployment benefits stabilize the economy by increasing the demand for goods and services, which at this point in the economic recovery continues to be crucial to saving and creating jobs and boosting earnings. They also help workers and their families by putting money in their pockets while they search for a new job. Unemployment benefits kept 3.3 million people out of poverty in 2009, and they enable those out of work to keep putting food on the table and pay their bills.[33]

Money targeted toward the long-term unemployed helps not only those individual families hardest hit by the Great Recession but also kept dollars flowing into their local communities and helps unemployed workers access health care, undoubtedly mitigating the well-documented negative health effects of unemployment. In a report for the Department of Labor, Wayne Vroman, an economist at the Urban Institute, estimated that unemployment benefits have kept an average of 1.6 million American workers in jobs every quarter during the recession.[34]

For the past half century, Congress has always extended unemployment benefits to the long-term unemployed when unemployment was high and doing so in this recession should be no different. Both Republican and Democratic Congresses have provided emergency unemployment benefits and extending unemployment benefits has not historically been a partisan issue. During the past 40 years, Congress has not once allowed unemployment benefits for the long-term unemployed to expire when the unemployment rate was above 7.2 percent—1.9 points lower than it is today.

The American Jobs Act also provides more assistance to the long-term unemployed. All new claimants for long-term unemployment benefits will receive robust reemployment services and eligibility assessments and it will become unlawful to refuse to hire applicants solely because they are unemployed or to include in a job posting a provision that unemployed persons will not be considered.

The American Jobs Act also implements a series of reforms aimed specifically at helping out-of-work workers in today's high-unemployment economy:

- Reduce layoffs by implementing Sen. Jack Reed (D-RI) and Rep. DeLauro's plan for work sharing that lets workers receive pro-rated unemployment benefits as compensation for a reduction in hours at businesses that would otherwise lay workers off. These programs already currently operate in more than 20 states and have been shown to be effective in other countries. Recent research by the International Monetary Fund points to the importance of the massive expansions to Germany's short-term work program called "*Kurzarbeit*," which led to hours reductions but not unemployment. While the country's economic output fell more during the Great Recession than it did in the United States

(through the winter 2010), the German unemployment rate actually decreased and is now only 6.1 percent, a third lower than that of the United States.[35]

- Compensate older workers who take a new job for lower pay rather than claiming unemployment benefits. Older workers are not only less likely to find work after job displacement, but if they find a job, they are more likely to earn much less than before. In January 2010, among workers aged 55 to 64 who were displaced between 2007 and 2009, nearly two-thirds of women (62.8 percent) and men (62.3 percent) were not working at all. By contrast, among workers aged 35 to 44, half of men (50.3 percent) and nearly 6 in 10 women (57 percent) were working.[36] Most of the full-time workers who were displaced who find reemployment earn less than they had before they were displaced. Among older workers, about half are making at least 20 percent less than before being displaced from their job.[37]

- Encourage displaced workers to become entrepreneurs by removing barriers that discourage participation in existing programs and enable states to connect entrepreneurs with mentoring and access to capital through Small Business Administration and other public and private resources.

- Provide states with support for summer job programs for low-income youth in 2012 and year-round employment for economically disadvantaged young adults.

The American Jobs Act targets specific demographic groups who are too often left behind. It will enhance employment and job training opportunities that will benefit minorities, women, and socially and economically disadvantaged individuals in transportation-related activities, including construction, contract administration, inspection, and security.

This is an imperative. In August the Department of Labor released data that show that African Americans have an unemployment rate of 16.7 percent, more than double that of whites, whose unemployment rate was 8.0 percent. Hispanic unemployment was 11.3 percent. Workers without a high school diploma have an unemployment rate of 14.3 percent, more than three times as high as among those with a college degree, who have an unemployment rate of 4.3 percent. Women who maintain families have an unemployment rate of 11.9 percent.

Returning veterans are having a hard time finding work and the American Jobs Act focuses on their specific needs. The Returning Heroes Tax Credit will provide up to $5,600 for long-term unemployed veterans, a Wounded Warriors Tax Credit of up to $9,600 that will increase the existing tax credit for firms that hire long-term unemployed veterans with service-connected disabilities, and a Department of Defense-led task force and enhanced job search services through the Department of Labor will help Veterans get private-sector jobs.

The American Jobs Act will provide every American with a payroll tax cut. The American Jobs Act expands the tax cut enacted in December 2010 by cutting employees' payroll taxes in half for 2012. This extension will provide a payroll tax cut worth $175 billion to American workers in 2012 and will result in a tax cut of about $1,500 for the typical household earning $50,000. Based on recent experience, this tax cut will generate $222.3 billion in additional economic activity.[38]

Tax cuts are an important policy for boosting incomes. Independent forecasters have estimated that a failure to extend the payroll tax cut next year would reduce growth next year by one-half to two-thirds of a percentage point.[39] The Congressional Budget Office wrote last year that a payroll tax cut for employees has a larger immediate impact on job creation than most other tax cuts it evaluated, including across-the-board income tax cuts.

Last year 139 House Democrats and 138 House Republicans voted together to reduce employee payroll taxes, as well as 43 Democratic senators and 37 Republican senators. The leadership of both parties—Speaker Boehner, Minority Leader Pelosi, Majority Leader Reid, and Minority Leader McConnell—supported the December tax deal.

To ensure that the American Jobs Act is fully paid for, the president will release a detailed plan and call on the Joint Committee to come up with additional deficit reduction necessary to pay for the act and still meet its deficit target.

The American Jobs Act is targeted at the most important problems facing the U.S. economy

The American Jobs Act will work because we have the evidence that shows that these policies have worked in the past. We know that the problem right now continues to be a lack of demand and that expansionary fiscal policy is the right step.

Over the past few months, there has been a growing chorus of broad, widespread agreement among independent economic forecasters, as well as economists from across the political spectrum, that the action is needed now to address the shortfall in aggregate demand not cuts in public spending. A few examples are:

- Bill Gross, founder and co-chief investment officer of the investment management firm Pimco, the world's largest bond fund, and a prominent Republican, says we need "to create a demand for labor. The private sector is not going to do it." Even if the government must do it directly, "Putting a shovel in the hands of somebody can be productive."[40]

- JPMorgan Chase & Co.'s economists said, "the US and Europe are dangerously close to recession. … the most critical period for the US economy will likely be 4Q11, when we may see some fallout from the heightened volatility of risk markets, and 1Q12, when we get an automatic tightening fiscal policy if, as our US team currently assumes, this year's fiscal stimulus measures will expire."[41]

- Martin Feldstein, Professor of Economics at Harvard University and former Chairman of the Council of Economic Advisers under President Ronald Reagan, said in July: "The high unemployment reflects the lack of demand rather than any fundamental problems with the US labour market."[42]

The massive economic hole left by the collapse of the housing bubble and the ensuing financial crisis and high unemployment continue to limit consumption and investment. This means that firms have too little economic incentive to invest and hire more workers. The collapse of

the housing bubble destroyed trillions of assets for U.S. families. The ensuing financial crisis virtually stopped the flow of credit and led to sharp layoffs and record-high job losses in late 2008 and early 2009. Households continue to cope with high unemployment, fewer hours of work, and lower incomes, while most businesses still face fewer customers than before the crisis. In dollar terms, after rising to a high of 8.1 percent in mid-2009, as of the second quarter of 2011, the shortfall in aggregate demand amounts to almost 7 percent of U.S. gross domestic product.

Corporations have begun to make money but are stockpiling their cash rather than investing. From December 2008 to August 2011, profits in the nonfinancial corporate sector rose in inflation-adjusted terms by 101.8 percent after taxes.[43] The nonfarm nonfinancial business sector is holding almost $1.9 trillion in cash, the highest level since the fourth quarter of 1959.[44] With companies sitting on large amounts of cash—the share of financial assets that is cash is higher than at any time since 1984—firms already have the funds to invest.[45] And firms that need to borrow face historically low interest rates.

Even though corporate America is flush with cash, investment is at the lowest level in more than four decades. So far in this business cycle, from December 2007 to present, business investment has averaged 10.2 percent of GDP and equaled less than 10 percent of GDP in the second quarter of 2011, the lowest average in more than four decades.[46] This low level of investment is not because of the cost or availability of capital, which continues to be at lows not seen since the 1960s.[47] What activity firms are engaging is not targeted towards job creation: The Federal Reserve's survey of senior loan officers shows that while banks are lending for mergers and acquisitions, which often lead to job losses, they are not lending for investment in plants and equipment that will create jobs and expanding economic opportunities.[48]

Employers say they are not hiring because they do not see enough customers coming through their doors. The National Federation of Independent Businesses, an organization representing small business owners, reported in August, as it has each month since mid-2009, that "weak sales" are small business owners' biggest problem. In June they concluded:

> It is simple: when sales pick up, owners will have a reason to hire more workers to take care of customers, to produce more output and will have a reason to invest in new equipment and expansion. The proximate cause of the collapse of spending in 2008 was reduced consumer spending.[49]

As Jeffery Braverman, owner of Nutsonline, an e-commerce company in Cranford, New Jersey, that sells nuts and dried fruit put it, "Business demand is what drives hiring."[50]

The supply-side mantra of tax cuts for the wealthy is not a job-creation strategy for current economic conditions, especially given past policy decisions. It's important to remember that we have been living in a Bush-tax-cut economy since 2001. That brought us an anemic economic recovery from the 2001 recession. Investment growth, employment growth, and overall economic output all were slower than any other economic recovery in the post-World War II era. The result: For the first time in more than a half century, middle-class families saw their incomes fall during an economic expansion, from 2000 to 2007, in inflation-adjusted terms, even as the economy overall grew.[51]

What's more, in the interest of encouraging firms to invest and create jobs, we have kept tax levels below the Bush levels for the entire Great Recession and have already extended these tax cuts for another two years beginning in 2011. The problem we face is not that the wealthy are not rich enough. The problem is that the policies of the 2000s left us with a hollowed out middle class that should be the engine of economic growth.

Recent regulatory changes are not the reason for today's high unemployment. First, let's remember how we got here: Beginning in the 1980s, financial players had been given wider latitude to make investment choices, regardless of the potential risk, and that, according to the Financial Crisis Inquiry Commission, was a key factor in creating today's economic crisis.[52] When the housing bubble burst, it became abundantly clear that exotic financial products and a lack of attention to the downside risk meant that our nation's largest financial actors were in trouble and credit seized up. Regulators had a job to do but they failed to protect the U.S. economy from a financial crisis, a crisis that has left 14 million out of work and sharply pulled down family incomes.

Regulations create a level playing field for businesses and prevent economically costly damage to consumers and public health. When you go to a gas station, a gallon is a gallon; the aspirin you buy at the pharmacy is really aspirin, and the ground beef is actually beef. The courts enforce contracts, and markets are regulated so investors can invest with some confidence that the information they receive is honest.

Congress has a key role to play in getting America back to work

Recent weak economic data should be a wake-up call to responsible members of Congress that cutting deficits right now is a job-killing strategy. There are clear steps that policymakers could take to boost employment and the American Jobs Act is an important step forward. It includes key elements of a job-creating policy agenda: infrastructure investments, reducing layoffs by keeping workers in their jobs in key sectors such as like education, and ensuring that benefits are available to the unemployed while they search for jobs search.

Let's put aside the misguided focus on short-term deficits and the manufactured crises of this spring and summer—in particular, holding the economy hostage over the debt ceiling. The United States should not try to imitate the kinds of austerity policies being pursued in Europe but rather focus on boosting employment.

Endnotes

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