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ECONOMIC RECOVERY AND JOB CREATION THROUGH INVESTMENT IN AMERICA

HEARING

BEFORE THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

OCTOBER 29, 2008

Serial No. 110–101

Printed for the use of the Committee on Ways and Means

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ECONOMIC RECOVERY AND JOB CREATION THROUGH INVESTMENT IN AMERICA

WEDNESDAY, OCTOBER 29, 2008

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, DC.

The Committee met, pursuant to notice, at 10:10 a.m., in room 1100, Longworth House Office Building, the Honorable Charles B. Rangel (Chairman of the Committee) presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE
October 29, 2008
FC–23

CONTACT: (202) 225–5522

Chairman Rangel Announces Hearing on Economic Recovery, Job Creation and Investment In America

House Ways and Means Committee Chairman Charles B. Rangel today announced the Committee will hold a hearing focusing on economic recovery and job creation through investment. **This hearing will take place on Wednesday, October 29, 2008, beginning at 10:00 a.m. in the main committee hearing room, 1100 Longworth House Office Building.**

In view of the limited time available to hear witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing. A list of invited witnesses will follow.

BACKGROUND:

American families are facing a unique new set of challenges as a result of the recent economic downturn. The American economy has shed jobs every month in 2008, 760,000 in total. In September 2008 alone, the economy suffered a staggering loss of 159,000 jobs, the biggest one-month loss in five years. According to the latest figures from the U.S. Department of Labor, there are currently 9.5 million unemployed workers with a national unemployment rate of 6.1 percent, which is also a five-year high.

Millions of families have also lost their homes to foreclosure, as a housing crisis continues to grip the nation with mortgage and credit markets suffering from a lack of confidence in the financial services sector. Increasing volatility in the stock market is also having a devastating impact on workers and retirees' savings, with retirement accounts losing hundreds of billions in value in recent months. These factors, combined with a dramatic increase in the cost of health care, food, education and energy, have left millions of American families in an insecure and untenable financial situation.

State and local governments are also struggling with record budget shortfalls, falling victim to years of policies that favored short term solutions rather than long-term investment. These deficits are preventing critical investment in areas such as health care, education and infrastructure to improve the quality of life for local residents. These challenges are compounded by depressed financing mechanisms brought on by instability in the financial markets. As a result, governments are increasingly unable to meet obligations for critical care or execute contracts for improvements to roads, bridges, railways and other infrastructure items. The resulting degradation of America's commercial infrastructure threatens to diminish its ability to deliver goods to markets around the world and damage its competitiveness in the international marketplace.

In announcing the hearing, Chairman Rangel said, **"American families are hurting and they are looking to Congress for solutions to help our economy recover and create new jobs. This hearing will examine the growing challenges facing working families as well as State and local governments to determine how we can best restore economic security throughout our nation."**

FOCUS OF THE HEARING:

The hearing will focus on challenges facing American families and State and local governments during the economic downturn and solutions to improve economic security, create new jobs and invest in America's infrastructure.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, *http://waysandmeans.house.gov*, select "*110th Congress*" from the menu entitled, "*Committee Hearings*" (*http://waysandmeans.house.gov/Hearings.asp?congress=18*). Select the hearing for which you would like to submit, and click on the link entitled, "*Click here to provide a submission for the record*." Once you have followed the online instructions, complete all informational forms. ***ATTACH*** your submission as a Word or WordPerfect document, in compliance with the formatting requirements listed below, by close of business on **Wednesday, November 12, 2008**. **Finally**, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225–1721.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any supplementary materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission or supplementary item not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All submissions and supplementary materials must be provided in Word or WordPerfect format and MUST NOT exceed a total of 10 pages, including attachments. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. All submissions must include a list of all clients, persons, and/or organizations on whose behalf the witness appears. A supplemental sheet must accompany each submission listing the name, company, address, telephone and fax numbers of each witness.

Note: All Committee advisories and news releases are available on the World Wide Web at *http://waysandmeans.house.gov*.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–226–3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Chairman RANGEL. The hearing will come to order.

Most of you have already felt the pains in your communities. We can't use the word "recession", but we certainly know what is happening to our people back home.

We found it difficult, but we did find it possible to give close to $1 trillion to our financial institutions, and now we hope to hear from panelists that will share with us the economic pain that is felt on the ground, as opposed from just the credit crunch.

Most all of our communities have lost jobs. A lot of people that are on the panel are going to have to determine how they are going to meet their budgets and, since they have to have a balanced budget, decisions that they are going to have to make in terms of what services are going to be cut, reduced, as well as the economic impact of cutting education, cutting health care, and a variety of other economic decisions they have to make.

It is our hope that, as a result of this testimony, that the Members of this Committee would realize how important the economic recovery is and that the leadership of both parties would be able to confer and to come back after the election to see what we can do to provide the assistance to local and State Government, as we have found ourselves able to do with our banking and finance industry.

So, I hope this is not the last time that Jim McCrery will be with us and that we will have his support in coming back. I know you are looking forward to it. But in view of the fact that the elections in Louisiana are going to be postponed, we hope that you will be able to provide your expertise.

But in the event that we don't have the opportunity, I know that I speak for every Democrat on this side of the aisle when I say, Jim, that you have brought a sense of civility to this Committee, the likes that haven't been seen in over a decade. While it is abundantly clear that we could not do all of the things that you and I would want to accomplish, the disagreements that we had individually and collectively was on the level that certainly would make the House of Representatives appreciative of the efforts in which we brought our bills to the floor. You have been a great Member of Congress, a great Member of this Committee, and I am pleased to share with this Committee your willingness to work with us even after the election itself. So, at this time I would like to yield to you.

Mr. MCCRERY. Thank you, Mr. Chairman; and thank you very much for those kind words. It has been a pleasure working with you and all the Members of this Committee on both sides of the aisle.

This is a great Committee. I believe it is the best Committee in the House of Representatives. The Members who are chosen to serve on this Committee are chosen carefully by our respective leaderships; and the quality of service, as evidenced by the turnout here today, has always been of the highest quality on this Committee.

So, Mr. Chairman, it has been a real honor and pleasure to serve on this Committee and particularly to serve with you these last 2 years. The public doesn't know all the efforts that you and I made to accomplish things within the jurisdiction of this Committee, and I want to thank you and acknowledge publicly your efforts to work with me to try to solve some of the country's problems in a bipartisan way. Unfortunately, we didn't succeed in all the matters that

we tried to address, but I appreciate the effort that you made very much.

Mr. Chairman, because of your kind words, I now will revise my opening statement. Just kidding.

Mr. Chairman, this hearing is indeed important, again, as evidenced by the turnout of our Members on both sides today. We have seen economic conditions in this country, unfortunately, deteriorate substantially over the last couple of years. The number of Americans classified as long-term unemployed nearly doubled between January of 2007 and September of 2008. During that period, there has been more than a 400 percent jump in the number of high unemployment States. Gasoline prices, though down from their highs earlier this year, are still well above January, 2007, levels. The deficit is higher, driven mostly by higher spending, while our 401(k)s and IRAs have shrunk in the face of a stock market which has moved down sharply amidst unprecedented volatility. Underlying these problems has been weakness in the housing market, which has seen falling home values and a rising number of foreclosures.

But, Mr. Chairman, we have not stood idly by, the Congress. We have passed on a bipartisan basis a stimulus bill earlier this year. We passed a housing rescue package. Earlier this month, we passed a far-reaching financial stabilization package that fundamentally alters the relationship between the Government and the markets, making even its supporters nervous about the long-term implications of that. But we passed it on a bipartisan basis.

Unfortunately, though, these efforts have failed to get the economy kick-started, and the calls are growing louder for yet another round of stimulus. In late September, the House passed a stimulus bill that the Senate failed to act on. That bill's $60 billion price tag seemed steep at the time, but today some Members of Congress are talking about packages several times that size.

This hearing will provide us an opportunity to hear from a variety of witnesses who will describe the current economic situation and who will share their recommendations for congressional action. In particular, I am pleased to see at the dais a former colleague who left our ranks when he was elected Governor of South Carolina back in 2002. Governor Sanford will no doubt provide a unique perspective, particularly as his State is attempting to close its current budget shortfall. Governor Sanford, welcome back. It is good to have you.

The presence of so many Members I think again underscores the importance of this hearing, Mr. Chairman; and I appreciate your calling it. But I am not sure, Mr. Chairman, whether this hearing is just a fact-finding expedition or whether we are laying the groundwork for action in Congress next month on a stimulus package. I say that because many of the witnesses that we will hear today will urge Congress to enact all sorts of good-sounding spending increases. But if our goal is to make law this year, Mr. Chairman, I would remind everybody on this Committee that it is of little use to draft a package that these panelists might embrace, their cumulative requests are well over $300 billion, but it will do us little good to craft a package like that if it stands little chance of passing a closely divided Senate or getting signed by the President.

So, I hope once again, Mr. Chairman, that we will work in a bipartisan fashion to try to craft a package that both sides of the aisle can embrace and help get this economy going again.

So, again, Mr. Chairman, thanks for calling the hearing; and thank you again for your cooperation over the last 2 years. It has been a real pleasure.

Chairman RANGEL. Thank you so much, Jim.

To the panel, let me thank you for breaking from your regular schedule to share your views with us.

You have heard the views of the Ranking Member, Mr. McCrery; and he is right. We have to be prepared to put together a package that indeed will be bipartisan. Quite frankly, I don't think that should be very difficult.

When someone loses their job, their health insurance, can't pay the mortgage, finds themselves not being able to get credit, no one asks whether they are Republican or whether they are Democrat. The pain is felt out there by you each and every day.

Unlike the Federal Government, the decisions that you have to make is in terms of balancing that budget, and you don't have the discretion. So, we welcome your views. But even after this panel and after this session is completed, we hope that you will share your views with your Members of Congress, Republican and Democrat, to really show them how important that is.

The first witness, of course, having known him since he was born and having served with him as a State senator and having served under him as lieutenant governor and having the great honor now of having him to be the Governor of the Empire State of New York, as well as a neighbor in the community—I don't have to worry about him lobbying me. It is a question of trying to get him to back off and say, "I do agree with you, Governor." But he is an outstanding man of courage. We have known that within our State for decades and now the whole country is being able to see the leadership he is providing and the difficulty our great State faces.

So, Governor Paterson, it is a great honor to have you here to hear what you have to say as to the state of financial affairs as relates to New York.

STATEMENT OF THE HONORABLE DAVID A. PATERSON, GOVERNOR OF THE STATE OF NEW YORK

Mr. PATERSON Thank you, Chairman Rangel. Thank you, Mr. Sanford. Without you, I have no voice here.

Thank you, Chairman Rangel, Ranking Member McCrery and all the Members of the House Committee on Ways and Means and Mayor Palmer and Governor Sanford and all the panelists who have been kind enough to travel here today.

The great novelist Ann Rand advised us in The Fountainhead that our country, the greatest country in the world, was founded on the basis of individualism, where people were encouraged to adventure, not to be complacent; to be daring, not dormant; to prosper, not to plunder. But, unfortunately, an infection of greed and mismanagement, combined with a lack of transparency and Government regulation, have brought us to the point where our Nation faces a downturn in its economy only rivaled by the Great Depression.

As this Committee pauses in its deliberations to hear some of us suggest some of the ways that we might reignite the engine of our economy, I would encourage all of the Members of the Committee to consider the value of the great States that comprise this great country that we live in.

The Center for Budget Priorities and Policies offered its projections for fiscal year 2008–2009, that there are 25 States in deficit, totaling $48 billion of debt. Their projections for 2010 are spiked upward incredibly: There will be 39 States in deficit, and the amounts owed total over $104 billion.

In the State that I represent, the State of New York, we balanced our budget on April 9. The budget then grew to a deficit of nearly $1 billion. Even after we addressed that, our State now is $1.5 billion in deficit, a reopened swelling of our deficit for this year. Our projected deficit for 2010—2009–2010, which was originally $5 billion, grew to $6.4 billion by July of this year.

In our recent budget forecast, our mid-year forecast, I announced yesterday that New York State's projected economic deficit for 2009–2010 is $12.5 billion.

The 3-year deficit plan by which we try to address our obligations for the next 3 years, which was $21.2 billion in July, has now erupted to $47 billion. Much of this is caused by the fact that New York derives 20 percent of its resources from Wall Street; and in the fourth quarter of the fiscal year, January, February and March, that figure spiraled to 30 percent.

So, we are not out of the problem yet. But what we will have to do and what other Governors and legislatures of other States will have to demonstrate to Washington is that we have to put our own house to order. This is why I have called the legislature back for a second time for an emergency economic conference on November 18th to close that budget deficit and add more money on to it to bolster us for the rest of the year. I will introduce our budget for 2009–2010, 6 weeks early, on December 16, to try to address those issues.

We have agreed that any taxation right now would only exacerbate the problem; and, if anything, we need to lower taxes for some of our businesses that would hope to create jobs so that hundreds of thousands of New Yorkers don't leave the State, as they do every year, for other areas where the life quality is better.

We are cutting all we can, and we will cut all that we are able to. But, inevitably, the deficit is too voluminous for us to address. Therefore, we feel that targeted, sensible actions by the Federal Government could provide relief for us now. This is why today I call upon Congress to pass a second stimulus legislation package before it adjourns at the end of the year. We think that the most essential way that the House and Senate can help our country is to reinvest and reignite the engine of our economy which we see as our States.

The National Governors' Association wrote a letter just recently advising that probably the priority way in which we can address this crisis is through an increase in the Federal Medical Assistance Program of at least 5 percent through 2011. Additionally, we think that the House could establish some of the block grants that it did after our attack on our country in 2001 that led to a downturn in

our economy and that this would bring needed essential services back to our States, issues that people face during these times, of health care, public assistance, food assistance and, obviously, unemployment.

We further and moreover suggest that infrastructure repair, something this country has not addressed in the last 50 years, would be an advisable method that we might proceed right now. We in New York have many programs involving roads and bridges and infrastructure development and also water waste treatment that are ready to go if we had the dollars to actually begin them. We would have 40 shovel ready programs for improving highways and bridges. We would have another 58 programs ready to go in the area of water projects.

We also would hope that the House and the Senate would address the issue of extending unemployment compensation and also the modernization of our unemployment insurance program because of the number of people that have been thrown out of work that was described by Congressman McCrery just a few moments ago.

We feel that food stamps are the best economic stimulus. The estimates are that $1.73 is rendered for $1 that is invested in food stamps.

Finally, we would suggest that in terms of helping those who are greatest in need of health care, that there be a moratorium on the outpatient health clinics regulations that would curtail the ability of many to receive health care and may even be not in compliance with Federal law.

These are just some of the ideas that we suggest. We recognize that there are opposing points of view, but whichever way the Congress addresses these issues, we advise that the great States of this country right now are facing huge deficits without the resources to affect them. We have in many respects mismanaged and need to put our own houses in order by cutting spending, which governments often become overly involved in. However, much of the crisis that has come from the subprime mortgage crisis infecting the rest of our country is one that we think needs to be addressed holistically by the Federal Government investing in the States.

I want to thank all the Members of the Committee for allowing me this opportunity to present our case to you.

Chairman RANGEL. Thank you so much, Governor.

[The prepared statement of Governor Paterson follows:]

Statement of the Honorable David A. Paterson, Governor of the State of New York

Testimony before the Full Committee
of the House Committee on Ways and Means

October 29, 2008

Chairman Rangel, Ranking Member McCrery, and distinguished members of the committee, I appreciate the opportunity to testify before you today.

For the second time this decade, New York finds itself at the epicenter of a national emergency. Unprecedented turmoil on Wall Street has left our state in the throes of its most severe economic crisis since the Great Depression. The financial services industry has been shaken to its core, and with it, virtually every aspect of economic life in America.

In just the last month and a half we have seen the largest bank failure in U.S. history; the demise of the independent investment banking model; a credit freeze that is impacting the ability of municipalities to borrow funds needed for urgent infrastructure improvements; and declines in the stock market of over 40 percent—threatening the ability of average Americans to retire and send their children to college. In many ways, the economic consequences of the current financial crisis will likely be deeper and longer-lasting than those that followed the horrific terrorist attacks on Lower Manhattan.

The Failures of the Federal Government

Americans have watched the fabric of our economic system unravel and the values of their 401(K)'s evaporate, leaving them confused, angry, and wondering who is to blame for the near collapse of our financial system.

Certainly, an age of irresponsibility and greed on Wall Street was one of the most important factors behind this crisis. But there is another culprit that is equally culpable -- the lack of oversight and regulation by the federal government. In a moment of commendable candor, Treasury Secretary Henry Paulson recently admitted that he regrets the "failures of our regulatory system." Former Federal Reserve Chairman Alan Greenspan also recently confessed he "made a mistake" by putting too much faith in the ability of the free market to police itself and protect shareholders.

Federal oversight bodies utterly failed in their duty to protect the life savings of millions of Americans and the financial system itself. And because of their failure, our government (federal, state and local) and individuals are left to pick up the pieces—as evidenced by the $700 billion Wall Street rescue package that Congress was forced to pass.

How the Crisis is Impacting States

State governments, just like average Americans, have suffered as result of the failure of our national regulatory system. Tax revenues have plummeted and economic growth has stagnated. According to the Center on Budget and Policy Priorities, at least 39 states are currently experiencing fiscal distress. Twenty-nine states closed budget shortfalls of $48 billion in enacting their 2009 budgets. Since, at least 27 states are experiencing mid-year budget shortfalls for FY09, totaling $12.3 billion, and the projected shortfall for FY10 is $100 billion.

New York State is no exception. In fact, the challenges we face are perhaps more acute than any other state given that Wall Street accounts for twenty percent of our state tax revenue. The New York securities industry has reported $40.9 billion in losses in the last four quarters. Even in the four quarters following September 11, 2001, these firms posted a cumulative profit of $8.4 billion. We are now projecting that Wall Street bonuses will decline by 43 percent, or $20.7 billion, this year, and that capital gains on the sale of stocks and other assets will decline by 35 percent, or $38 billion.

New York's broader economy, like those in states around the nation, is also struggling. Last month, unemployment in our state reached 5.8%, the highest level in more than four years. We project that over 160,000 New Yorkers will lose their jobs during the current downturn and unemployment will reach 6.5 percent in 2009.

There is no doubt we are currently in a statewide recession. And if history is any guide, the recession will be more severe and longer lasting in New York State than it is in the nation as a whole. Indeed, the last five US recessions lasted an average of 11 months compared to 25-months in New York.

Record Deficits and New York's Response

Yesterday, I announced that over the next four years New York State will have to close a staggering $47 billion deficit – the largest in our history. Next year's $12.5 billion budget gap alone represents more than 25 percent of our General Fund

The magnitude of this fiscal crisis will require state governments to make significant spending reductions. When I took office seven months ago, I immediately began this process. I have already worked with the New York State Legislature to make nearly $2 billion in reductions to this year's state budget. I have also asked the State Legislature to partner with me and find $2 billion in additional savings at a special session in November. And when I deliver next year's budget, I will propose the largest spending reductions in state history. Funding for many worthy programs, several of which I personally support, will have to be curtailed dramatically. This is not something I want to do, but it must be done.

But Governors can only cut so much before we begin to jeopardize our fundamental responsibilities to our constituents. The reductions necessary to close these massive deficits will impact the very core of what we do as states – protecting the public's safety, providing health

care for the most vulnerable, educating our children, caring for the needy, meeting the energy needs of our constituents, maintaining our infrastructure, and investing in our economy.

Unfortunately, the cruel irony is that at the time when citizens need their state governments the most, state governments are least equipped to help them because of plummeting revenues. History shows that during economic downturns, Medicaid and Human Services caseloads will increase dramatically. The current fiscal crisis will also impair our ability to make key investments in infrastructure and job creation that are needed to help us emerge from this recession and stimulate long-term economic growth.

When states are hurting, our national economy suffers. State governments are engines of both economic and social progress. They are a key source of job creation in this country, through aid for small businesses, incentives for economic investment, and workforce development programs.

Likewise, investments at the state level both expand our national tax base and lower entitlement pressures on the federal budget. For example, the innovative Federal State Health Reform Partnership (F-SHRP) program provides federal assistance to reform our health care industry and to deliver more cost effective services, which saves money for both levels of government.

An investment in state governments is an investment in the health of both our overall economy and the federal budget. And, while I acknowledge that the federal government is facing fiscal difficulties of its own right now, I submit that avoiding the long-term adverse consequences of failing to aid state governments greatly outweighs any short-term financial costs.

Direct Fiscal Relief to States

In dealing with the current fiscal crisis, New York and other states are holding up their end of the bargain by reducing spending in a proactive and responsible manner. But we also need a partner in the federal government. No single action could re-establish that partnership more quickly than for Congress to pass an economic stimulus bill before it adjourns for the year.

There are a number of important initiatives that should be included in any final negotiated package, such as money for infrastructure improvements, greater unemployment benefits, and a temporary increase in food stamp subsidies. But there is an essential item that rises to the top of the priority list ahead of all others.

As part of a comprehensive second economic stimulus package, ***states need direct and immediate fiscal relief*** to help close their massive budget deficits. The failure of our federal regulatory system has caused too many innocent bystanders to suffer. And now, Washington needs to step up and help states address a problem that was not of their own making. Just like the financial services industry, we need a partner in the federal government in order to help stave off an impending calamity and stabilize our fiscal condition.

Much of the good that would be done through proposals like expanding unemployment or food stamp benefits would be undone if states do not receive necessary federal budget relief. State governments like New York are on the front lines of service delivery for our citizens for

programs like Medicaid, TANF, and other social services. The results of federal inaction could be devastating in every corner of our nation. We would be giving with one hand and taking with the other.

Furthermore, most state budgets dedicate a substantial amount of resources to local assistance payments to municipalities. In New York, seventy percent of our budget goes to local assistance. Massive sudden reductions in state budgets will reverberate across all levels of government from the largest cities to the smallest school districts.

While all states are hurting and deserve support from the federal government, I think it is incumbent on me to note that New York faces unique circumstances with respect to this crisis. First, we are at the epicenter of the crisis on Wall Street, and the failure of financial institutions impacts our revenues and unemployment situation more than any other state. Just as after 9/11, we are asking the federal government to come to our assistance in a time of emergency. Second, New York has been shortchanged for years when it comes to aid from Washington. In 2007 alone, New York sent $86.9 billion more to the federal government in taxes than it received in return – again, more than any other state.

State fiscal relief is most effectively and efficiently provided through a temporary increase in the Federal Medicaid Assistance Percentage (FMAP) and emergency block grant funding. To help support escalating Medicaid costs, a temporary FMAP federal reimbursement rate increase of at least 5 percent should be provided through federal fiscal year 2011 to states hardest hit by the current economic crisis. Next, we ask that Congress again provide emergency block grant funding to states as it did in 2003, which will allow us to preserve a broad array of essential services.

I firmly believe that if it took only took two weeks for the federal government to find $700 billion dollars to bail out Wall Street and bank executives that brought our financial system to the brink of collapse, then we ought to be able to find a fraction of that amount to help preserve essential services at the state level that will help lift up Americans out of poverty, expand opportunity for the middle class, and protect our economic future.

States didn't cause this crisis and we shouldn't be left to deal with it alone. I have no choice but to close the massive deficits I inherited. It is simply a question of how. A rescue package from the federal government will help soften the blow for average Americans. It could make the difference between targeted, surgical spending reductions that will help heal our fiscal condition and massive and wide-ranging cuts that will cause irreparable damage to millions of families.

Other Vital Initiatives to Stimulate the Economy

While stabilizing the fiscal condition of state governments is of immediate importance, you have rightly recognized that there are other critical components that must be included in any new stimulus or recovery package. We must also rebuild our aging infrastructure and provide direct relief to citizens who have been hardest hit by this economic downturn.

- Infrastructure funding for ready-to-go transportation and water improvement projects. Infrastructure spending is one of the most important investments the federal government can make during an economic downturn as it has the dual benefit of modernizing our nation's deteriorating infrastructure while also stimulating the economy through job creation. In fact, analysts estimate that for every $1 billion invested in transportation projects, approximately 35,000 jobs are created.

  The American Association of State Highway and Transportation Officials (AASHTO) estimates that there are over 3,000 transportation projects in over forty states worth more than $18 million 'on the shelf,' waiting to be funded. In New York, with an additional $410 million in funding, we could put people to work immediately on over 40 highway, transit and rail projects that are shovel-ready.

  The conservative cost estimate of repairing, replacing and updating New York's municipal wastewater infrastructure is $36.2 billion over the next 20 years. There are 390 separate projects, with costs exceeding $4 billion waiting for funding. With an additional $715 million in Clean Water State Revolving Funds, New York's share of the proposed $6.5 billion stimulus investment in Clean Water State Revolving Funds we can protect and improve the water quality of New York State and put people to work on 58 wastewater projects this year.

  It is important to note that state budget conditions have deteriorated to the point where any federal dollars received for infrastructure projects must be free from state matching fund requirements. States have already reprogrammed and reprioritized to a point where there is simply nothing left in the budget for the current fiscal year.

  The financial crisis has also forced governors and legislatures to explore new ways to finance and deliver infrastructure projects and effectively make long-term capital investments. Some states have already made hard decisions to increase tolls and implement congestion pricing. In New York, I recently signed an executive order to establish a State Commission on Asset Maximization to study potential public-private partnerships. The Commission will examine the role of PPPs and consider whether this model can benefit New York State. It will also examine whether any specific state assets, such as the multi-billion dollar replacement for the Tappan Zee Bridge, are suitable candidates for such partnerships.

  I would also like to take a moment to remind the members of this committee and Congress about the only portion of the post-9/11 recovery package which the federal government promised New York but has not yet received – the proposal to sunset the existing $2 billion New York Liberty Zone tax provisions, and instead provide tax credits which the State and City of New York will use to fund infrastructure projects with a connection to Lower Manhattan. This provision has been included in the President's budget year after year, and it has been included in multiple pieces of legislation that have passed both the House and Senate more than once. Somehow, though, it has not yet found its way into a bill that has ultimately been signed into law. This is not only a tremendously high priority for me, but also for Mayor Bloomberg and all New Yorkers. I ask you to follow through on this promise to New York.

- An extension of Emergency Unemployment Compensation (EUC) benefits and modernization of the unemployment insurance system. The current EUC program, which took effect on July 6, 2008, provides 13 weeks of benefits to laid-off workers after they exhaust 26 weeks of regular Unemployment Insurance benefits. In New York State, we project that 90,000 laid-off workers will exhaust 13 weeks of EUC benefits by the end of this calendar year.

  Congress should provide for an additional 7 weeks of emergency benefits after the 13 weeks of EUC benefits. Studies reveal that for each dollar in cost, an extension of unemployment benefits generates $1.64 to $1.73 in increased activity. The Congressional Budget Office agrees: its report on short-term economic stimuli found that extending unemployment benefits is among the most cost-effective, potent, yet temporary steps that Congress can take to jump-start our economy.

  Additionally, as Congress gets set to consider a broader economic recovery package it must take action to close the gaps in the unemployment insurance system. Mr. Chairman, I commend you for your Unemployment Insurance Modernization Act proposal, which would help close this gap by making an estimated half-million more low-wage and part-time workers eligible for unemployment benefits. It ties distribution of funds to various changes in state laws to broaden eligibility for unemployment insurance benefits. This could result in over $400 million to New York State over the next five years. This is of critical importance to my state and many others.

- Temporary boost in funding for the Food Stamp program. As the economy declines, more and more Americans are struggling to feed their families. In New York, demand for food assistance New York has increased by 30 percent statewide over the last year. Through our Working Families Food Stamp Initiative, we have enrolled over 100,000 new families in the Food Stamp program. In these difficult economic times, the federal government must act swiftly to help our most vulnerable families by providing a temporary increase in food stamp benefits.

- Moratorium on federal regulations that harm state budgets. At a time when states are so desperately in need of fiscal relief, the last thing we can afford is onerous federal regulations that curtail existing avenues of federal support for critical services. One such regulation is the Outpatient Hospital Clinic regulation that was inappropriately promulgated by the Center for Medicare and Medicaid Services (CMS). This regulation would restrict over $450 million in federal funding to outpatient services to New York State alone. This regulation should be placed under moratorium in the stimulus package.

Conclusion

Last week, Federal Reserve Chairman Ben Bernanke expressed his support for a second federal stimulus package. Chairman Bernanke noted that this congressional effort should be aimed at "redressing specific factors that have the potential to extend or deepen the economic slowdown." I can tell you, most assuredly, that the large budget gaps facing New York and other states, and

their impact on vital services, are just such a factor. Unless states receive fiscal relief, I believe the goal of stabilizing the economy cannot be achieved.

I know that we can partner together to help ensure that, despite the challenges that lie ahead, states like New York can help preserve essential functions of government, grow our economy, create jobs for average Americans, and emerge from this crisis even stronger than before.

Once again, I thank you for the opportunity to provide a state perspective on these important issues, and I welcome your questions.

Chairman RANGEL. It is my pleasure to invite and recognize Mr. Sanford. I know, with your experience in the House, that you recognize how important it is going to be for our Governors and even our Mayors to bring together their congressional delegations and to try to show how important in a bipartisan way that this

Congress has to come back and ease the pain of your constituents, which is the backbone of everything that we want to do for our great country. But, as Mr. McCrery has said, we are going to need your help to make certain that it is a package in which the President is willing to sign.

I now recognize Mr. Sanford. It is good to see you back in your old House.

STATEMENT OF THE HONORABLE MARK SANFORD, GOVERNOR OF SOUTH CAROLINA

Mr. SANFORD. It is a pleasure to be back, sir.

Chairman Rangel, Congressman McCrery and former colleagues, thank you indeed for the chance to testify. I very much appreciate it.

I have a longer set of prepared remarks, written testimony that I would like to submit for the record——

Chairman RANGEL. Without objection.

Mr. SANFORD [continuing]. That more substantively goes to the points that you raised in your opening comments, Mr. Chairman.

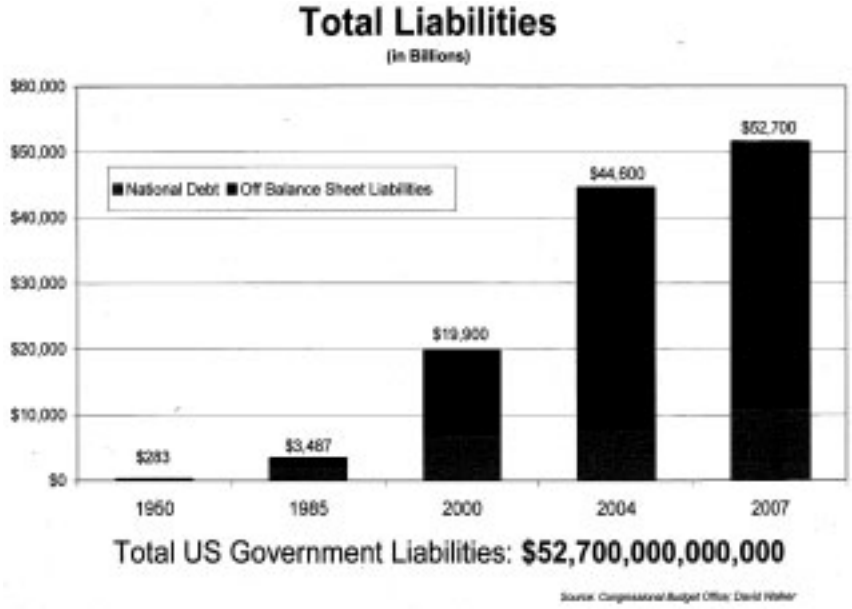
But in the interest of time, since I have only got 5 minutes, let me boil down what those comments say. What they say is I very much admire the intentions of the Committee, but I am here to respectfully beg of this Committee not to approve a $150 billion stimulus package going forward, for the unintended consequences that I think it would bring to my home State of South Carolina, to all States, to the Nation as a whole. For that matter, to my boys, you all's grandkids, and your kids. I would say that really I guess tied to five different points.

I would say, one, if you go ahead with this, the question I think ultimately has to be asked: Who bails out the bailout? I raise that point because we need to remember we are not talking about taking money out of a bank. In this case, we are talking about borrowing more money from Social Security, borrowing more money from Medicare, borrowing indeed money from our kids and grandkids, borrowing more money from the Chinese, where we have already borrowed approximately $500 billion worth. I think that there is some irony in borrowing more to deal with a problem that was ultimately created by excessive borrowing. I think that there are a lot of different ways that you could get at this.

Probably one of the simplest would be a conversation that I had a couple months ago with David Walker, who is the past Comptroller General of the United States of America. He left that post to join up with Warren Buffet and a variety of others in a group trying to raise awareness of the problem going forward in the accumulated $52 trillion worth of liability this country has. I said, why are you going? He says, "As I see it, we only have about 10 years, and after that it is a pure math trap with regard to what comes next." He likened it to fiscal child abuse.

I have a chart here. This is not a reading test for you, Chairman Rangel, but it gets to the point that the numbers have been rising rapidly. We are now at about $52 trillion of unpaid-for political promises, and I think the idea of adding more borrowing at this time would be problematic. I would submit that for the record as well.

[The information follows:]

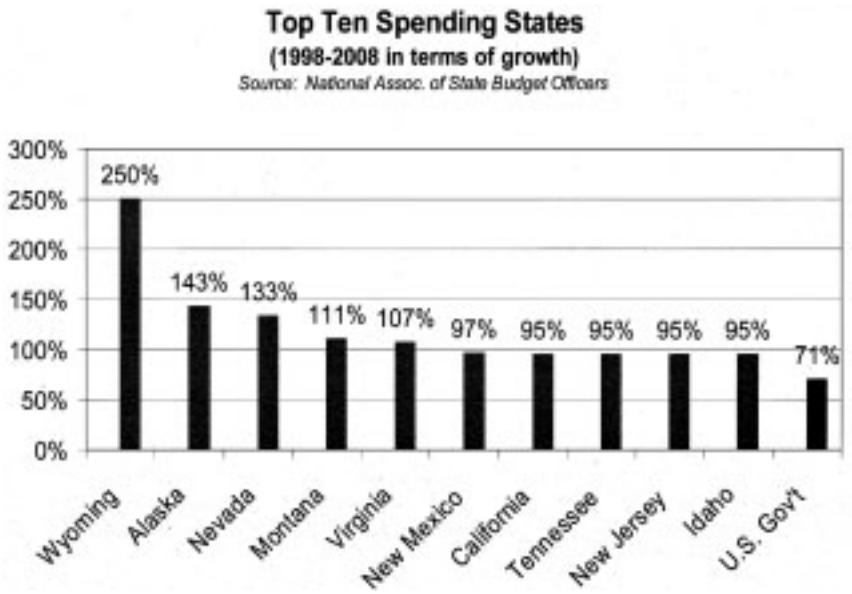


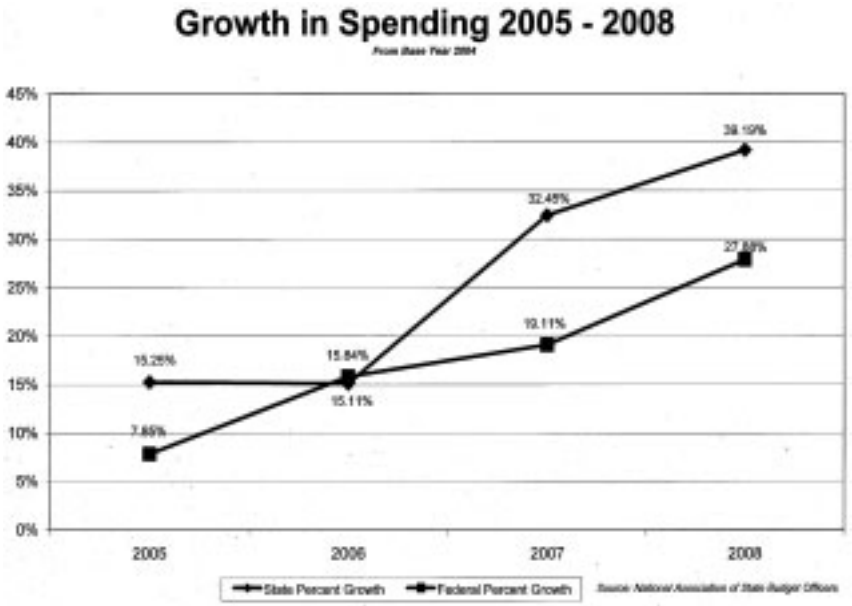
Mr. SANFORD. I would secondly say, do you have to be a financial or fiscal bad guy to win these days? That is a question that is increasingly being asked when I travel around our State. Because there are a lot of folks that had question marks, real problems, with the bailout of Wall Street, among them, for instance, community bankers. What they say is, we lived by the rules, we were careful in our underwriting process, we looked very carefully at the credit, and yet the banks that didn't do that are the ones that are getting Federal aid; and, in fact, they are going to have competitive advantage against me as a local community bank based on the unintended consequence that came with this help.

The same is being said at a more local level. You know, Amity Shlaes wrote a book called The Forgotten Man, talking about that forgotten man in the Great Depression who was just struggling to survive; and a lot of folks are telling me, I feel like that forgotten man. I didn't buy too much house, I didn't take on too much mortgage, and yet the person across the street that did is the person being rewarded. At the State level, that same phenomenon exists.

I have two more charts that I would submit here for the record.

[The information follows:]





Mr. SANFORD. This is growth in spending, the blue line being Federal Government, the red line being States. The irony here is, as many people who oftentimes complain about the fiscal irresponsibility of the Federal Government, in fact the only group that has been more fiscally irresponsible in fact have been States, because States have grown at a higher rate of growth in terms of spending

than the Federal Government has over that last 15 years. That is the average look.

If you were to look on a State-by-State basis, just to give you an example of what I am talking about, over the last 10 years, the Federal Government has grown by 77 percent. If you contrast that, for instance, Wyoming. Wyoming has grown by 250 percent, their State Government. Alaska has grown by 143 percent, roughly double that of the Federal Government. California, that is asking for help, grew by 95 percent, again, well ahead of the growth rate of the Federal Government.

So, again, I think that there are some unintended consequences that come to the States that have been more fiscally prudent if we bail out those that haven't been such on that front.

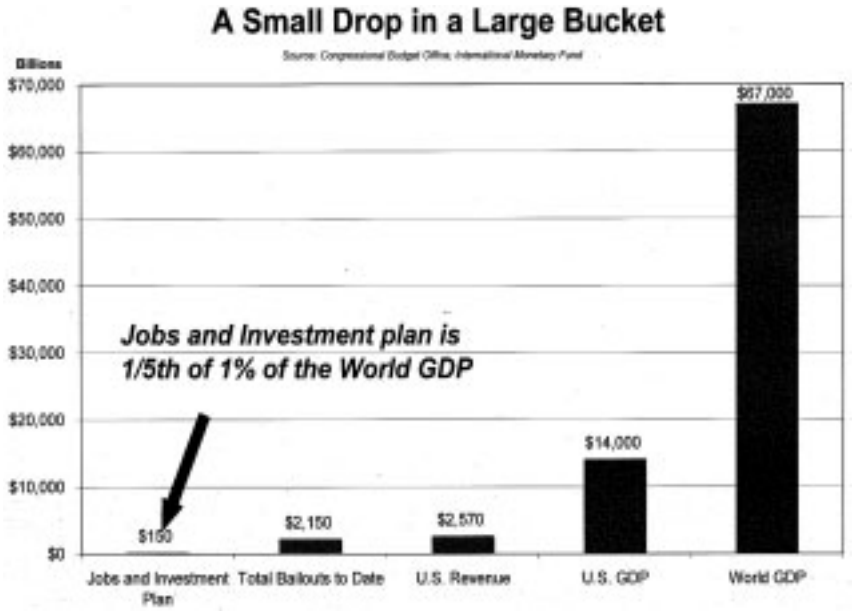
Thirdly, I would point to and I will mercifully spare you another reading test or chart—Herb Stein, who once said that if something won't go on forever, it will stop. Fairly profound, fairly simple. If you think about, for instance, a Federal-State program like Medicaid, it has grown on average across all States in this country at 9.5 percent over the last 10 years, 9.5 percent every year. It doesn't take a rocket scientist to know that if you grow one program at 9.5 percent and the underlying economy is growing by about 3 percent, you are going to have problems come sometime down the road.

We are going to have to make reforms and changes to any number of these Federal-State partnerships for them to be sustainable. If we simply add more money at this time and in essence bail out what are in some cases unsustainable programs, I think that we end up with real problems down the road.

Fourthly, I would say, remember the cows. I am not talking about cows in your congressional district or in my State, but I am going back to Pharaoh's dream there in the Bible that was interpreted. As you may remember there were seven fat cows coming out of the Nile and there were seven skinny cows coming out of the Nile. As long as history has been around, there has been an up and down cycle to times of feast and times of famine. I think that what we have got to remember here in this case, when times are good, people generally get ahead of themselves.

Debt and liabilities have grown at five times GDP over the last 25 years. What we have done as a country is to say, rightfully—and, again, I admire the intent of the Committee and the intent of the Congress—we want to do something about that. If you add up all the different bailouts and pieces of economic stimulus over the last year, it adds up to roughly $2.3 trillion, about $21,000 per household. Yet we are still where we are. The question I think that has to be asked is would another $150 billion make the difference on what comes next? I would submit this chart for the record as well. What it shows is $150 billion of stimulus is one-fifth of 1 percent of world GDP.

[The information follows:]



Mr. SANFORD. We are now dealing with a global issue, a global problem based on what has happened to the credit and financial markets. It has rippled into every one of our main streets and hometowns. But we need to remember that the overall global economy is $67 trillion; the U.S. economy is $14 trillion. And $150 billion, when we have already submitted $2.3 trillion to try and effect change on this front, I don't think at the end of the day will be enough.

Fifthly, I would finally say—and I just might add one point on that. The fact that it won't be enough I think is telling in bank deposits. If you were to look at July 2 of this year, banks held $14 billion in deposits in balance with the Federal Reserve. October 1 of this year, they hold $167 billion in balances there at the Federal Reserve. So, in fact, though a lot of money has been put on the street, in fact given the nature of man, given the history of cycles, at times people are going to slow up regardless of how much money you put into the system.

Finally, I would simply say this. Would you give the soldier the keys? I would say this to you very specifically, Chairman Rangel. If you think about your service to the United States military, it was none other than heroic back in the Korean war. You earned a Purple Heart in service for your country. I think that what you know in seeing that process unfold is that, regardless of the training, regardless of the length of training, at some point at the training's end you have got to give the keys to that sailor, the soldier, the airman, the Marine. At a Federal-State level we don't do that. There are a lot of States out there still with training wheels based on Federal mandates.

So, what I would submit to you is that there is something that can be done that would be very helpful to every State, and that is tied to unfunded mandates.

We looked up the number in South Carolina. We have a total of about $428 million each year that we deal with in our budget process that are tied to Federal unfunded mandates. If you were looking to help States, one of the ways that I think would make the biggest difference is either to free us or to fund those unfunded mandates.

Those would be my quick thoughts within the 5-minute context that I have got. Thank you, sir.

Chairman RANGEL. Thank you.

[The prepared statement of Governor Sanford follows:]

Statement of The Honorable Mark Sanford, Governor, State of South Carolina

Chairman Rangel, Congressman McCrery and Members of the Committee, I thank you for this chance to testify before your Committee.

I'm here to beg of you not to approve or advance the contemplated $150 billion stimulus package for the effects that it would ultimately have in the state that I represent, and in turn, all states across the country and the nation as a whole. I applaud the sentiment behind it and your intentions in trying to help the American public given the enormity of the financial collapse before us, and I understand the supportive position staked out by many of my fellow governors by letter from the National Governors Association this Monday as well. Still, I feel it's incumbent upon me to stand up and speak now, or perhaps forever hold my peace—and with the greatest respect I'd submit that I don't think this is the course to be taken.

I'd ask that you, as leaders at this crucial juncture in our nation's story, do three things: one, recognize that the current avalanche of bad news can be traced back several years to oftentimes poor financial decisions that snowballed out of control; two, consider that this $150 billion salve may in fact further infect our economy with unnecessary Government influence and unintended fiscal consequences; and three, accept that there may be better routes to recovery than a blanket bailout, including offering states like mine more in the way of flexibility and freedom from Federal mandates instead of a bag of money with strings attached.

First, the situation we're now in did not develop overnight, and in the same way it won't be cured by morning. As the old saying goes, the first step to getting out of a hole is to quit digging.

I think this certainly applies to the mountain of debt now facing our country, with overall debt growing roughly four times the rate of Gross Domestic Product (GDP) over the last 15 years. Our national debt is now over $10 trillion—more than $4 trillion higher than when I left Congress at the end of 2000. We're spending more paying interest on this debt (roughly $20 billion monthly) than we are on the War in Iraq (around $12 billion). Add to all this last month's timely illustration of Times Square's National Debt Clock actually running out of spaces as the debt passed $10 trillion. No need to worry: a new clock is being made with room for a quadrillion dollars of debt—that's a million billion dollars, or a "1" with 15 zeros. I have a feeling we'll be using those extra digits sooner rather than later, given that Government spending has grown 57 percent ($1.2 trillion) this decade alone.

In fact, if this $150 billion stimulus package is passed, this year's budget deficit could top $1 trillion—adding to the over $10 trillion national debt and making it 70 percent of a roughly $14 trillion economy. That would be the highest level since the early 1950s when the nation was still paying down the accumulated costs of World War II. But back then there weren't trillions of dollars in unfunded liabilities linked to Social Security and Medicare hiding off the balance sheet.

Common sense voices from both sides of the aisle are raising red flags about our national deficit, the debt and these unfunded liabilities. Warren Buffet, Pete Peterson and Former United States Comptroller General David Walker were featured in a recent documentary called "I.O.U.S.A." Their point is that we have over $52 trillion in contingent liability, amounting to a roughly $450,000 invisible mortgage hanging over the head of each and every American family. Walker comments that we're simply "charging the national credit card . . . [it's] more of the same, just in larger numbers."

We've never before in the history of our republic faced the kind of unfunded liabilities that we do now. I believe that some time in the not so distant future we're going to reach a breaking point when that $52 trillion will come due, and that our potential inability to pay will have frightening ramifications by either completely trashing the value of the dollar or creating hyperinflation which robs from every middle class worker across America.

Global equities have lost more than $10 trillion in value just in October—and global GDP growth projections for 2008 are being ratcheted down from essentially 2 percent to 1 percent by the World Bank.

But this economic storm was in part predictable, even if it wasn't completely preventable, for the simple reason that gravity always works. In other words, what goes up must come down. One could go as far back as Biblical times and look at the passage of the seven fat and seven skinny cows coming out of the Nile in Pharaoh's dream to remember that this notion of business cycles, credit cycles, the up and down of the economy, is one of the constants in history. The housing bubble is a case in point. According to the Case-Schiller home index, we've seen a decade long 235 percent run up in housing prices, from 79.6 in 1996 to a peak of 188.6 in 2006. Prices have since come down more than 20 percent to around 150. Experts warn that there's more downside on the horizon, with the median new home price this September dropping over 9 percent from September 2007 to $218,400, the lowest in four years.

Second, I'd ask you as *political* decision-makers in an overwhelmingly *economic* crisis to take the Hippocratic Oath and pledge to "do no [more] harm." I believe the macroeconomic forces at work will hardly be slowed by an additional $150 billion, and I'd strongly urge against further tampering with what in principle should be a free-market economy.

Economist Arthur Laffer put it well in Monday's Wall Street Journal when he said, "Whenever the Government bails someone out of trouble, they always put someone into trouble . . . Every $100 billion in bailout requires at least $130 billion in taxes, where the $30 billion extra is the cost of getting Government involved."

Simply throwing money into the marketplace in the hope that something positive will happen ignores the fact that the Government has already put over $2 trillion into the system this year using various bailouts and stimulus packages: including $168 million in direct taxpayer rebates this past Spring; an $850 billion bailout last month that cost more than we spend on defense or Social Security or Medicaid and Medicare annually; and myriad loans and partial nationalizations of institutions like Freddie Mac and Fannie Mae, JPMorgan Chase, Bear Sterns and AIG. This doesn't even include the arguably most effective form of stimulus the country has seen over the past year, a market-based infusion of over $125 billion into the economy and taxpayers' wallets caused by falling oil prices and subsequently lower prices at the pump.

This year's $2 trillion plus in bailouts and handouts seems that much more momentous when you consider that Federal tax revenues last year were only $2.57 trillion. Simple math demands we ask ourselves if $2 trillion did not ward off the crisis in confidence we're currently experiencing, then how much can $150 billion more help? Especially since we're dealing with a $14 trillion economy and a larger $67 trillion world economy, meaning that this shot in the arm represents merely one-fifth of one percent of the world economy.

I believe no matter what amount of money is thrown at the consumer, individuals and businesses will likely choose to wait to make their purchases or investments. People simply don't buy as much and as frequently when their savings are shrinking and their household equity is sinking. In fact, Americans' disposable income fell over 1 percent to just over $10,700 in July of this year, which consequently hurts demand and thus slows growth. That's no small problem in a consumer-driven economy, with Washington Post columnist George Will observing that Americans decided it was "more fun to budget like Government does, matching spending to appetites." Will also elaborates on Americans' trend away from personal savings—pointing out that we saved a dime of every dollar of disposable income in the 1980s, a nickel in the 1990s, and in 2004, the savings rate went negative.

Aside from the reality that $150 billion pales in comparison to the size and scope of what's before us—and therefore would have little impact—I think that there is a much more pressing, and personal to my current position, reason that this is not the best direction.

Essentially, you'd be transferring taxpayer dollars out of the frying pan—the Federal Government—and into the fire—the states themselves. I think this stimulus would exacerbate the clearly unsustainable spending trends of states, which has gone up 124 percent over the past 10 years versus Federal Government spending growth of 83 percent. It would also dangerously encourage even more growth in gov-

ernmental programs like Medicaid, which in state budgets across the nation already grew 9.5 percent per year over the last decade—certainly unsustainable in our state. Moreover, the United States Department of Health and Human Services just last week projected that spending on Medicaid will grow at an average annual rate of 7.9 percent over the next 10 years—and possibly faster if this stimulus package passes. State debt across the country has also increased by 95 percent over the past decade. In fact, on average every American citizen is on the hook for $1,200 more in state debt than we were 10 years ago.

There seems to be no consequence, and indeed a reward, for unsustainable spending growth by states. In effect, sending $150 billion more to states would produce another layer of moral hazard—already laid bare at the corporate, individual and Federal levels in recent years. Corporations like CountryWide overleveraged their resources on risky loans as American banks increased their stake in subprime mortgages from only 5 percent in 1994 to roughly 20 percent in 2004. At the individual level, some people bit off more mortgage than they could chew, with Americans' house price-to-income ratio jumping from 4-to-1 (where it had hovered for 30 years) to 8-to-1 in 2006, and over 40 percent of first-time homebuyers in 2004 not making any down payment at all. Nationally, the Federal Government stepped in and offered a solution that presented more risks than the problem it addressed: namely, not allowing certain companies, and even certain citizens, to fail. Yet capitalism was and is predicated on this idea of risk, and the chance for success and failure.

Bloomberg News columnist and author of *The Forgotten Man* Amity Shlaes points out that the taxpayer is the forgotten man in this equation—and you and I and all our constituents are put on the hook for more and more liabilities, many of which will certainly be passed onto our kids and their kids after them. On both a rhetorical and practical level, I'd ask you what happens when the Federal Government, indeed our nation, needs a bailout? Who bails out those who've bailed out everyone else?

Third and finally, I believe there are far better paths, albeit some less traveled by, to take than going and borrowing more money from the Chinese—whom we owe over an estimated $1.3 trillion plus already—to spend even more taxpayer dollars in a desperate attempt to catalyze a souring economy.

First among these preferable paths would be giving states relief from unfunded mandates—which have cost the fifty states $131 billion over the last four years, and my home state specifically around $500 million. These mandates include Real ID with its long-term $10 billion price tag for states, increasing the minimum wage costing states $200 million this year, No Child Left Behind's $12.3 billion burden this year, regulations related to prescription drug plans that will cost states $95 million in 2010, bio-terrorism upgrades costing $167 million this year, and reductions in Federal Food Stamp funding costing states $200–300 million annually.

My home state of South Carolina has not been immune to these national and global economic struggles. Still, last year alone we had over $4 billion in capital investment and are on pace for better than that this year. We've seen 147,000 more people start work since I took office in 2003, and we rank 15th in the nation in employment growth in that same time frame—well ahead of many states with lower unemployment rates, including Maryland, Massachusetts and New York. So while there are certainly opportunities for improvement from infrastructure to education in the state I represent, I'll make clear once again that federally-restricted money from Washington D.C. isn't the panacea I think some portray it to be.

In short, I'd ask Members of the Committee to simply give the states more freedom. Give us more flexibility. Give us more in the way of control over the dollars we already have and less in the way of costs. Give us more options, not more money with Federal strings attached.

Aurthur Laffer said that "whenever people make decisions when they are panicked, the consequences are rarely pretty." If in fact this Committee has already succumbed to the financial panic of those pursuing a sensationalist story or increased governmental intervention, then, in closing, I beg of you: do not distribute this $150 billion into the economy only via the states, large corporations or another Federal bailout. Give it back to the taxpayers.

Thank you for this opportunity to offer my humble perspective as it relates to the financial storm we find ourselves in, and the proposed stimulus package you may soon consider. Again, I appreciate your time and wish you all the best as you face the difficult task before you. I will be happy to answer any questions you have.

Chairman RANGEL. Before I recognize Mayor Palmer, could I ask you, Governor, whether you supported the efforts of the President and the Congress in rescuing the $700 billion problem faced by our financial institutions?

Mr. SANFORD. I apologize. We were being neighborly as fellow governors; I didn't hear the first part of the question.

Chairman RANGEL. Recently, the President asked and the Congress complied with a $700 billion rescue bailout, whatever. Did you support that effort?

Mr. SANFORD. I did not.

Chairman RANGEL. Let me now recognize the Mayor of Trenton, the former Chairman of the Conference of Mayors. Governors can go to their mansions in the capitals and the Congress can stay here in Washington, but the Mayors really can't get away from Main Street. That is the kind of pain that America is really feeling. I hope you share your views from the Conference of Mayors as well as from the people of Trenton with us.

STATEMENT OF THE HONORABLE DOUGLAS PALMER, MAYOR, CITY OF TRENTON, NEW JERSEY

Mr. PALMER. Thank you, Mr. Chairman. It is always a pleasure to see you. A lot of times you are with my godfather, Mayor Dave Dinkins of New York. It is very nice to be here. To all Members of Congress, and especially good to see a former Mayor, my dear friend from Patterson, New Jersey, Congressman Pascrell.

I am Douglas H. Palmer of Trenton and the immediate past president of the United States Conference of Mayors. It is always good to be here with my good friend, Governor Paterson, too, and just meeting the Governor from South Carolina.

I also want to commend you for your leadership of one of the most important Committees in Congress and your longstanding support of local government. I have more on the record that I will present, and I will try to be succinct and brief.

I am a little impressed by the two Governors that could quote from authors and all those things. I am just a Mayor. I can—but I do want to say, in the words of that great poet John Lennon of the Beatles, I say, "Help. I need somebody. Not just anybody." In the words of Jack Nicholson, who said, "The truth, you can't handle the truth."

Well, the truth is that American cities are hurting. The truth is that when you talk about Main Street, we are the Mayors of Main Street.

The fiscal condition of cities has declined significantly since 2007, according to the city fiscal condition survey. It is important. Unlike as you mentioned, Mr. Chairman, unlike the Federal Government, local governments cannot carry a deficit from 1 year to the next. We are required by law to spend no more than we receive in revenues. As a result, many cities are taking drastic steps to balance their budgets, and I just want to provide you with a few examples. I think of Governor Paterson's talk about the State of New York. I won't go into what Mayor Bloomberg is doing, but I will just talk about my city, Trenton, the State capitol.

The financial meltdown and the domino effect that has occurred in other sectors is certainly having a profound effect on the city of Trenton, as well as many other urban municipalities.

Almost one-third of our 7.5 square miles is owned by the State of New Jersey. Almost 53 percent of all properties are tax exempt. We rely heavily upon State aid to supplement our budget.

To make matters worse, the State of New Jersey is in a fiscal crisis. Our Governor Corzine is testifying in the Rayburn building right now. The State will have a $4 billion deficit next fiscal year, which will translate into a $4.6 million reduction in State aid in my city.

In sum, our city's budget deficit right now is $25.8 million. We are doing many things to close the gap. We instituted a major workforce reduction plan, which includes layoffs, demotions, the elimination of most personnel vacancies including 16 police officer and 13 firefighter vacancies, and the demotion of 13 fire captains. In all, we will be eliminating over 10 percent of the workforce. This will reduce budget appropriations by $7.4 million. But we still have to close the remaining 18.8 million shortfall. If the city cannot find a way to close this gap, the tax rates will increase by 43 percent.

In summary, Mr. Chairman, the economic meltdown sweeping across our Nation and the globe threatens to subject many local governments to budget shortfalls far into the foreseeable future. It is clear that the economy needs a shot in the arm to nurture it back to a healthy recovery.

Now that Congress has enacted a $700 billion package to rescue Wall Street, we strongly recommend the enactment of a Main Street stimulus package.

Congress should take action to ensure that local governments have access to short-term credit. Local government credit assistance, we are talking about due to problems in the domestic and global financial markets. State and local governments are finding it increasingly difficult to access the capital markets at commonly acceptable rates. Cities across the country are especially having difficulty selling bonds and accessing short-term credit.

We strongly recommend that Congress direct the Federal Reserve and the Treasury Department to work together under the $700 billion Emergency Economic Stabilization Act to design a facility to provide a funding backstop to the State and municipal Government debt market similar to the recently announced program for commercial paper. Without such action, States and municipalities will face ever increasing costs to manage their short-term debt.

I just want to go over a few quick things about the U.S. Conference of Mayor's and Main Street stimulus.

We request, one, the Community Development Block Grants for Infrastructure $10 million—$10 billion. We are asking for a $10 billion increase in CDBG to create jobs through the construction and improvement of public facilities, streets, and neighborhood centers.

Two, the Energy Block Grant for Infrastructure and Green Jobs for $5 billion. Congress should provide $5 billion to fund the energy efficiency and conservation block grant to help move America toward a greener economy and create millions of green jobs. I won't

go into all this. The Transit, Equipment, and Infrastructure. We are urging $9 billion for that; the Highway Infrastructure, $32 billion; Airport Technology and Infrastructure, $1.5 billion; Amtrak Infrastructure, $1.25 billion. As was mentioned, water and wastewater infrastructure, $18.75 billion; School Modernization, $7.5 billion; Public Housing, $2.5 billion. Public Safety Jobs, we also note it's critically important to add $2.48 billion to that, because you need a safe city as well.

Mr. Chairman, I note some may say, well, that is a lot of money. It is. But I know people in my city and people across this country need jobs. We have projects are that ready to go right now, like an old public works project that FDR instituted, our people not only need hope but we need resources so that we can put people back to work and fund critical projects that help create jobs with our infrastructure, create economic development opportunities that will increase jobs. The Conference of Mayors can give you lists of projects throughout this country that could be on the ground within a year and a half with the proper funding necessary so that we can put people back to work and help stave off what many fear is a recession that is coming. These aren't handouts. These are opportunities for our country and our cities to move forward in a very strong way.

I have more that will be into the record, and I am willing and ready to answer any questions when you see fit.

Chairman RANGEL. Thank you, Mayor Palmer. Without objection, your entire testimony will be entered into the record.

[The information follows:]

Statement of

The Honorable Douglas H. Palmer

Immediate Past President, The U.S. Conference of Mayors

Mayor of Trenton, New Jersey

before

The United States House of Representatives

Committee on Ways and Means

on

Economic Recovery and Job Creation Through Investment

Longworth House Office Building, Room 1100

Washington, D.C.

Wednesday, October 29, 2008

Submitted By:

The U.S. Conference of Mayors
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Thank you Mr. Chairman. I am Douglas H. Palmer, Mayor of Trenton and Immediate Past President of the United States Conference of Mayors[1]. First let me commend you for your leadership of one of the most important committees in Congress and for your long-standing support of local governments. On behalf of the nation's mayors, we are pleased that you care enough to hold this hearing and to focus national attention on how the economic crisis is impacting American families and state and local governments. We also appreciate the opportunity to discuss how cities across the nation are affected by this crisis and will to offer a few recommendations that we believe will help create jobs and restore economic stability.

As mayors, our citizens ask us every single day what effect will the economic downturn have on their jobs, their mortgages, their long-term savings, and their pension funds. Across our nation, Americans have lost nearly 800,000 jobs in the last nine months. Unemployment currently stands at 6.1 percent and is projected to reach 7.5 percent next year. Families have lost $2 trillion (20 percent) of their savings. And according to recent reports, retail sales on Main Street have dropped 1.2 percent in September, foreshadowing a dismal holiday shopping season, which accounts for approximately 25 percent of annual sales for most businesses.

The fiscal condition of cities has declined significantly since 2007 according to *The City Fiscal Condition Survey*, an annual report published in September 2008 by the National League of Cities. The report states that two of every three city finance officers surveyed in 2008 reported that their cities are less able to meet fiscal needs than in 2007. This compares with 70 percent last year who said their cities were better able to meet fiscal needs than in 2006. The same report predicts a decline in all three major sources of local tax revenue: property, sales, and income taxes.

Unlike the federal government, local governments can not carry a deficit from one year to the next. We are required by law to spend no more than we receive in revenues. As a result, many cities are taking drastic steps to balance their budgets. Let me provide you with a few examples.

Trenton

Starting with my own city, the financial meltdown, and the domino effect that has occurred in other sectors, is having a profound effect on the City of Trenton as well as many other urban municipalities and Main Streets throughout the country.

From a local perspective, Trenton is at a greater disadvantage than many. New Jersey cities rely heavily upon property taxes as their major source of budget revenue. Cities do not collect sales, payroll or telecommunications taxes at the local level. They are all collected by the state. As the capital of New Jersey, Trenton has a very large number of state, county, and federal buildings, many situated on prime property overlooking the Delaware River. We are also a small city land-wise. Almost one third of our 7.5 square miles is owned by State government. Almost 53 percent of all properties are tax exempt. We rely heavily upon State aid to supplement our budget.

[1] The U.S. Conference of Mayors (USCM) is the official nonpartisan organization of cities with populations of 30,000 or more. There are 1,139 such cities in the country today. Each city is represented in the Conference by its chief elected official, the mayor.

To make matters worse, the State of New Jersey is in a fiscal crisis. Local aid has been reduced significantly, and it is projected that this trend will continue. It is estimated that New Jersey will have a $4 billion deficit in the next fiscal year. This has translated into a $4.6 million revenue reduction in State aid to us in the current budget year. In sum, the city's budget deficit is $25.8 million. As a result, we have instituted a major workforce reduction plan, which includes layoffs, demotions and the elimination of most personnel vacancies, including 16 police officer and 13 firefighter vacancies and the demotion of 13 fire captains. In all, we will be eliminating over 10% of the workforce. This will reduce budget appropriations by $7.4 million, but we will still have to close the remaining $18.8 million shortfall. If the city cannot find a way to close this gap, the tax rate will increase by 43 percent.

Additionally, we are struggling to grow our economy and property tax revenues. The mortgage and credit crisis, compounded by loss of jobs and bankruptcies have resulted in a 46 percent increase in foreclosure filings in the last year. Further, we have had to grapple with the State using large tracts of prime property for surface parking. Development of these properties would generate millions of dollars in residential and commercial property tax revenues and spur the local economy with construction jobs and other more permanent employment. Another major project that will spur the local economy is the redesign of Route 29, a major route along the Delaware River running through Trenton. This road is slated to be converted from a speedway to a boulevard, and in so doing, would join the city with one of its most valuable resources: developable riverfront property. Federal public works dollars would go a long way in providing the capital necessary to make this possible, creating jobs, new construction and new property tax revenues. While Trenton has been hit hard by this crisis, many other cities have also been heavily impacted.

New York

Some economists are predicting that New York and other cities with close ties to the financial sector will probably suffer the worst. In response to dwindling revenues, New York City Mayor Michael Bloomberg has pushed through a series of budget cuts over the last year and a half. So far the city has cut $1.1 billion from last year's budget, $1.3 from this year's and $1.2 billion from next year's. These drastic steps are being taken to close a projected budget shortfall of $2.3 billion next year, and shortfall of $5.2 billion and $5.1 billion in the following two years.

Bracing for even further declines in revenue from the Wall Street meltdown, Mayor Bloomberg recently ordered city agencies to come up with another $1.5 billion in cuts. If approved by the City Council, each agency will be required to reduce its budget by 2.5 percent this year and an additional 5 percent next year. There is no doubt many critical services will suffer. The City Department of Education will be cut by more than $580 million. And this comes on top of the $180 million cuts in public schools last February. The Police Department budget will also be reduced by $286 million. In addition to the cuts, the Mayor is considering a mid-year 7 percent increase in property taxes to help balance the budget in future years.

Chicago

The City of Chicago is facing a $469 million budget shortfall. In response, Mayor Richard M. Daley has proposed laying off 929 city workers and eliminating 1,346 vacant jobs. His new budget proposal also calls for increasing taxes on parking and sports tickets, and requiring city workers to take three unpaid days off.

The tax increases come on top of numerous tax increases already imposed. Mayor Daley explained the budget cuts will mean the city will take longer to hire police officers, to plow side streets following snow storms, to clean vacant lots and to fill potholes.

Atlanta

In Atlanta, city officials have decided to cut 130 positions in the city's Fire Department to help close a $140 million budget gap. Although the Fire Chief has decided not to close any of the fire stations, firefighters are being redistributed from areas with fewer emergency calls to areas with more calls. According to the Fire Chief, this move could increase some emergency response times.

I am sure all will agree that our local Fire Departments provide a critical service and that response time can make all the difference in the world when it come to saving lives and personal property. We can only hope the budget crunch that many of our cities are experiencing will never impede our Fire Departments' ability to respond to life-threatening emergencies in a timely manner.

Sacramento

With a budget shortfall projected to surpass $40 million next year due to declining revenues from sales and property taxes, the city of Sacramento has decided to furlough 889 non-union employees. This is about one-fifth of the city's approximately 5,000 workforce. Most of these employees are in supervisory positions. They will be required to take one unpaid day off per month effective January 1, 2009 and it could continue beyond six months. This will amount to a 5 percent salary reduction for affected employees.

The cuts will mean fewer police patrols, a decrease in the number of serious crimes detectives will respond to after hours, and it will take longer to respond to 911 calls. Although the city is cutting back in an attempt to avoid layoffs, the City Manager has made clear that nothing is off the table when it comes to future cuts. About 70 percent of the city's budget goes to pay labor costs, which makes layoffs a huge target for future cuts.

In summary Mr. Chairman, the economic meltdown sweeping across our nation and the globe, threatens to subject many local governments to budget shortfalls far into the foreseeable future. It is clear to us that the economy needs a shot in the arm to nurture it back to a healthy recovery. Now that Congress has enacted a $700 billion package to bail out Wall Street, we strongly recommend the enactment of a Main Street Stimulus package. Congress should also take action to ensure that local governments have access to short-term credit.

Local Government Credit Assistance

Due to the problems in the domestic and global financial markets, state and local governments are finding it increasingly difficult to access the capital markets at commonly acceptable rates. Cities across the country are especially having difficulty selling bonds and accessing short-term credit. State and local government issue short-term instruments for the same reasons as corporations—to access capital to pay debts until revenues are received, or until new bonds are issued. We are concerned about recent comments by the Federal Reserve that the newly created Commercial Paper Funding Facility (CPFF) would not assist the tax-exempt, short-term market.

We strongly recommend that Congress direct the Federal Reserve and the Treasury Department to work together under the $700 billion Emergency Economic Stabilization Act to design a facility to provide a funding backstop to the state and municipal government debt market similar to the recently announced program for commercial paper. Without such action, states and municipalities will face ever-increasing costs to manage their short-term debt.

Main Street Stimulus

Congress should immediately enact a Main Street Stimulus package that includes programs that will create jobs, improve the nation's infrastructure, help small businesses on Main Street and have a lasting economic and environmental impact. The following programs should be included in the Main Street Stimulus package:

1. **Community Development Block Grants for Infrastructure ($10 Billion)**
   We're asking for a $10 billion increase in CDBG to create jobs through: the construction and improvement of public facilities, streets, and neighborhood centers; the conversion of school buildings; and assistance to businesses to generate economic development and job creation.

2. **Energy Block Grant for Infrastructure and Green Jobs ($5 Billion)**
   It is time to move America toward a greener economy and tap the potential to create millions of green jobs for Main Street businesses and free the U.S. economy from its dependence on foreign oil. Congress should approve a $5 billion investment in EECBG, which will give cities, counties, and states the resources to create thousands of energy efficiency and renewable energy production projects across the nation.

3. **Transit Equipment and Infrastructure ($9 Billion)**
   Our rail and bus systems are being forced to raise fares, cut service, and borrow funds to address the capital and operating needs. At the same time we are experiencing a dramatic surge in ridership due to high gas prices. Congress should fund the purchase of buses, street cars, rail cars and other equipment needed to create additional capacity; help stabilize fare increases; and restore and maintain facilities and infrastructure in a state of good repair.

4. **Highway Infrastructure ($32 Billion)**
To create Main Street jobs and ensure that traffic-congested areas actually receive funding, Congress must not distribute additional highway stimulus funds based on the current state-based status-quo system. Instead, the Surface Transportation Program must be used to distribute highway stimulus funds. This will provide maximum flexibility to cities, counties, and states in advancing bridge, bus and rail, and road projects in our nation's metropolitan areas.

5. **Airport Technology and Infrastructure ($1.5 Billion)**
The nation's airport infrastructure urgently needs increased funding to begin addressing the investment gap in airport capacity, safety and technology. To create high-paying jobs, assist small businesses and airport retailers, Congress should fund ready-to-go Airport Improvement projects.

6. **Amtrak Infrastructure ($1.25 Billion)**
Amtrak is experiencing record ridership across the railroad's entire system for intercity passenger rail service. Amtrak connects rural, suburban, and urban communities in all regions of the nation. Congress should increase federal funding to make necessary upgrades to tracks, bridges and tunnels, electric traction, interlockings, signals and communications, and stations on the nation's Amtrak system.

7. **Water and Wastewater Infrastructure ($18.75 Billion)**
Despite the tremendous investment made by local government, the Environmental Protection Agency estimates that there still is a $500 billion "needs gap" to meet our water and wastewater infrastructure needs. Congress should allocate an additional $18.75 billion directly to cities as grants to assist with rehabilitating aging water and sewer infrastructure, complying with sewer overflow issues, and promoting source water protection and availability.

8. **School Modernization ($7.5 Billion)**
America's schools are in dire need of modernization and repair. Every day, many of our children attend school in overcrowded classrooms with faulty electrical systems, broken windows, peeling paint and leaking roofs. Congress should invest $7.5 billion to repair and modernize school buildings in both large and small city school districts, improve their energy efficiency and equip them with first-class technology.

9. **Public Housing ($2.5 Billion)**
The public housing capital funds which supports the capital needs of public housing, has a backlog of capital improvement needs estimated at $18 billion to $20 billion. Funding can be used for repair and construction projects, including safety repairs. Every dollar of Capital Fund expenditures produces $2.12 in economic return. And many of the vendors used to make repairs and undertake construction projects are small businesses.

10. **Public Safety Jobs ($2.48 Billion)**
Recent surveys have found that there is a direct link between the economic crisis and increasing crime rates. A total of 42 percent of cities in a 124-city survey have experienced an increase in crime. The survey also found that there are 8.6 percent fewer police officers in the cities surveyed than there were at their peak staffing levels. To help keep Main Street safe, Congress should add $1.25 billion to the COPS program to help local police departments put an additional 16,000 police officers on the street; and increase the Byrne Justice Assistance Grant by $1.23 billion to help keep thousands of police officers on their jobs.

Mr. Chairman, that ends my statement. I am submitting for the record a complete copy of our Main Street Stimulus plan which discusses in greater detail the programs that I have just outlined. Thank you for the opportunity to testify.

The United States Conference of Mayors
MAINSTREETSTIMULUS
usmayors.org/mainstreetstimulus

A Call to Action

Main Street America is in economic trouble. America has lost nearly 800,000 jobs in the last nine months. Unemployment is now at 6.1 percent, and is projected to rise to over 7.5 percent next year. When under-employment is included, unemployment is projected to reach 9 percent. Families have lost $2 trillion (20 percent) of their savings. The Commerce Department has just reported that retail sales on Main Street America have dropped 1.2 percent in September, foreshadowing a dismal holiday shopping season – which accounts for approximately 25 percent of annual sales income for most businesses.

Our citizens ask us every single day what this economy will do to their jobs, their long-term savings, their mortgages, and their pension funds. Parents are getting laid off from their jobs, families are struggling to pay bills, the mortgage crisis and foreclosures are forcing families to double-up and move in together, grandparents are struggling with retirement, and young people unable to secure financial aid are being forced to forgo college. In addition, severe state cutbacks are resulting in a loss of needed services on Main Street.

Washington bailed out Wall Street to the tune of $700 billion. It is now time for Washington to help local governments and the private sector create jobs and economic growth by passing an immediate "Main Street Stimulus."

Over the last three months, U.S. Conference of Mayors President Manuel A. (Manny) Diaz of Miami has led a national tour with *Mayors '08 Action Forums* on 1) Crime; 2) Infrastructure; 3) Poverty; 4) Environment and Energy; and 5) Arts and Tourism. At each of these forums, mayors and national experts focused on the weakened economy, the immediate needs of working families, and ways to create jobs.

In today's world, it is Mayors who lead the metro economies that drive the nation. These metro economies now account for 86 percent of national employment, 90 percent of labor income, and 90 percent of gross domestic product (GDP). Therefore, if we are going to reverse the current economic situation and create jobs, the only way to do so is to invest in these Main Street, metro economies.

Following are 10 "Main Street Stimulus" programs that will create jobs now, improve the infrastructure that the private sector needs to succeed, help the small businesses of main street America, and have lasting economic and environmental benefits.

We have built on the House-passed $60 billion stimulus package to calculate our funding recommendations, which total $89.98 billion of the now estimated $150 billion stimulus. The methodology for our recommendations is contained on page two of this document.

Cities are ready to go, and jobs can be created now! Therefore, federal agencies and the states must be required to dispense these funds immediately.

We commend the House and the Senate for their efforts to enact a second stimulus last month before the congressional recess. We stand ready to work with Congress during the upcoming emergency session to make sure that a "Main Street Stimulus" plan is signed into law this year.

Manuel A. (Manny) Diaz
Mayor of Miami
President

Tom Cochran
CEO and Executive Director

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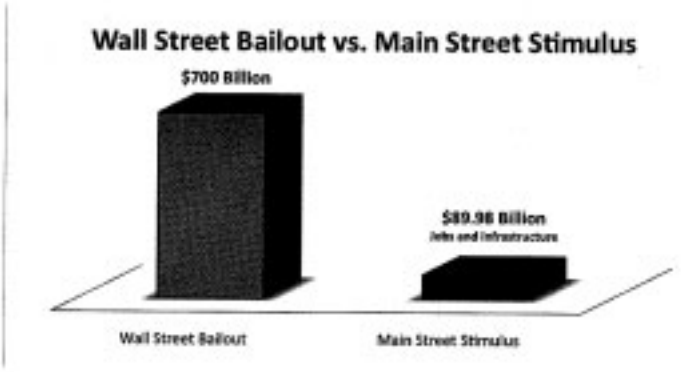
MAINSTREETSTIMULUS

Project (Dollars in Billions)	H.R. 7110 (Passed House 9/26/08)	Mayors' MainStreet Stimulus Plan
1. Community Development Block Grant for Infrastructure[1]	$4.00	$10.00
2. Energy Block Grant for Infrastructure and Green Jobs[2]	$2.00	$5.00
3. Transit Equipment and Infrastructure	$3.60	$9.00
4. Highway Infrastructure	$12.80	$32.00
5. Airport Technology and Infrastructure	$0.60	$1.50
6. Amtrak Infrastructure	$0.50	$1.25
7. Water and Wastewater Infrastructure	$7.50	$18.75
8. School Modernization	$3.00	$7.50
9. Public Housing Modernization	$1.00	$2.50
10. Public Safety Jobs and Technology[3]	$0.99	$2.48
Main Street Stimulus Total	**$35.990**	**$89.98**
Congressional Stimulus Bill Total (Estimate)	**$60,000.00**	**$150,000.00**

Methodology: *Figures are based upon the original Stimulus Bill proposal (H.R. 7110) that passed the house on September 26, 2008 which totaled $60 billion. Since then, the Speaker's Office, along with the Senate Majority Leader's Office have indicated through media reports that the Stimulus Bill that will be brought to the floor after the November 4th elections will total $150 billion, thus, the figures were inflated proportionally (2.5x) in our plan. Other figures, referenced below, were also used.*

[1] United States Conference of Mayors Survey. 1993. "Ready to Go".
[2] As authorized by the Energy Independence and Security Act of 2007.
[3] Senators Reid/Byrd proposal in Senate version of Stimulus bill.



MAINSTREETSTIMULUS

1. Community Development Block Grants for Infrastructure ($10 Billion)

CDBG, established in 1974, is a proven and effective program in the city-federal partnership. Through the years, the federal government has adjusted the CDBG delivery system to allow additional flexibility to address national emergencies, and this should be done now to confront the current economic crisis. CDBG assisted New York City following the 9/11 terrorist attack and provided resources to the Gulf States and communities after several hurricane disasters. CDBG is currently being used to address the foreclosure crisis with the $3.9 billion Neighborhood Stabilization Program (NSP) to communities faced with vacant and abandoned properties.

Today, CDBG can be used to **create jobs through: the construction of public facilities and improvements, water and sewer facilities, streets, and neighborhood centers; the conversion of school buildings for eligible purposes; activities relating to energy conservation and renewable energy resources; and assistance to profit-motivated businesses to carry out economic development and job creation/retention activities.**

FACT: 21,140 small businesses received CDBG funding in Fiscal Year 2007. Sixty-two percent of the business assistance was for existing businesses, and 75 percent of all business assistance resulted in the creation or retention of jobs. — HUD Performance Report, 2008

2. Energy Block Grant for Infrastructure and Green Jobs ($5 Billion)

It is time to move America toward a greener economy and tap the potential to create millions of green jobs for Main Street businesses and free the U.S. economy from its dependence on foreign oil. Commitments made now will stimulate the development of green jobs for Main Street small businesses. This would help small business weather the current economic downturn and position them for even more significant economic growth. Potential green jobs -- 4.2 million nationwide by 2038 -- and other important benefits for the nation's economy were described in a recent study, *Current and Potential Green Jobs in the U.S. Economy*, prepared by Global Insight for The U.S. Conference of Mayors.

We have 900 mayors who have signed the United States Conference of Mayors Climate Protection Agreement, and they are ready to go. **Five billion dollars in funding for the Energy Efficiency and Conservation Block Grant (EECBG) program will give cities, counties and states the resources to create thousands of energy efficiency and renewable energy production projects throughout the U.S. Such main street-stimulating projects would include the installation of solar panels or wind turbines for the production of electricity on local buildings, deployment of new energy distribution technologies that significantly increase energy efficiency, such as distributed generation or district heating and cooling systems, development of systems to capture and generate power from methane at landfills and energy retrofits of public and private buildings within local areas.**

FACT: A $100 billion federal investment over two years is estimated to create two million green collar jobs. — Center for American Progress, August 2008. Since many of the activities in this report would be supported by Energy Efficiency and Conservation Block Grant (EECBG) resources, the Conference of Mayors estimates that a starting EECBG investment of $5 billion would result in the creation of more than 100,000 jobs.

MAINSTREETSTIMULUS

3. Transit Equipment and Infrastructure ($9 Billion)

Transit agencies (rail and bus) are being forced to raise fares, cut service, and borrow to address capital and operating needs, while experiencing a dramatic surge in Main Street ridership due to higher gas prices. Congress should fund the **purchase of buses, street cars, rail cars and other rolling stock and equipment needed to create additional capacity; help stabilize fare increases, improve reliability; and restore and maintain facilities and infrastructure** in a state of good repair. This could include improvements to expand station capacity, rail track improvements, and customer information screens, while at the same time creating much-needed high-paying jobs and economic activity on Main Street.

FACT: There has been a surge in the use of buses and other transit systems due to pain at the pump. In 2007, 10.3 billion trips were taken on public transportation – the highest number taken in 50 years. Ridership has continued to climb in 2008. According to a recent survey of the nation's transit providers, 85 percent of transit systems are reporting capacity constraints, with nearly four out of ten transit agencies now turning passengers away from affordable public transportation. ...American Public Transportation Association, 2008

FACT: The Federal Highway Administration estimates that every $1 billion spent on transportation infrastructure creates 47,000 jobs (or more) and up to $6 billion in additional gross domestic product. With the housing market in decline, construction employment fell by more than 360,000 jobs since March 2007, leaving a ready labor force to begin new projects. ...Economic Policy Institute, 2008

4. Highway Infrastructure ($32 Billion)

To create Main Street jobs, support the metro economic engines, and ensure that traffic congested areas actually receive funding and critical deferred maintenance is addressed, additional highway stimulus funds must not be distributed based on the current state-based status-quo system.

Therefore, the Surface Transportation Program (STP) – which was created by Congress in 1991 – must be the mechanism for distributing highway stimulus funding. This will provide maximum flexibility to cities, counties, and states in advancing bridge, bus and rail, and road projects in our nation's metropolitan areas. This ensures that funds are allocated more evenly within each state so that mayors and other local leaders, who own and operate most of the transportation assets and facilities, are at the table to make decisions on "ready to go" projects. At the same time, this would create thousands of high-paying jobs, aid small businesses, and fuel economic activity on America's main streets.

Using this program structure means that, in addition to the guaranteed share of STP funds reserved for the states, local officials and local areas within the states would receive a balance of the funds based on population, as federal law has provided since 1991. Importantly, every eligibility under current law is subsumed under the STP program, so that state and local decision-makers have the maximum flexibility to select any project, whether it is a project to repair a bridge on the Interstate System or a less costly bridge repair project in a city, town or county.

FACT: The nation's urban areas generate 60 percent of the value of U.S. goods and services. The efficient movement of citizens and goods within these areas is critical to their productivity, and by extension, to the economic productivity of the nation itself. ...National Surface Transportation Policy and Revenue Study Commission, 2007

FACT: Nearly 70 percent of the nation's urban and suburban roads ... are in less than good condition, according to the Federal Highway Administration. While the nation is making progress on fixing the Interstate (freeways and expressways), spending to repair older roads and bridges and reinvest in other community transportation facilities is far short of need. ...Surface Transportation Policy Partnership, 2008

MAINSTREETSTIMULUS

5. Airport Technology and Infrastructure ($1.5 Billion)

The nation's airport infrastructure urgently needs increased funding to begin to address the investment gap in airport capacity, safety, and technology. To create high-paying jobs, assist small businesses and airport retailers, and stimulate economic activity on Main Street, Congress should fund **ready-to-go Airport Improvement Program (AIP) projects. These include runway and taxi rehabilitations, extensions, and widening; obstruction removal; apron construction, expansion and rehabilitation; rescue and firefighting equipment and facilities; airside service or public access roads; and noise mitigation and abatement (Part 150) associated with aircraft operations - including voluntary home buyout, which would fuel the local housing market, and residential and business insulation programs.**

FACT: Total estimates of airports' capital development costs for 2007 through 2011, adjusted for inflation, is $87.4 billion or $17.5 billion annualized. This is a 22 percent increase from the 2006 estimates. ...Airports Council International-North America, 2007

FACT: The total cost of domestic air traffic delays to the U.S. economy was as much as $41 billion for 2007. ...U.S. Congress Joint Economic Committee, 2008

6. Amtrak Infrastructure ($1.25 Billion)

Amtrak is experiencing record ridership across the railroad's entire system for intercity passenger rail service. Amtrak connects rural, suburban, and urban communities in all regions of the nation. With unpredictable and expected higher fuel prices, highway congestion, and an uncertain aviation outlook, Congress should increase federal funding to **make necessary upgrades to tracks, bridges and tunnels, electric traction, interlockings, signals and communications, and stations on the nation's Amtrak system.** In addition, Amtrak will be able to refurbish rail cars that are currently in storage and return them to service. This funding level would help stimulate local economies by creating thousands of high-paying jobs and small business activity.

FACT: Amtrak ridership in Fiscal Year 2008 increased to more than 28 million, marking the sixth straight year of gains and setting a record for the most passengers using Amtrak trains since the National Railroad Passenger Corporation started operations in 1971. ...Amtrak, 2008

FACT: $4.2 billion is needed just to bring Amtrak engineering infrastructure system to a state of good repair, excluding some major bridge and tunnel work. With the backlog of major bridge and tunnel work, the backlog approaches an estimated $6 billion. ...Amtrak, 2005

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7. Water and Wastewater Infrastructure ($18.75 Billion)

Water and wastewater infrastructure is an integral component of the nation's economic competitiveness, protects public health, and creates jobs.

In 2006 alone, local government spent $85 billion on water infrastructure. During the same time the Federal government provided only $1.9 billion through state loans. Through user rates, local bonds, and taxes, local governments contribute 98 percent of the total investment in wastewater and 95 percent of the investment in water infrastructure. Despite the tremendous investment made by local government, the Environmental Protection Agency estimates that there still is a $500 billion "needs gap" to meet our water and wastewater infrastructure needs and to comply with current unfunded mandates.

Due to leaking pipes, cities can lose anywhere from five to 40 percent of their water and wastewater. Thirty-five percent of cities in a Conference of Mayors survey do not know where their source of water will come from by 2025. Therefore, Congress should allocate an additional $18.75 billion directly to cities as **grants to assist with rehabilitating aging water and sewer infrastructure, complying with sewer overflow issues, and promoting source water protection and availability.** This additional investment will result in immediate job creation in cities and across the nation, as many local Main Street infrastructure projects are ready to go.

FACT: For every dollar of water and sewer infrastructure investment, Gross Domestic Product increases by $6.35 in the long-term. For each additional dollar spent on operating and maintaining the water and sewer industry, revenue or economic output for all industries is increased by $2.62 in that year. In addition, every new water and sewer job creates 3.68 jobs in the national economy. ...The Cadmus Group, for The U.S. Conference of Mayors, 2008

8. School Modernization ($7.5 Billion)

America's schools are in dire need of modernization and repair. Every day, many of our children attend school in overcrowded classrooms with faulty electrical systems, broken windows, peeling paint and leaking roofs. Existing schools are bursting at the seams and hold class in "temporary" trailers, converted closets and hallways. New facilities are desperately needed to accommodate this ever-growing student population. In addition, too many students attend schools that lack the basic electrical and telecommunications equipment necessary for connection to the Internet or to implement new education technologies.

The Conference supports a $7.5 billion federal investment to **repair and modernize school buildings in both large and small city school districts, improve their energy efficiency and equip them with first-class technology.** This investment would create jobs in the construction industry, one of the industries hardest hit by the recent economic downturn -- having lost 528,000 jobs since September 2006. In addition, by helping local school districts create schools that are energy efficient and more reliant on renewable sources of energy, this investment could greatly reduce the emissions that contribute to global warming.

FACT: The total funding need for public school modernization is $321.9 billion. Of that total, $268.2 billion of the need is for school infrastructure, and $53.7 billion of the need is for education technology. ...National Education Association (NEA), Modernizing Our Schools: What Will It Cost, 2000

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9. Public Housing Modernization ($2.5 Billion)

Funding can be used for **repair and construction projects, including safety repairs**. Every dollar of Capital Fund expenditures produces $2.12 in economic return. Many of the vendors used to make repairs and undertake construction projects are small businesses.

FACT: The public housing capital fund has a backlog of capital improvement needs estimated at $20 billion. ...Center on Budget and Policy Priorities, 2002

10. Public Safety Jobs and Technology ($2.48 Billion)

Unless you have a safe Main Street, you don't have a Main Street. Recent surveys conducted by mayors and police chiefs have found that there is a link between current economic conditions and increasing crime rates, particularly those for burglaries and thefts.

Additional COPS Funding – Providing $1.25 billion to local police departments to hire additional personnel would accomplish several purposes: It would put over **16,000 additional police officers on the streets**, thus beginning the process of getting local police departments to the staffing levels they require; it would improve public safety in the cities which receive funding for officers, and through that improved public safety contribute to further economic development and, possibly, further job creation. Mayors and police chiefs have recommended that COPS funding be made more flexible so that police departments are able to use that funding both for sworn officers and for those professionally trained in DNA analysis and forensics. Current law limits COPS hiring grants to sworn officers and provides a maximum of $75,000 in federal funding over three years per officer.

Additional Byrne Justice Assistance Grant Funding – Providing an additional $1.23 billion to the Byrne program could help to **keep thousands of police officers in their jobs,** and could make current and newly hired police officers more effective by assuring that they have needed equipment and new technologies.

FACT: An additional 52,316 officers are needed in local police, sheriffs' and special jurisdiction departments now. And 42 percent of cities are seeing increased crime as a result of the current economy. ...U.S. Conference of Mayors: Economic Downturn and Federal Stimulus Impact on Crime Survey, August 2008

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Other Emergency Measures for Main Street America

Mayors strongly support **additional emergency measures** to help individuals and business – especially small businesses:

Job Training: The stimulus package should include job training funding for dislocated worker and youth employment activities.

Small Business Administration Loans: America's small businesses face an ever-tightening credit market in the wake of struggling financial markets. The stimulus package should provide additional reduced-fee loans to small businesses, delivering needed relief to small businesses on Main Street during Wall Street's financial crisis.

Extension of Unemployment Benefits: The stimulus package should extend unemployment benefits by seven weeks in all states and another 13 weeks in high unemployment states.

Food Assistance: In order to help low-income families cope with rising food prices, the stimulus package should include increases in Food Stamp benefits, the Women, Infants, and Children (WIC) program, Food Banks, the Commodity Supplemental Food program, and the senior meals program.

Medicaid (FMAP): Twenty-nine states are facing a $52 billion shortfall in revenues in their FY 2009 budgets. As a result, low-income families and children could face cuts or eliminations in health care coverage and services. Therefore, the stimulus package should increase the Federal Medical Assistance Percentage (FMAP) for Medicaid health costs.

In addition to the stimulus measures above, Congress must address the **credit crisis** facing local and state governments:

Local Government Credit Assistance: Congress should direct the Federal Reserve and the Treasury Department to work together under the **$700 billion Emergency Economic Stabilization Act to design a facility to provide a funding backstop to the state and municipal government debt market** similar to the recently announced program for the commercial paper market. Because of the national credit crisis, cities across the country are having difficultly selling bonds and accessing short-term credit. This new facility should be designed to protect taxpayer resources while ensuring state and local governments can continue to provide vital services to their residents.

Chairman RANGEL. I just want to repeat, the elections will be over, and I hope that the concerns of the Members will not be Republican and Democrats at that time but feeling the pain that you have to face each and every day as Mayor of Trenton, and all of the Mayors that belong to the Conference of Mayors. I urge you,

with all of my heart, to reach out to the Members of Congress and to share with them how important it is that we do come back after the election to fulfill the commitments in which we have made. So, thank you for your testimony.

At this time, I would like to yield to an outstanding Member of the Committee on Ways and Means, Congressman Chris Van Hollen, for the purposes of introduce our next witness.

Mr. VAN HOLLEN. Thank you, Mr. Chairman. I represent Montgomery County as part of my congressional district, and the county executive of Montgomery County is Ike Leggett. One of the best and smartest decisions he made early on was to bring on Tim Firestine, who we are going to hear from in a minute, as the county's chief administrative officer.

Tim previously served for many, many years as the head of the county's finance department. He has been 28 years in the area of public finance, including teaching as an adjunct professor at the University of Maryland, the graduate school on public finance.

So, Mr. Chairman, at a time when a lot of our local governments are feeling the squeeze, we couldn't have a better person here to talk about how we should move forward. So, I thank you for having him today. Thank you, Mr. Firestine, for being here.

Chairman RANGEL. Mr. Firestine, the Committee anxiously awaits your testimony.

STATEMENT OF TIMOTHY FIRESTINE, CHIEF OPERATING OFFICER, MONTGOMERY COUNTY EXECUTIVE, ROCKVILLE, MARYLAND

Mr. FIRESTINE. Thank you. Chairman Rangel, Ranking Member McCrery, and Members of the Committee, thank you for the opportunity to appear before you today.

I will tell you up front, I apologize for not having any quotes in my testimony as the honorable gentlemen to my right have. But I do have some recommendations that I think will make a difference at the local level, will help stimulate the local economies, and perhaps won't cost the billions of dollars that you are concerned about.

With respect to the critical role State and local governments serve in creating Americans jobs, this hearing could not come at a better time. The turmoil in the capital markets has had a particularly acute effect on the municipal bond markets, and as a result governments are facing real economic hardships.

I have spoken to many Government officials around the country, and like the other distinguished gentlemen at the table, the current fiscal climate facing local and State governments is the most challenging that I have seen throughout my career. At a time when communities are faced with skyrocketing foreclosures, decreased tax revenues, growing unemployment, and the increased demand for services that comes with these problems, States, counties, cities, and small towns have been frozen out of the capital markets for days and weeks at a time, or are faced with borrowing costs that are prohibitively high.

Without reasonable access to the capital markets, local governments are struggling to provide essential services to the general public. For example, the inability to access short-term financing is affecting our ability to purchase replacement fire trucks, purchase

new transit buses, or provide more railcars at a time when ridership—transit ridership is it growing because of high fuel costs.

The retreat of banks and other financial institutions from the municipal bond market has caused an astronomical increase in borrowing costs. In addition to borrowing long term for capital projects, State and local governments issue short-term debt for a variety of reasons, such as the bridge the gap between the payment of regular expenses and the collection of taxes.

In the current environment, local governments who issue short-term debt with interest rates that adjust on a daily or weekly basis saw their borrowing costs increase from less than 2 percent to upward of 9 and 10 percent. Some issuers were completely unable to find buyers for their short-term bonds, which increased borrowing costs even further, and there is no sign of a quick recovery.

In fact, recently, my county, which is AAA rated, has been since 1973, we put out an RFP for a guarantor or a liquidity provider on a pending short-term transportation financing transaction and we received no bids. We have never seen anything like this, and are very concerned with the layers of disruption in our markets and the likelihood of a very long recovery period.

While State and local governments are suffering the effects of the current credit crisis, it is important to note that the general problems in the municipal market are not due to any fundamental problems with the underlying credits or State and local governments themselves. Municipal securities are one of the safest investments available, second only to treasuries, with a default rate of less than one-tenth of one percent and virtually zero for governmental bonds.

The Emergency Economic Stabilization Act passed by Congress last month will provide a significant injection of capital into the market and flexibility for the Treasury and Federal Reserve to begin rebuilding the country's financial system. However, aside from the inclusion of tax exempt money market mutual funds and the Treasury's temporary guarantee program for money market funds, virtually no direct relief or accommodations have been made for issuers of tax exempt bonds. Repeatedly, the Federal Reserve has commented that its commercial paper financing facility would not be extended to include tax exempt commercial paper or other short-term debt instruments, and the Treasury has indicated that the ability to purchase challenged assets under TARP would not be extended to tax exempt securities.

What that means is that while local governments have not contributed to the problems of the credit crisis and continue to serve as the first responders between citizens and Government, we are not receiving help.

What can Congress do that would be helpful to State and local governments? One of the most important action items Congress can undertake in order to stimulate the economy and create jobs would be to ensure that State and local governments have regular access to the capital markets in an economical fashion. One suggestion would be to have the Treasury and Federal Reserve extend their authority under TARP and the CPFF to ensure that the capital markets are open to State and local governments, and, that there are buyers for floundering short-term debt.

Treasury and the Federal Reserve have already exercised broad authority under TARP, and clarifying that they have authority to assist State and local governments would allow them to provide immediate assistance.

Furthermore, the Treasury and Federal Reserve and other Federal Government agencies should create a special task force to address the problems State and local governments are facing and determine ways to assist counties, States, and towns as they try to maintain their footing during this economic downturn.

Congress and the Treasury could also lift burdensome Tax Code requirements on corporations and property and casualty insurers that limit the amount of tax exempt bonds that they can purchase. The current limits and regulations stifle demand and are woefully out of date. Simply raising these limits will allow for these sectors to purchase more tax exempt securities, which would be a win-win for all parties.

To that point, Congressman Neal of this Committee, together with Financial Services Committee Chairman Barney Frank, introduced legislation this summer that would encourage banks to directly hold municipal securities. In 1986, Congress eliminated the deduction banks and financial institutions could take for carrying and purchasing tax exempt bonds. This took nearly all incentives for banks to purchase municipal bonds—took away all the incentives for banks to purchase municipal bonds, which was a significant blow to State and local governments, as banks were a major purchaser of our securities prior to 1986.

The only allowable interest deduction left in place for banks to carry bonds from governments that do not issue more than $10 million per year. H.R. 6333 not only addresses the new purchasing power for banks to purchase all types of municipal securities as was the case prior to 1986, but it also raises the bank qualified debt limit to $35 million. Raising the bank qualified limit will allow smaller governments to directly place their issuances with banks and avoid many of the costly expenses associated with issuing debt in the general market.

Just a few more comments. Other actions you could take, passing legislation H.R. 6308 that calls for the SEC to use its authority and have the rating agencies use comparable ratings for all securities which would better reflect the soundness and significantly lower levels of defaults and municipal securities. Many governments would like to see their ratings upgraded if comparable scales are used, possibly leading to lower debt issuance costs.

Governments will need to refinance debt in the months and years ahead as the markets calm; thus, Congress should grant an additional and targeted and temporary advanced refunding opportunity to governments similar to what was provided in the aftermath of September 11th and Katrina.

Finally, eliminating the AMT penalty that exists on some tax exempt bonds should also be considered similar to the legislation Congress passed earlier this year that eliminated the AMT penalty for housing bonds.

Mr. Chairman and Members of the Committee, thank you again for the opportunity to appear before you, and I look forward to answering any of your questions.

[The prepared statement of Mr. Firestine follows:]

TESTIMONY

Timothy Firestine
Chief Administrative Officer
Montgomery County, Maryland

Committee on Ways and Means
U.S. House of Representatives
Economic Recovery, Job Creation and Investment In America

October 29, 2008

Chairman Rangel, Ranking Member McCrery and Members of the Committee, thank you for the opportunity to appear before you today. I am Timothy Firestine, Chief Administrative Officer of Montgomery County, Maryland. With respect to the critical role state and local governments serve in creating American jobs, this hearing could not come at a better time. The turmoil in the capital markets has had a particularly acute affect on the municipal bond markets and, as a result, state and local governments are facing very real economic hardships.

I have spoken to many government officials around the country and like the other distinguished gentlemen at the table, the current fiscal climate facing local and state governments is the most challenging that I have seen throughout my career. At a time when communities are faced with skyrocketing foreclosures, decreased tax revenues, growing unemployment, and the increased demand for services that comes with these problems, states, counties, cities, and small towns, have been frozen out of the capital markets, for days and weeks at a time, or are faced with borrowing costs that are prohibitively high. Without reasonable access to the capital markets, local governments are struggling to provide ESSENTIAL services to the general public. For example, the inability to access short-term financing is affecting our ability to purchase replacement firetrucks and purchase new transit buses or rail cars at a time when ridership is growing.

Problems in some sectors of the capital markets, like the market for certain mortgage-related securities, are related to a rise in defaults and losses for investors. By contrast, states' and local governments' difficulty accessing capital is due not to an increase in downgrades or defaults but to the global liquidity crisis. The retreat of banks and other financial institutions from the municipal bond market has caused an astronomical increase in borrowing costs. In addition to

borrowing long-term for capital projects, state and local governments issue short-term debt for a variety of reasons, such as to bridge the gap between the payment of regular expenses and the collection of taxes. In the current environment, local governments who issue short-term debt with interest rates that adjust on a daily or weekly basis saw their borrowing costs increase from less than 2% to upwards of 9-10%. Some issuers were completely unable to find buyers for their short-term bonds, which increased borrowing costs even further. And there are no signs of a quick recovery. In fact, recently Montgomery County put out an RFP for a liquidity provider on a pending transportation financing transaction and we received no bids. We have never seen anything like this, and are very concerned with the layers of disruption in our market, and the likelihood of a very long recovery period.

Currently there is approximately $2.7 trillion in outstanding tax-exempt bonds. Last year, 12,600 municipal securities were issued, totaling $487 Billion. $58 Billion of that was in the short-term market, and $429 Billion in the long-term. According to the Regional Bond Dealers Association and based on data from the Federal Reserve, yields on long-term municipal bonds in 2007 averaged around 4.40 percent. By mid-October 2008 that rate had jumped to over 6 percent. A key measure of the health of the municipal bond market is the ratio of yields on long-term municipal bonds to that on Treasury securities. In normal conditions, that ratio is in the neighborhood of 85 percent. In recent weeks it has been as high as 140 percent for some issues. Municipal bond rates have jumped dramatically not because of a decline in the credit quality of municipal borrowers, as a majority of this debt is issued by governments and is backed by the full faith and credit of the entity or a dedicated revenue stream, but because of the disruption of the capital markets. Furthermore, since mid-September nearly $20 billion of new municipal borrowing have had to be postponed because of the challenging market. Capital projects that would have created jobs and provided enhanced services for citizens have been put on hold. Higher interest rates for municipal borrowers have a negative effect on the amount of debt a government can afford, which will dampen rather than stimulate the economy.

While state and local governments are suffering the effects of the current credit crisis, it is important to note that the general problems in the municipal market are NOT due to any fundamental problems with the underlying credits or state and local governments themselves. Municipal securities are one of the safest investments available, second only to Treasuries with a default rate of less than one tenth of one percent – and virtually zero for strictly governmental bonds. A perfect storm of bond insurance downgrades, the subprime mortgage crisis, the resulting global liquidity crisis and lack of confidence in the financial systems, has hit state and local governments, causing significant disruption in our market, with no clear path to a quick recovery.

The *Emergency Economic Stabilization Act* passed by Congress last month will provide a significant injection of capital into the market, and flexibility for the Treasury and Federal Reserve to begin rebuilding the country's financial system. However, aside from the inclusion of tax-exempt money market mutual funds in the Treasury's temporary guaranty program for money market funds, virtually no direct relief or accommodations have been made for issuers of tax-exempt bonds. Repeatedly, the Federal Reserve has commented that its Commercial Paper Financing Facility would NOT be extended to include tax-exempt commercial paper or other

short term debt instruments, and the Treasury has indicated that the ability to purchase 'challenged assets' under TARP would not be extended to tax-exempt securities.

What that means is that while local governments have not contributed to the problems of the credit crisis and continue to serve as the first responders between citizens and government, we are not receiving help, while the institutions and sectors of our economy who recklessly chose to gamble with 'cheap money' are being assisted. Bottom line – even governments like Montgomery County, which is rated AAA, is and will be paying the price due to both the fallout in the capital markets and the federal government's lack of attention to our sector. Thus, it will be more expensive for governments to provide public safety programs, schools, roads, firehouses, libraries, public hospitals, and other services that the public relies upon, or these services will need to be reduced. Furthermore, as many governments are rated A under the current (and broken) credit rating system, those governments will have an even more difficult time than others accessing the market, especially since the bond insurance and credit enhancement markets are damaged, and investors are demanding AA or AAA paper.

In a quest to stimulate the economy, create jobs and help state and local governments, Congress could act to infuse capital in the municipal securities market in order for governments to begin vital infrastructure projects. In Montgomery County alone, we have capital projects ready to go, but because of the uncertainty in the market, some of these projects may come to a halt. An infusion of capital would allow many governments to begin the projects that they had planned.

What can Congress do that would be helpful to state and local governments? Again, the ideas expressed by this panel are all worth noting and must be taken seriously by Congress in order to help local and state governments during the economic downturn. However, one of the most important action items Congress could undertake in order to stimulate the economy and create jobs would be to ensure that state and local governments have regular access to the capital markets in an economical fashion. One suggestion would be to have the Treasury and the Federal Reserve extend their authority under TARP and the CPFF to ensure that the capital markets are open to state and local governments, and that there are buyers for floundering short-term debt. Treasury and the Federal Reserve have already exercised broad authority under TARP, and clarifying that they have authority to assist state and local governments would allow them to provide immediate assistance. Without dictating exactly how to execute this, there are certainly many ways to create an opening in the markets for tax-exempt debt and help those entities who are especially being hurt by this unfortunate market dynamic. Furthermore, the Treasury and Federal Reserve and other federal government agencies should create a special task force to address the problems state and local governments are facing and determine ways to assist counties, towns and states as they try to maintain their footing during this economic downturn.

Congress and the Treasury could also act to lift burdensome tax code requirements on corporations and property and casualty insurers that limit the amount of tax-exempt bonds that they can purchase. The current limits and regulations stifle demand and are woefully out of date. Simply raising these limits would allow for these sectors to purchase more tax-exempt securities, which would be a win-win for all parties. To that point, Congressman Neal of this Committee, together with Financial Services Committee Chairman Barney Frank, introduced legislation this

summer that would encourage banks to directly hold municipal securities. In 1986 Congress eliminated the deduction banks and financial institutions could take for carrying and purchasing tax-exempt bonds. This took away nearly all incentives for banks to purchase municipal bonds, which was a significant blow to state and local governments, as banks were a major purchaser of our securities prior to 1986. The only allowable interest deduction left in place is for banks to carry bonds from governments that do not issue more than $10 million per year. H.R. 6333 not only addresses the new purchasing power for banks to purchase all types municipal securities – as was the case prior to 1986, but it also raises the bank qualified debt limit to $30 million. Raising the bank qualified limit will allow smaller governments to directly place their issuances with banks, and avoid many of the costly expenses associated with issuing debt in the general market.

Other actions Congress could take that would help the tax-exempt securities market and state and local governments, include:

- Passing legislation (H.R. 6308) that calls for the SEC to use its authority and have the rating agencies use comparable ratings for all securities, which will better reflect the soundness – and significantly lower level of defaults – of municipal securities. Many governments would likely see their ratings upgraded if comparable scales are used, possibly leading to lower debt issuance costs.

- Governments will need to refinance debt in the months and years ahead as the markets calm, thus Congress should grant an additional – and targeted and temporary – advanced refunding opportunity to governments, similar to what was provided in the aftermath of September 11 and Katrina.

- Eliminating the AMT penalty that exists on some tax-exempt bonds, should also be considered, similar to the legislation Congress passed earlier this year that eliminated the AMT penalty for housing bonds.

Providing direct funding and eliminating unfunded mandates are specific ways Congress could act to help state and local governments. But, access to the capital markets, should also be an integral part of assistance, and one that would directly create new jobs and stimulate the economy. I hope that the Committee will take this matter into consideration as it creates a new stimulus plan this year – and other legislative efforts in the next Congress. Furthermore, it is essential for the federal government to partner with state and local governments on a variety of issues facing our country, and specifically how to recover from these challenging economic times.

Mr. Chairman and members of the Committee, thank you again for the opportunity to appear before you and I look forward to answering any of your questions.

Chairman RANGEL. Thank you so much for your testimony.

The Chair now would like to present the president of the American Society of Civil Engineers, David Mongan.

STATEMENT OF DAVID MONGAN, PRESIDENT, AMERICAN SOCIETY OF CIVIL ENGINEERS

Mr. MONGAN. Good morning, Mr. Chairman, and Members of the Committee, I am David Mongan, president of the American Society of Civil Engineers.

For a variety of reasons, the Nation faces severe economic hardship. Many economists believe that the Nation is in recession. ASE

would like to go on the record as supporting efforts to pass legislation to promote national economic recovery and job creation by increasing the Nation's investment in infrastructure. We recommend that at least $40.7 billion of infrastructure investment be a part of any economic recovery legislation, money that can be put to work almost immediately.

Such an action would serve the dual purpose of reviving the Nation's economy by job creation and repairing the Nation's crumbling infrastructure. Spending on new roads and other public works projects would create jobs and provide a more lasting boost to the economic engine that investment provides in infrastructure, more so than another round of rebate checks. These jobs could be created quickly as Federal, State, and local governments have numerous infrastructure projects ready to go. Projects suspended due to a lack of funding could quickly be restarted.

The Department of Transportation reported that every $1 billion of highway investment supports over 34,000 jobs. It is important to note that the total number of jobs supported by highway investment, including construction-related jobs and independent industries rose from 1.56 million in 1996 to over 2.1 million in 2007, as a result of increased highway investments. These numbers hold true across other categories of infrastructure as well. These investments produce different types of jobs, direct jobs or construction jobs, indirect jobs or industries that support the building of infrastructure, asphalt, concrete, steel, engineers, designers. Finally, there are the induced jobs, the stores, gas stations, restaurants that follow the infrastructure.

Three years ago, the American Society of Civil Engineers 2004 report card for America's infrastructure gave an overall grade of D to 15 critical areas of infrastructure. We said that it would take an estimated $1.6 trillion to upgrade the existing infrastructure. Little has changed in those 3 years since we handed out that dismal grade. The Nation continues to underinvest in infrastructure. Federal spending for infrastructure as a share of all Federal spending has declined steadily over the past 30 years. The dangers of a nation's crumbling infrastructure to its economic health are as great as those posed by the current financial crisis.

Infrastructure is the foundation upon which our economy stands. Without a modern functioning infrastructure system, economic recovery will not be possible. Our Nation's economic health, competitive advantage, and quality of life are at risk.

In my written testimony, we lay out the well documented needs of the Nation's highways, bridges, and transportation systems. Recent congressional and DOT studies concluded that we need to invest at least $225 billion annually in capital improvements to upgrade our existing system to a good State of repair. We are spending less than 40 percent of this amount annually. We recommend $18 billion for necessary reconstruction projects for the Nation's highway systems and $5.4 billion for transit projects.

The Environmental Protection Agency reported that we must invest at least $204 billion just to prevent combined sewer overflows and sanitary sewer overflows. Congress should provide $6.5 billion for the repair and construction of these systems.

Our corps of engineers operates and maintains 240 locks at 95 locations, along 12,000 miles of inland waterway. The average lock on these waterways is 53 years old, past the 50-year service life. We recommend spending $7 billion in new funding to help reduce the backlog of projects.

The House Transportation Committee identified $17.5 billion a year in capital needs. We recommend $600 million for the airport improvement program. Our Nation's drinking water faces an annual shortfall of $11 billion to replace aging systems and comply with Federal water regulations. We recommend at least $1 billion in new financial investments. We estimated that $10 billion is needed by 2009 to address all the critical non-Federal dams, dams which pose a direct risk to human life if they fail. We recommend $200 million for the dams in greatest need.

Too many American children go to schools in overcrowded buildings, with leaky roofs, faulty electrical systems, and outdated technology, all of which compromise their ability to develop the educational skills necessary for the workforce in the 21st century. We recommend at least $2 billion for school construction.

We must also consider other solutions, such as a national infrastructure bank, a Federal multiyear capital budget. Public-private partnerships should be considered as one of the means of financing infrastructure improvement. Other options should be considered. User fees and trust funds, impact fees, toll revenues, mileage-based user fees, revenue bonds, and tax-exempt financing. All of these must be considered.

I would like to thank you for the opportunity for ASE to share our views. We look forward to working with the Committee on Ways and Means in efforts to address these serious concerns, and would be happy to answer any questions. Thank you.

Chairman RANGEL. Thank you, President Mongan.

[The prepared statement of Mr. Mongan follows:]

Statement of David Mongan, President, American Society of Civil Engineers

Good Morning Mr. Chairman and Members of the Committee. I am David Mongan and I am pleased to testify on the issues of economic recovery, job creation and investment in America. I am here today in my capacity as the President of the American Society of Civil Engineers (ASCE).

ASCE was founded in 1852 and is the country's oldest national civil engineering organization. It represents more than 146,000 civil engineers individually in private practice, Government, industry, and academia who are dedicated to the advancement of the science and profession of civil engineering. ASCE is a non-profit educational and professional society organized under Part 1.501(c)(3) of the Internal Revenue Code.

In my professional life, I am President of Whitney, Bailey, Cox & Magnani, LLC, in Baltimore, MD., an architectural/engineering/construction firm providing professional services in highway and bridge engineering, architectural design of institutional, commercial and industrial buildings, transportation planning, environmental engineering, land development and site engineering, landscape architecture, design of waterfront and marine-related facilities, construction inspection, and field surveying.

II. NEED FOR ECONOMIC RECOVERY

For a variety of reasons well known to this Committee, the nation faces severe economic hardship in the coming months. Many economists already believe that the nation is in a recession. For example, the Congressional Budget Office (CBO) predicts that the country's real gross domestic product will decline noticeably in 2009. The CBO estimates that unemployment will exceed six percent next year nationally;

in many parts of the country the job loss is predicted to be far steeper.This is grim news. It is clear that Congress and the President will have to work quickly to soften the worst of the slowdown. Just last week, Ben Bernanke, Chairman of the Federal Reserve Board, testified before the House Budget Committee that further economic recovery legislation probably is required.

"With the [economic] outlook exceptionally uncertain, the optimal timing, scale, and composition of any fiscal package is unclear," Mr. Bernanke said. "With the economy likely to be weak for several quarters, and with some risk of a protracted slowdown, consideration of a fiscal package by the Congress at this juncture seems appropriate. Any fiscal package should be structured so that its peak effects on aggregate spending and economic activity are felt when they are most needed, namely, during the period in which economic activity would otherwise be expected to be weak." ASCE concurs in this judgment. We support efforts to pass legislation to promote a national economic recovery in a time of financial distress.

Such an action would serve the dual purpose of reviving the nation's economy and the nation's infrastructure. Currently, much is being written about the relationship between infrastructure investment and job creation. In April of this year, the U.S. Department of Transportation (DOT) reported every $1 billion of Federal highway investment (including the accompanying state match) supports 34,779 jobs. It is important to note the total number of jobs supported by highway investment-including construction-related jobs and dependent industries—rose about 12.5 percent from 1.65 million jobs in 1996 to 2.13 million jobs in 2007 as a result of increased highway investment from all levels of Government.

Additionally, these jobs would be created quickly as Federal, state and local governments have numerous projects in a number of infrastructure categories ready to go. In the areas discussed later in this testimony, a large number of infrastructure improvement projects have been identified and lack only the funding to proceed.

These investments produce different types of jobs—direct, indirect and induced. Direct jobs are construction jobs. Indirect jobs are created in industries that support the building of infrastructure—asphalt, concrete, steel, engineers, and designers. Finally, there are the induced jobs, the stores, gas stations, and restaurants that follow once the infrastructure is built.

III. NEED FOR INFRASTRUCTURE INVESTMENTS

As an initial matter, we firmly believe that any economic recovery legislation should contain significant new funding for many of the nation's aging infrastructure systems, which are the indispensable lifelines of our economy. The nation's surface transportation systems, waste-water treatment facilities, waterways, airports and schools are all in need of repair and updates. **We recommend $40.7 billion in infrastructure spending as part of any economic recovery legislation.**

Three years ago, ASCE's 2004 *Report Card for America's Infrastructure* gave an overall grade of "D" to 15 critical infrastructure systems. We said then that it would take an estimated $1.6 trillion to upgrade the existing infrastructure. Little has changed in the three years since we handed out that dismal grade, and establishing a long-term plan to finance the development and maintenance of our infrastructure remains a pressing national priority. This nation continues to under-invest in infrastructure at the national level. Earlier this year, the CBO reported that the total of all Federal spending for infrastructure as a share of all Federal spending has steadily declined over the last 30 years.

The dangers of the nation's crumbling infrastructure to our economic health are as great as those posed by the current financial crisis. The nation's infrastructure is the foundation on which our economy stands. Without a modern, functioning system of highways, bridges, mass-transit, drinking-water systems, sewage systems, levees, dams, school and other elements of the infrastructure, economic recovery will be impossible. Simply put, without proper investment and attention to these networks, our nation's economic health, competitive advantage, and quality of life are at risk. Below we cite only a few of the more immediate infrastructure investment needs.

A. Surface Transportation System

The CBO recently estimated that America's investment in surface transportation infrastructure by all levels of government in 2004 was $191 billion (in 2006 dollars), or 1.5 percent of gross domestic product (GDP).

The Federal Government provided about one-quarter of those funds, and states and localities provided the rest. Those funds were split about equally between spending for capital projects and operation and maintenance. Most of that spending was for roads. In comparison, the Chinese government invested an estimated 2.5

percent of GDP in highway construction in 2001, according to the American Road and Transportation Builders Association.

The National Surface Transportation Policy and Revenue Study Commission concluded this year: "We need to invest at least $225 billion annually from all sources for the next 50 years to upgrade our existing system to a state of good repair and create a more advanced surface transportation system to sustain and ensure strong economic growth for our families. We are spending less than 40 percent of this amount today."

In 2007, the Department of Transportation (DOT) reported that the cost to maintain the nation's highways would require an annual investment of $78.8 billion in 2004 dollars by all levels of government. Even at this level, however, congestion would worsen, according to the report, because it would finance too little new highway capacity. The U.S. DOT report calculates an annual investment of $89.7 billion in 2004 dollars would be required to achieve this policy goal. Most of the additional $11 billion investment each year would be for new capacity.

The DOT report, however, may understate the need. The American Road and Transportation Builders Association believes that Federal highway funding in the next surface transportation bill would have to start at $54.5 billion in FY 2010 and grow to $61.5 billion by FY 2015 to provide the Federal share of the annual highway investment needed to maintain both physical conditions and operating performance.

Additionally, in February, the House Transportation and Infrastructure Committee estimated that there are $15.8 billion in capital needs to maintain the nation's public transit systems in their present condition. The need increases to $21.8 billion if funds are authorized for transit improvements.

B. Wastewater Treatment Systems

In January, 2008 the Environmental Protection Agency (EPA) reported that we must invest at least $202.5 billion just to prevent combined sewer overflows and sanitary sewer overflows at the nation's 16,000 publicly owned wastewater treatment works.

In 2002, the EPA estimated that the projected gap in what is spent on sewage treatment systems and what is needed was between $331 billion and $450 billion by 2019.

C. Waterways Infrastructure

The U.S. Army Corps of Engineers operates and maintains 240 locks at 195 locations along 12,000 miles of inland waterways. The average lock on these waterways is 53 years old—past the 50-year service life.

The average cost to replace a lock is $600 million, if we were to replace just half of the 240 locks that are known to be beyond their design life, we would need to spend $72 billion. To rehabilitate the other half of the system would cost another $30 billion. The total figure is more than $100 billion just to bring our antiquated waterways up to modern required conditions.

At the annual rate of spending of $180 million in the Administration's budget proposal for FY 2009, it would take the Corps 20 years simply to fund all the inland waterways projects authorized in the Water Resources Development Act of 2007 (WRDA).

D. Aviation

In February of the 2008, the House Transportation Committee identified $17.5 billion a year in airport capital needs. Funding is badly needed if we are to avoid costly delays in the future.

E. Drinking-Water

The nation's drinking-water treatment systems face an *annual* shortfall of **$11 billion** to replace aging facilities that are near the end of their useful life and to comply with existing and future Federal water regulations. The shortfall does not account for any growth in the demand for drinking-water over the next 20 years.

F. Dams

In 2004, we estimated that **$10.1 billion is needed by 2019** to address all critical non-Federal dams, dams which pose a direct risk to human life should they fail.

G. Schools

The ASCE 2004 *Report Card for America's Infrastructure* gave the nation's schools a D. The last detailed report from the Department of Education stated in 1999 that $127 billion a year was needed to bring facilities into good condition. Too many of America's children go to school in overcrowded buildings with leaky roofs, faulty electrical systems, and outdated technology, all of which compromise their ability to

achieve, succeed, and develop the educational skills necessary for the workforce of the 21st Century.

IV. INVESTMENT PROPOSALS

A. Surface Transportation System

Recovery legislation should provide $18 billion for necessary reconstruction projects for the nation's highway systems. A number of state departments of transportation polled by the American Association of State Highway Officials earlier this year identified more than 3,000 highway projects totaling approximately $18 billion that could be implemented 30 to 90 days after enactment of Federal economic recovery legislation.

There are **$4.6 billion** worth of transit projects ready to begin construction today, according to the American Public Transit Association (APTA). Congress also has authorized another **$800 million** in projects to avoid immediate service cuts throughout the country. **We recommend that Congress provide $5.4 billion for transit projects as part of the economic recovery legislation.**

B. Wastewater Systems

Congress should authorize $6.5 billion for the repair and construction of publicly owned sewage treatment works (POTWs). There are between $3 billion and $10 billion worth of upgrades for publicly owned treatment works now on the drawing boards. Construction could begin within weeks if Congress provides the required assistance. Under the program that passed the House in September (H.R. 7110), the EPA would have had the discretion to use only one and a half percent of the $6.5 billion in the bill (approximately $100 million) in the form of grants. Any new funds should be distributed primarily in the form of grants or negative-interest loans for ready-to-go POTW projects based on the local community's economic situation.

C. Waterways Infrastructure Repairs Pending

The U.S. Army Corps of Engineers has an enormous amount of infrastructure work that needs tending. **We estimate that the Corps requires approximately $7 billion in new funding to:**

- Substantially reduce the backlog of critical maintenance and repairs at an estimated 360 multiple purpose flood-control, hydropower, recreation, water-supply, and navigation projects and upgrade recreation facilities.
- Improve the safety of several high-risk dams.
- Restore and improve hydropower plants to meet an industry standard 98 percent plant availability.
- Recapitalize the oldest and most at-risk projects on the nation's 12,000 miles of inland waterways.
- Fully dredge to their authorized depth the nation's 296 highest use, deep-draft commercial ports. These ports manage approximately 2.6 billion tons or 94 percent of the nation's commercial import and export commerce.
- Fully dredge inland waterways to their authorized depth and width to ensure that the approximately 750 million tons of commercial goods that flow through these works annually reach their intended markets. Among the industries most affected by the aging waterways are agricultural exports and all bulk commodities, including iron ore for domestic steel plants, coal for power plants, and fertilizer as well as bulk road construction materials and others.
- Repair and upgrade critical coastal protection projects that defend key population centers from natural disasters.

D. Aviation

Congress should authorize $600 million for the Airport Improvement Program. The Federal Aviation Administration has reported it could use that amount for "ready-to-go" projects. The types of projects include safety and security projects such as runway improvements, runway lighting, signage improvements, security enhancements, etc.

E. Drinking-Water

We recommend that Congress provide **$1 billion** in new financial aid to the nation's drinking-water treatment systems to begin critically needed upgrades.

F. Dams

We recommend that the economic recovery package contain **$200 million** for the dams in greatest need of repair.

G. Needed School Repairs

Congress should consider a $2 billion emergency public school renovation and repair program to help states meet the school facility needs of local communities by providing resources to repair, renovate, and modernize America's schools. Equally important, its enactment will stimulate the creation of thousands of new jobs in construction-related services. It is estimated that $2 billion for this purpose would be sufficient to create an estimated 32,300 jobs.

While there are many other worthwhile infrastructure programs that concern us deeply, ASCE believes that the list above is a badly needed beginning to the problem of renewing our economy and preserving public health, safety, and welfare through a concentrated Federal reinvestment in America's failing infrastructure.

V. LONG TERM SOLUTIONS TO THE INFRASTRUCTURE CRISIS

A. National Infrastructure Bank

The National Infrastructure Bank Act of 2007 (S. 1926) would begin to address a problem that is rapidly approaching crisis levels—the physical deterioration of the nation's major public works systems. It would prime the pump to begin meeting the staggering investment needs for our infrastructure.

Briefly, the legislation would establish a National Infrastructure Bank. The Bank would be an independent body designed to evaluate and finance "capacity-building" infrastructure projects of substantial regional and national significance.

Eligible infrastructure projects would be limited to publicly owned mass transit systems, public housing, roads, bridges, drinking-water systems, and sewage-treatment systems.

Sponsors—states, cities, counties, tribes, or an infrastructure agency such as a transit or wastewater treatment agency, or a consortium of these entities—would propose infrastructure projects for the bank to fund. To be eligible, the projects would need a minimum Federal investment of $75 million.

We believe a National Infrastructure Bank is essential to beginning the long-term effort to maintain or replace economically vital infrastructure systems across the nation. This nation cannot afford to wait much longer to invest significant sums in its infrastructure.

B. Federal Capital Budget

ASCE supports the establishment of a Federal multi-year capital budget for public works infrastructure construction and rehabilitation. This budget would be similar to those used by state and local governments. The capital budget must be separated from non-capital Federal expenditures. The current budgeting process at the Federal Government level has a short-term, one- to two-year, focus. Infrastructure, by its very nature, is a long-term investment.

The current Federal budget process does not differentiate between expenditures for current consumption and long-term assets. This causes major inefficiencies in the planning, design and construction process for long-term investments. A Federal capital budget could create a mechanism to help reduce the constant conflict between short-term and long-term needs. It also would help increase public awareness of the problems and needs facing this country's physical infrastructure.

Without long-term financial assurance, the ability of the Federal, state, and local governments to do effective infrastructure investment planning is constrained severely.

C. Public-Private Partnerships

We need to say a few words about the use of public-private partnerships (PPPs) in providing financial assistance to U.S. infrastructure. PPPs are contractual relationships between public and private sectors in infrastructure development. They have been defined as "a cooperative venture between the public and private sectors, built on the expertise of each partner that best meets clearly defined public needs through the appropriate allocation of resources, risks and rewards."

ASCE recognizes PPPs as one of many methods of financing infrastructure improvements. ASCE supports the use of PPPs only when the public interest is protected and the following criteria are met:

- Any public revenue derived from PPPs must be dedicated exclusively to comparable infrastructure facilities in the state or locality where the project is based.
- PPP contracts must include performance criteria that address long-term viability, life-cycle costs, and residual value.
- Transparency must be a key element in all aspects of contract development, including all terms and conditions in the contract. There should be public par-

ticipation and compliance with all applicable planning and design standards, and environmental requirements.
- The selection of professional engineers as consultants and subcontractors by Federal, state, and local agencies should be based solely on the qualifications of the firm.

ASCE supports the development of criteria by governing agencies to protect the public interest. Examples of criteria include input from affected individuals and communities, effectiveness, accountability, transparency, equity, public access, consumer rights, safety and security, sustainability, long-term ownership, and reasonable rate of return.

D. Other Financing Options

In addition, ASCE supports the following financing options.

- User fees (such as a motor fuel sales tax) indexed to the Consumer Price Index.
- Appropriations from general treasury funds, issuance of revenue bonds, and tax-exempt financing at state and local levels.
- Trust funds or alternative reliable funding sources established at the local, state and regional levels, including use of sales tax, impact fees, vehicle registration fees, toll revenues, and mileage based user fees be developed to augment allocations from Federal trust funds, general treasuries funds and bonds.
- State infrastructure banks, bonding and other innovative financing mechanisms as appropriate for the leveraging of available transportation program dollars, but not in excess of, or as a means to supplant user fee increases.
- The use of budgetary firewalls to eliminate the diversion of user revenues for non-infrastructure purposes.

VI. 3% Government Withholding

Another burden that will soon be placed on the nation's infrastructure will go into effect in 2011, when a Federal mandate that Federal, state, and local governments withhold 3 percent from payments for goods and services activates. Section 511 of the Tax Increase Prevention and Reconciliation Act (PL 109–222) will add millions to the cost of the nation's infrastructure as engineering firms, construction companies and governments at all levels struggle to absorb the added cost of doing business. Compliance will reduce cash assets that are used to pay company employees and other day-to-day expenses. Many construction projects profits are not realized until the end of a multiyear contract. Despite this, contractors will have had three percent withheld throughout the life of the contract. We strongly urge Congress to repeal Section 511 before it goes in to effect in 2011.

VII. CONCLUSIONS

Thank you for the opportunity for the American Society of Civil Engineers to share our views. We look forward to working with the Ways and Means Committee in efforts to address these serious concerns. I would be happy to answer any questions you may have.

Chairman RANGEL. Now we will have President Van Roekel, who is representing the National Education Association, to testify.

STATEMENT OF DENNIS VAN ROEKEL, PRESIDENT, NATIONAL EDUCATION ASSOCIATION

Mr. VAN ROEKEL. Good morning, Chairman Rangel and Ranking Member McCrery, and Members of the Committee. Thank you for the opportunity to be here. My name is Dennis Van Roekel; I am the new president of the National Education Association.

Today, I would like to focus on the impact of the Nation's economic crisis on education; specifically, the major infrastructure needs of our Nation's public schools, and the positive impact that investments in school construction can have on local economies.

Many of NEA's 3.2 million members have already seen firsthand how our Nation's deteriorating economy is affecting public schools and the 55 million children who attend them. We are seeing budget cuts and staff layoffs. Detroit has laid off 700 teachers; Los Angeles has laid off 500 administrators; Miami-Dade County in Florida has laid off hundreds of schools psychologists, maintenance workers, and custodians.

We are also seeing the stress on families who are struggling to get by. A record number of students are homeless or poor enough to qualify for free or reduced school meals. Schools report a steady stream of anxious parents, often in tears, pleading for free meals for their children because they just don't have the 70 cents per day for reduced priced meals. We are seeing more students who need donated backpacks and school supplies because their families cannot afford to provide them.

Congress must take immediate action to stimulate our economy. NEA believes that any stimulus plan must include investing in school infrastructure. The average school in America was built almost 50 years ago. Public schools need to spend an estimated $17 billion a year just to maintain their existing structures and grounds. Many schools are falling behind in keeping up.

Every day across this Nation, millions of children attend schools that are not fit for children. Many schools hold classes in temporary trailers, converted closets, and even in hallways.

The quality of school facilities varies dramatically and inequitably. School districts with higher proportion of low income children have less funding for construction, less funding for renovation, repairs, and maintenance than their counterpart wealthier districts. So, their students suffer. Don't let anyone tell you that the physical condition of a building doesn't affect learning, because we know it does. That is why I would like to thank you, Mr. Chairman, for your leadership on this issue, particularly for creating qualified zone academy bonds and sponsoring the America's Better Classroom Act, the ABC Act. NEA is proud to support the ABC Act.

In providing for the issuance of more than $25 billion in bonds for school modernization projects, your bill would save millions of dollars in interest payments for States and districts, and help communities stretch limited resources to pay for additional school facility projects as well as essential education programs. We are pleased that your bill has such strong bipartisan support with over 220 cosponsors, and we look forward to working with you toward its passage next year.

In the short term, however, we believe that school infrastructure funding must be part of any Federal stimulus package. NEA's analysis suggests that investing $250 billion over a 5-year period for repair and maintenance of school facilities would support 50,000 jobs per year.

In the last two statewide bond cycles in California, $10 billion in school construction expenditures created more than 175,000 jobs. But in addition to creating jobs, investing in school infrastructure has a positive effect on residential property values. But the most important reason to invest in our schools is because of our children.

When we build or modernize schools, we are not just buying bricks and mortar, we are investing in children's future.

Today, one-fourth of our students are in schools that are considered substandard or even unhealthy. We must upgrade or replace these old schools to improve air quality and increase the amount of natural light. Following green principles can not only make our children healthier and help them learn better, it can also save as much as $20 billion in energy costs over the next 10 years.

Mr. Chairman, my written testimony includes more details about some of the points I have mentioned, but today I want to thank you for the opportunity to address the Committee, and I would be happy to answer any questions. Thank you, sir.

[The prepared statement of Mr. Van Roekel follows:]

Statement of Dennis Van Roekel, President, National Education Association

Chairman Rangel and Members of the Committee:

Thank you for the opportunity to speak with you today about the infrastructure challenges facing our nation's schools, and the critical link between infrastructure investments and economic stimulus.

My name is Dennis Van Roekel and I am honored to be here today as the new President of the National Education Association, representing the views of 3.2 million educators working tirelessly every day in public schools across the country to ensure every student the opportunity to excel.

Today, I would like to focus on the impact of the economic crisis on schools and the students they serve, the significant infrastructure needs facing our nation's public schools, and the real impact investments in school construction can have on local economies.

Impact of the Economic Crisis on Schools

As many as 27 states are predicting deficits for FY09 of at least $25 billion. As a result, a growing number of states have made or are considering harmful cuts in education and other vital services. Some states have already been forced to layoff school staff. For example, Detroit has laid off 700 teachers; Los Angeles has laid off 500 administrators; and Miami-Dade County has laid off hundreds of school psychologists, maintenance workers, and custodians. Rising fuel costs are forcing school districts to take drastic measures, including trimming or eliminating bus service, cutting all field trips, and shortening the school week.

The economic crisis is not only threatening education funding, but is impacting the daily lives of our students and their families:

- With the frightening rise in mortgage foreclosures, schools are seeing record numbers of students who are homeless or poor enough to qualify for free school meals.
- Many districts are being forced to raise prices for school meals due to escalating food costs. Schools report a steady stream of anxious parents, often in tears, pleading for free meals for their children because they do not have 70 cents a day for reduced price meals.
- Schools also report record numbers of students needing donated backpacks and school supplies, because their families cannot afford to buy them.

Clearly, Congress needs to take immediate action to help alleviate the pressure on state budgets and working families. We have urged Congress to pass a stimulus package with state fiscal relief, a temporary increase in the Federal Medicaid match, extensions of unemployment benefits, and increases in nutrition assistance.

School Infrastructure Needs

Our nation's public schools are in desperate need of repair and renovation. Across the country, children go to school in overcrowded buildings with leaky roofs, faulty electrical systems, and outdated technology. Some schools hold classes in "temporary" trailers, converted closets, and hallways. In 2003, the Modular Building Institute estimated that more than 220,000 portable classrooms were in use by public school systems in the United States. Too many students attend schools that lack the basic electrical and telecommunications equipment necessary for connection to the

Internet or the use of new education technologies. In 2004, the American Society of Civil Engineers gave public school infrastructure a grade of "D."

This is not a new problem. NEA has been working on the school modernization issue for over a decade. And, the problem has only been exacerbated since Congress first looked at the issue in the 1990s.

The demands of today's educational programs and services are overwhelming the structural capacity of the average school in America, built almost fifty years ago. According to a 1999 study completed by the National Center for Education Statistics (NCES), the average public school building in the United States was 42 years old. The mean age for schools in this study ranged from 46 years in the Northeast and central states to 37 years in the Southeast. About one-fourth (28 percent) of all public schools were built before 1950, and 45 percent of all public schools were built between 1950 and 1969. Seventeen percent of public schools were built between 1970 and 1984, and 10 percent were built after 1985.

Public K–12 schools throughout the nation need to spend an estimated $17 billion a year just to maintain existing structures and grounds. And there is evidence that many schools are falling behind. According to an NCES survey in 1999, 76 percent of all schools reported that they had deferred maintenance of their buildings and needed additional funding to bring them up to standard. The total deferred maintenance exceeded $100 billion, an estimate in line with earlier findings by the Government Accounting Office (GAO). In New York City alone, officials have identified $1.7 billion of deferred maintenance projects on 800 city school buildings. NEA's May 2000 report "Modernizing Our Schools: What Will It Cost?" estimated the nationwide cost of repairing, renovating, or building school facilities and installing modern educational technology at $322 billion—nearly three times previous Government estimates.

Historically, local tax revenues have been the dominant source of funds for building and renovating public school facilities, with support from state governments and small Federal initiatives, combined, supplying less than a quarter of all facilities funds nationwide. Usually, state support has been based on a politically determined amount of available money—without regard to educational needs or construction costs—and the outcome of a political struggle over how to distribute that money among a state's school districts. As a result, the quality of school facilities varies dramatically, and often inequitably, based on differences between communities' local ability to pay and the balance of political power in the state.

Federal investment in school construction is critical to meeting infrastructure needs and, in particular, to reducing the disparity in overall school facility quality between low-income and high-income school districts. Schools in districts with a higher proportion of low-income children have less funding for new construction, renovations, and major maintenance and repairs than schools with more affluent student populations. According to the Economic Policy Institute (EPI), between 1995 and 2004, schools in districts with more than 75 percent of students eligible for free or reduced price lunch spent an average of $4,800 per student on school construction. In contrast, schools in districts where less than 10 percent of students qualified for free or reduced price lunch spent an average of $9,361 per student on school construction.

Economic Impact of School Infrastructure Investments

In a time of economic weakness, public investments in the nation's infrastructure can provide short-term stimulus and build the foundation for long-term economic growth. According to EPI, Federal investments in infrastructure, including school buildings, are required to address critical needs, create jobs, and spur the economy. In short, investing in school infrastructure acts as a job creation program in the struggling construction industry—putting Americans to work building or repairing school facilities. This work puts money in the pockets of those workers immediately, and it can lead to higher productivity in the future.

According to EPI, investments for the purpose of short-term stimulus can emphasize repairs in which the work can start and be completed quickly. The economic activity and jobs directly created by this spending have a beneficial ripple effect as, for instance, construction firms purchase materials and employees spend their salaries. NEA's analysis suggests that using $20 billion spread over a five-year period for maintenance and repair on school facilities would support 50,000 jobs per year.

In recent years, investments in school construction across the country have been shown to have a significant multiplier effect on local economies. For example:

- In July of this year, researchers at Rutgers University estimated the economic impacts of planned school construction projects in New Jersey for the next five years. Their findings: each $1 million of spending on school construction will generate: 8.7 job years (one job-year is equal to one full-time job last-

ing one year); $469,000 in income; more than $13,000 and $16,000 in state and local tax revenue, respectively; and $611,000 in gross state product. Over the next five-years, the state expects to spend $5.4 billion on school construction, which will generate almost 9,400 full-time jobs annually; $2.5 billion in income; $3.3 billion in GDP; $369 million in Federal tax revenues; $72 million in state tax revenues; and $87 million in local tax revenues. This includes both the direct economic effects and the indirect (multiplier) effects of the subsequent economic activity.

- In the last two statewide bond cycles in California, $10 billion in school construction expenditures created more than 175,000 jobs and generated twice the economic activity ($20 billion) as the initial investment.
- According to a 2007 analysis by West Virginia University, the School Building Authority of West Virginia spent more than $500 million on school construction projects between 2003 and 2007. The result—$1.09 billion in business volume, 9,620 job-years (an average of 1,924 jobs each year), $281 million in employee compensation, and $16 million in state tax revenues.
- A study of the economic impact of Boston's eight research universities determined that the "multiplier effect" of the eight universities' spending within the region on payroll, purchasing, and construction generated an additional $3.9 billion in regional economic output, $1.6 billion in wages, and more than 37,000 full-time-equivalent jobs in 2000.
- A report released last year determined that 20 universities in middle Tennessee directly injected $249 million in construction and equipment-related expenditures in 2004 in the middle Tennessee region. Taking into account indirect and induced impacts, the capital expenditures of the 20 universities generated a total of $456 million in business revenue, $183 million in personal income, 4,722 jobs, and $13.6 million in state and local taxes.

In addition to job creation, investment in school infrastructure has been shown to have a direct and positive impact on residential property values. New or well-maintained school facilities can help revitalize distressed neighborhoods. School quality helps determine localities' quality of life and can affect the ability of an area to attract businesses and workers. For example, in Oklahoma City, the renovation and reopening of Cleveland Elementary School increased property values by 30 to 100 percent.

Impact of School Infrastructure Investments on Student Learning

In addition to stimulating local economies, it is clear that school modernization enhances student learning in many ways. For example, it:

- Addresses concerns for overcrowding.
- Allows educators to plan an environment that is more conducive to curriculum integration, engaged learning, and technology integration.
- Builds the infrastructure to support and meet the demands of modern technology.
- Addresses safety and environmental concerns brought about from aging structures which used unsafe materials, such as asbestos.
- Improves student and staff morale by establishing learning communities instead of isolated classrooms in a long hallway.
- Enhances the inclusion of new cutting edge technology.
- Adds to property values, thereby improving the community.
- Enhances the school as a community center.
- Improves the offering of extracurricular activities for students, giving them a constructive avenue for learning through teaming and physical accomplishments.
- Improves the environment for offering after-school learning activities to meet the needs of the community, such as tutoring services, clubs, etc.

A growing body of research supports the relationship between the condition of a school's facilities and student achievement:

- A recent study (*The Walls Speak: The Interplay of Quality Facilities, School Climate, and Student Achievement*, 2006) found a positive correlation between a school facility's condition, school climate, and student achievement.
- Another study (*The Impact of School Environments*, 2004) analyzing 25 years of research found the majority supporting the relationship between school quality and student performance. Conversely, a study of Houston schools (*The Wise Man Builds His House Upon the Rock*, 2004) related poor school conditions to poor school performance.

- A 1996 study by the Virginia Polytechnic Institute and State University found a significant difference in academic achievement between students in substandard classrooms and demographically similar children in a first-class learning environment.
- Similarly, a 1995 study of North Dakota high schools found a positive correlation between school conditions and student achievement and behavior. A 1995 study of overcrowded schools in New York City found students in such schools scored significantly lower on both mathematics and reading exams than did similar students in underutilized schools.

School Modernization and "Green Schools"

Modernizing our nation's schools is also critical to ensure students and educators a healthy environment. Twenty percent of the American population spends their days in school buildings, and one quarter of these students and school staff attend schools that are considered substandard or dangerous to occupant health.

Every child and school staff person has the right to a school with healthy air to breath and conditions that foster learning. "Green schools" create a safe and healthy environment that is conducive to teaching and learning while saving energy, resources, and money.

Through long-term and careful planning with students, teachers, administrators, and members of all community constituencies, high quality, community—centered educational environments:

- Promote a sense of safety and security
- Build connections between members of the school and the community
- Instill a sense of pride
- Engage students in learning
- Encourage strong parental involvement
- Foster environmental stewardship.

Studies demonstrate that green schools directly benefit student health and performance. These studies show that:

- Daylight improves performance
- Good indoor air quality improves health
- Acoustics increase learning potential
- Mold prevention decreases asthma incidences (asthma is the number one cause of school absenteeism due to a chronic illness)
- Comfortable indoor temperatures increase occupant satisfaction.

If all new school construction and renovation used the "green" approach starting today, energy savings alone would total $20 billion over the next 10 years. On average, green buildings expect an 11 percent decrease in operating costs, a 6 percent increase in building value, and a 14 percent decrease in energy use. New green schools can expect to save 20–40 percent in annual utility costs; while renovated green schools will save 20–30 percent.

Perhaps most importantly, student achievement is greater in above-standard buildings compared to below-standard buildings. For example, students taught in classrooms with daylight produce higher test scores than those in classrooms with no direct daylight.

Conclusion

Investment in school infrastructure provides a win-win scenario—it improves teaching and learning environments, helps maximize student achievement, and creates jobs that help stimulate local economies while putting more money into the hands of working families. A short-term investment in school repair can have a long-term impact on our nation's economic well-being. We urge Congress to invest in school infrastructure as part of any stimulus package.

Thank you for the opportunity to speak with you today.

[Supplementary Information from Mr. Van Roekel follows:]

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Executive Director

December 3, 2008

The Honorable Charles Rangel
Chair, Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Rangel:

As a follow-up to my October 29 testimony on "Economic Recovery and Job Creation Through Investment," I am pleased to submit the following supplementary information:

- **Surveys on school environment and the impact on student achievement**. As I indicated in my oral testimony (referenced on page 120 of hearing transcript), NEA has conducted a number of surveys about the impact of teaching and learning conditions on student learning. The results of these surveys clearly show a link between quality learning environments and student achievement. Attached for your information is a brief summary of NEA's Teaching, Learning and Leading Survey (TELLS) as well as a list of additional references.

- **Link between school air quality and absenteeism.** In my oral statement (page 134 of hearing transcript), I discussed the relationship between school air quality and student learning. Asthma has reached epidemic proportions in the U.S. Nearly one in 13 school-aged children has asthma, and the percentage of children with asthma is rising more rapidly in preschool children than any other age group. Asthma is the leading cause of school absenteeism due to a chronic illness, accounting for over 14 million missed days per year (http://www.epa.gov/iaq/schools/managingasthma.html#The%20Asthma%20Epidemic).

  The Environmental Protection Agency commissioned a National Academy of Sciences Institute of Medicine expert panel review of the scientific evidence on the relationships between indoor air pollution and asthma. The landmark report, *Clearing the Air: Asthma and Indoor Exposures*, released in 2000, guides much of the national effort to improve environments through various EPA programs.

  Additional information on the link between asthma and indoor environments as well as the impact of indoor air quality on student performance is available at http://www.epa.gov/asthma/science.html and http://www3.interscience.wiley.com/journal/118785730/abstract.

I would be happy to provide any additional information needed by the Committee. Thank you again for the opportunity to provide testimony on these important issues.

Sincerely,

Dennis Van Roekel

Dennis Van Roekel
President

[Supplementary Information from Mr. Van Roekel follows:]

Teaching, Learning and Leading Survey (TELLS)

Since 2005, the National Education Association has partnered with the New Teacher Center, University of California Santa Cruz (NTC) to support the work on conducting statewide teacher working conditions surveys. Based on the work started in 2001 in North Carolina, the Teaching, Learning and Leading Survey (TELLS) process has been successful in providing data that can inform substantive school improvement, teacher recruitment and retention concerns, legislative and political programs, as well as provide the voice of teachers into school reform. TELLS results provide individual districts and schools with reliable data regarding their own teachers' perspective on their working conditions and the impact of these conditions on student achievement. The data allows individual schools and communities to consider appropriate policies and programs to address the unique concerns of their teaching force. Data gathered from the tens of thousands of surveys representing more than ten states and/or large school districts has the potential to improve teacher working conditions in every school based on the voice that matters most—classroom teachers. Consequently, the initiative holds the promise to dramatically stem teacher attrition and significantly improve student learning results.

Policymakers, practitioners, and researchers have long realized that teaching quality is the most important variable for the success of students (Hanushek, Rivkin & Kain, 1998; Sanders & Rivers, 1996). Supportive school environments, where educators are valued, trusted, and have the time and ability to collaborate to improve instruction, are necessary to enable teachers to be successful. Policymakers have paid little attention to the working conditions in schools (Hanushek & Rivkin, 2007) that are so critical to teacher retention and teacher and student success. A growing body of research clearly demonstrates that assessing, understanding, and improving such conditions can have many benefits:

- **Improved Student Learning:** Teachers' success with students is facilitated by a positive school context, such as support from leadership and being in a safe and collaborative working environment. Several statewide studies have demonstrated that the presence of positive work environments is significantly connected to increased student achievement (Hirsch & Emerick, 2007, 2006a, b). In particular, having strong, trusting relationships— both internally and externally—,and supportive school leadership are both essential to improving student achievement.
- **Improved Teacher Efficacy and Motivation:** Teachers' perceptions of their school are their reality; therefore, teachers' behavior and efficacy are a direct result of those views. In a recent literature review on teaching conditions, Leithwood (2006) found that teacher efficacy is significantly shaped by teaching conditions and that the degree of burnout and teacher engagement are critical to classroom performance and job satisfaction. He notes, "What teachers actually do in their schools and classrooms depends on how teachers perceive and respond to their working conditions." The TELLS surveys that have been conducted support this research.

- **Improved Teacher Retention:** Teachers who leave schools cite an opportunity for a better teaching assignment, dissatisfaction with support from administrators and dissatisfaction with workplace conditions as the main reasons why they seek other opportunities (NCES, 2004, Marvel, et al., 2006). Teachers indicate that a positive, collaborative school climate and support from colleagues and administrators are the most important factors influencing whether they stay in a school (Hirsch & Emerick 2007, 2006a,b). Research has linked teachers' negative perceptions of working conditions with their exit from schools. Factors such as facilities, safety, and quality of leadership have a greater effect on teacher mobility than salary (Hanushek & Rivkin, 2007). In particular, it appears that facilities that are safe coupled with supportive school leaders who create trusting environments where educators are engaged in decision making impacts the latter group's decisions about where to work (Hirsch & Emerick, 2007, 2006a,b).

- **New Recruitment Strategies to Entice Educators to Work in Hard-to-Staff Schools:** Teachers who are willing to teach in hard-to-staff schools indicate that strong supportive school leadership, an engaged community and parents, safety, and working conditions are all important factors when selecting where to work. Further, when Alabama educators were asked about incentives that would attract them to schools, non-financial incentives, such as guaranteed planning time and reduced class sizes, were found to be more powerful recruitment incentives than salary supplements and bonuses (Hirsch, 2006c). Improving teaching conditions could also bolster the teacher supply pool because many educators who left due to poor conditions may come back if such conditions were enhanced. A survey of 2,000 educators from California found that 28 percent of teachers who left the profession before retirement indicated that they would come back if improvements were made to teaching and learning conditions. Monetary incentives were found to be less effective in luring them back (Futernick, 2007).

To help ensure that all students learn, teachers need to work in schools designed for their success. Positive teaching conditions and safe facilities, where educators feel supported and empowered, are essential to creating schools where teachers want to work and students can thrive.

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Chairman RANGEL. It is now my honor and pleasure to present my friend Randi Weingarten, who is the president of the American Federation of Teachers, and to thank her for her constant effort to improve the quality of education for our children throughout our city, our State, and our great country.

STATEMENT OF RANDI WEINGARTEN, PRESIDENT, AMERICAN FEDERATION OF TEACHERS

Ms. WEINGARTEN. Thank you, Chairman Rangel, very much and thank you for that introduction and for all of your work. Thank you, Ranking Member McCrery, and thank you all the Members of the Committee. Thank you for the opportunity to testify on the urgent need for Congress to pass an economic stimulus package that economically invests, not divests in American future.

As Chairman Rangel said, my name is Randi Weingarten and like Dennis Van Roekel, I am the new president of the AFT, still the president of the UFT in New York, and this is the first time I have had the honor in that capacity to testify before you.

Some may think it is odd for the presidents of both teacher unions to be at a hearing on economic stimulus, but the number one concern of the 1.4 million members of the AFT is the health of our economy. The simple fact is this: Education and the economy are intertwined. Neither is strong when the other is weak. When the economy is weak, workers lose their jobs, homes and health care. The effect of these losses don't just hit workers. It also affects their children who are our students. When the economy is weak and governments make spending cuts, they all too often occur in K through 12 education programs.

Unfortunately, as you've already heard from this esteemed panel, many States are feeling the economic pinch and are already beginning to make cuts in education. South Carolina, Maryland, New York and the localities that President Van Roekel mentioned are not isolated. Just yesterday, Governor Deval Patrick of Massachusetts announced that budget shortfalls will mean scaling back his education reform agenda, and there are many others that we have included in our testimony, including some testimony from local Union presidents that I would ask to be made part of this record.

These cuts will have lasting impact on the quality of the education that our children receive and on tomorrow's workforce. We cannot have a vibrant, strong economy without well prepared students. That's why continued investments even in this difficult time are so critical.

So, my message is very simple: As Congress works to assemble a plan to strengthen the economy, it must recognize the benefits of providing immediate assistance to cash strapped States so they can continue to provide important public services such as quality public education and health care. Difficult times demand bold action.

The boldest action you can take now is the simplest. Invest in the foundations of our country's strength: jobs, education and health care. One of the reasons States and localities across America are dealing with record budget deficits is because of the mortgage crisis. Later this week, I will be visiting the cities of Cleveland, Cincinnati and Detroit, all places where home foreclosures are ris-

ing and people are suffering. These trends foretell another crisis, the eroding revenue base for public education in most of our communities, and it gets worse. Higher unemployment rates are resulting in lower consumer spending and decreasing sales tax receipts which I am afraid will lead to further cuts in critical education, health care, and infrastructure programs.

The worst outcome for our Nation would be for government to retreat from their basic commitments and backslide into a situation for which it could take decades for us to recover. Investing in education and other public services is just as important today as it was yesterday before this current fiscal crisis, and I would argue probably more important. We should be moving aggressively toward strengthening our public services, our infrastructure, our schools and health care because only by doing that will we remain competitive in the international marketplace and be the world leader we are today.

Now, you and the Bush Administration have already worked together to pass two bipartisan initiatives to lessen this crisis, but more work must be done. It is my sincere hope that the current Administration will start now to work with Congress and the new President to develop a prudent comprehensive countercyclical package to protect those who did not get relief in the first two bills. The following are the three priorities we would recommend to include in the stimulus package: First, expand and increase unemployment insurance benefits. Without new legislation, 800,000 jobless people will exhaust their benefits in this month alone. Family mobility and homelessness often increase with rising unemployment rates and this type of instability negatively affect school-age children.

Second, bring immediate fiscal relief to the States. As more States face budget shortfalls they will be forced to cut services to balance their budgets at a time when citizens need them most. The Federal Government should increase the contribution to the States' Medicaid program to $35 billion and increase funding for the Social Service Block Grant by $20 billion. These countercyclical programs will provide immediate help to cash strapped States and sustain vital public services.

Third, and finally, and I will repeat when President Van Roekel said, investing and improving our infrastructure. States need assistance to rebuild our crumbling infrastructure. This will result in improved roads, schools, bridges and water systems as well as more jobs for either unemployed or underemployed. I also urge you to build on the 3 billion included for school modernization in the House passed stimulus package by adopting again as Dennis Van Roekel said, a portion of Chairman Rangel's ABC school legislation. During the New York City fiscal crisis, construction was halted and maintenance was deferred to such an extent that it took the next 30 years to fix the problems created by this inactivity and that doesn't even touch upon the education losses that resulted that we are now only recovered from.

I am confident, as I know most of you are, that our economy will recover, but I hope that in the process State and local governments will not be forced to inadvertently worsen the situation by making cuts that could prove harmful to future generations. We are talking about people's lives here and irreversible outcomes if we pursue

shortsighted cuts. So, Mr. Chairman, the stimulus package you and the other Committee chairs are preparing is critical. After a national election, the historic pattern has been for our Nation to come together. I hope this trend will continue this year and that Congress will work on a bipartisan basis to fix our economy and make the intelligent investments needed at this time. Thank you again for the opportunity to testify and I would be happy to answer questions.

[The prepared statement of Ms. Weingarten follows:]

Testimony of Randi Weingarten,
President, American Federation of Teachers,
Before the House Committee on Ways and Means
October 29, 2008

Chairman Rangel, Ranking Member McCrery, and other members of the House Ways and Means Committee, thank you for this opportunity to testify on the urgent need for Congress to pass an economic stimulus package that chooses to invest—not divest —in America's future at this important moment in our nation's history. My name is Randi Weingarten and I am president of the American Federation of Teachers (AFT). I am also president of the AFT's New York City affiliate, the United Federation of Teachers.

On behalf of the more than 1.4 million members of the AFT, I am here today to tell you that the number-one concern of AFT members—who include K-12 teachers and other school personnel, healthcare workers, state and local public employees and higher education faculty and staff—and their families is the health of the economy.

Some may think it odd to see the president of the AFT at a hearing on the economic stimulus. But the simple fact is that education and the economy are intertwined. Neither is strong when the other is weak. When the economy is weak, workers lose their jobs, their homes and their healthcare. The effect of these losses doesn't hit just the workers, it also affects their children, our students. And when the economy is weak and governments make spending cuts, all too often they make them in K-16 education. Unfortunately many states feeling the economic pinch are already beginning to make cuts in education.

- Virginia is making cuts to higher education;
- Florida is reducing K-12 per-pupil aid and slashing support for higher education;
- Maryland is cutting funding for school improvement programs;
- And just yesterday, Gov. Deval Patrick of Massachusetts announced that budget shortfalls will mean scaling back his education reform agenda.

Those cuts today will have a lasting impact on the quality of education our children receive and, consequently, on tomorrow's workforce. We cannot have a vibrant, strong economy without well-prepared students.

That's why continued investments, even in this difficult time, are so critical. Consider this finding from the National Institute for Early Education Research, which reports that for every dollar invested in preschool, the return is $7 based on the reduced costs of remedial education and justice system expenditures, and the increased earnings and taxable revenues, for participants.

So my message to you is simple: As Congress works to assemble a plan to stabilize and strengthen our economy, it must recognize the short- and long-term benefits of providing assistance to cash-strapped states so they can continue to provide important public services, such as quality public education and healthcare, and are not constrained at a time when these investments are needed most. In addition, the package also

must address the other needs of middle- and lower-income families and workers who have been hit hardest by the struggling economy.

Difficult times demand bold action. The boldest action that you can take now is the simplest: Invest in the foundations of our country's strength—jobs, education and healthcare.

States and localities across America are dealing with record budget deficits. According to the Center on Budget and Policy Priorities, at least 39 states faced or are facing shortfalls in their budgets for this fiscal year. The problems are expected to continue into next year and beyond. One factor contributing to the state budget crisis is the high rate of home foreclosures and declining property values across the nation. In Ohio, which I will be visiting tomorrow, one in every 362 Cleveland homes and one in every 395 Cincinnati homes was in some stage of foreclosure last month. And in Detroit, which I also will visit tomorrow, one out of every 194 housing units was in the same situation. Each of these statistics represents multiple personal tragedies. And they foretell

another crisis—the eroding base for funding public education in most of our communities. And it just gets worse. Higher unemployment rates are resulting in lower consumer spending and decreasing sales tax receipts. Taken together, all of this means lower revenues and cuts in crucial sectors such as education, healthcare and infrastructure, all of which are integral to improving the economic security and quality of life of our citizens. Even without cuts, state and local governments would be hard pressed to provide the same level of services in a time of fluctuating energy and fuel costs. For school districts, this has resulted in consolidated or eliminated bus routes, fewer supplies and instructional assistants, the loss of professional development for staff, and increased class sizes. "Enrichment" has become an unaffordable "extra" in many communities, as school systems cut back on field trips, extracurricular activities and athletics.

While the economic landscape is bleak, the worst possible outcome for our nation would be for governments at all levels to retreat from their commitments in these areas and backslide into a situation from which it

could take decades to recover. The fiscal turmoil that has gripped our nation in recent months does not change the fact that investing in education and other public services is just as important today as it was yesterday—and arguably is far more important. In fact, these public services are essential to getting us out of this recession. We should be moving aggressively *toward* investing in strengthening our public services, our infrastructure, our schools and healthcare. Only by doing so will we be competitive in the international marketplace and able to remain a world leader

Today's fiscal crisis presents Congress with both challenges and opportunities.

Congress and the Bush administration already have worked together in passing two bipartisan initiatives to lessen the crisis, by enacting laws cutting taxes to stimulate the economy and approving $700 billion to stabilize the housing and financial markets.

But more work must be done. And it must be done now. It is my sincere hope that we will not wait for the new administration, and that the current administration will start now to work with Congress and the new president to develop a prudent, comprehensive countercyclical package to protect those who did not get relief in the first two bills. Most economists tell us that this economic crisis will last at least two years, and I believe the next Congress and the new president will have to pass additional legislation to address our continuing economic problems.

What follows are my recommendations to help states continue to invest in education and other public services while also helping those most vulnerable citizens in our nation.

- **Expand and Raise Unemployment Insurance Benefits.** This committee has previously attempted to pass legislation to expand unemployment insurance benefits. This should continue to remain a priority item in the stimulus package. Without new legislation, according to the National

Employment Law Project, approximately 800,000 jobless persons will exhaust their benefits. It is clear, given the accelerating rate of unemployment, that people will need both additional time to find new jobs and support while doing so. From an educational standpoint, family mobility and homelessness often increase with rising unemployment rates, and we know that this type of instability negatively affects the performance of school-age children in the classroom.

- **Offer Fiscal Relief to States.** This must be a top priority, given the growing number of states facing budget shortfalls. Absent federal assistance, states will be forced to cut services to balance their budgets, at a time when citizens need them most. I urge Congress to accomplish this by increasing the federal government's contribution to the state's Medicaid program to $35 billion and by increasing funds by $20 billion for the Social Service Block Grant (Title XX), which is used for social services programs administered by the states. These

countercyclical programs not only will help ensure the availability of needed health and social services but also will help address the revenue shortfalls facing state and local governments by providing essential financial relief that will protect the provision of public services.

- **Federal Infrastructure Investment**. Federal assistance for the rebuilding of our crumbling infrastructure offers a dual benefit—improved roads, schools, bridges and water systems as well as more jobs for either unemployed or underemployed workers. Ready-to-go school construction and maintenance projects are an important part of this essential rebuilding process and are clearly needed. A preliminary report on "School Infrastructure Funding Needs" that was conducted for the AFT estimates that the need for school infrastructure funding stands at $286 billion. The National Center for Education Statistics estimates that the average age of the main instructional public school building

is 40 years. In addition, the U.S. Government Accountability Office has estimated that 76 percent of all schools reported that they had deferred maintenance of their buildings and needed additional funding to bring them up to standard. The total deferred maintenance exceeded $100 billion. In addition, I have received numerous reports from our affiliates around the country detailing how state and local governments are unable to sell bonds or are delaying bond issuances because of the higher price of borrowing brought on by the credit crunch. Taken together, this means more children attend schools without adequate ventilation, acoustics and light, and more money is being wasted on inefficient heating and cooling systems. We are losing opportunities to create 21st-century learning environments. I would be remiss if I did not point out the important contribution that the House-passed stimulus package made as it included $3 billion in grants for school construction and renovation. This committee can add to that investment by adopting a portion

> of Chairman Rangel's America's Better Classroom Act, which provides federal interest payments on school construction bonds. During the New York City fiscal crisis in the 70s, construction was halted and maintenance was deferred to such an extent that it took the next 30 years to fix the problems created by this inactivity. And that doesn't even touch upon the educational losses that resulted.

I am confident that we will pull out of this fiscal downturn. But I hope that state and local governments will not have been forced to inadvertently worsen the situation by making cuts in education and healthcare that could prove harmful for years to come or—far worse, because we are talking about people's lives here—could be irreversible. Rather than containing the problem by investing in proven engines of our economy, such short-sighted cuts could turn a serious but containable economic downturn into a crisis of such magnitude it will harm generations to come.

Mr. Chairman, the stimulus package you and other committee chairs are preparing will probably be the first of several additional pieces of legislation required to address a recession that likely will be with us for at least the next few years. There is no doubt that this will be a trying period for our nation. I am hopeful it will be a time of bipartisan cooperation. After a national election, the historic pattern has been for the nation to come together. I hope this will be the case, and you can be sure that the American Federation of Teachers will do all within its power to help in this important process.

Thank you again for this opportunity to share the AFT's views on this important matter.

Chairman RANGEL. Thank you, Madam President, and again, thank you to the entire panel for sharing your views with us and in recognizing that if we are going to do this in a bipartisan way, we are going to have to impress the Members of Congress within

your cities and within your State. Of course, recruiting your members doesn't apply of course to Governor Sanford, which I would suggest that you can leave your members alone and tell them to stay at home.

But having said that, Governor, do you recognize our Nation is going through a severe fiscal crisis at this time and do you agree that the likes of which has never been seen since the Great Depression?

Mr. SANFORD. Absolutely.

Chairman RANGEL. Do you believe that there is any role for the Federal Government to play as it relates to the fiscal institutions? Since you opposed the $700 billion recovery, do you think that we should have given any financial assistance to these institutions at all?

Mr. SANFORD. I personally don't. If you look at our numbers in terms of—it's interesting that the latest——

Chairman RANGEL. No, that's good for me. So, you don't believe we should have any responsibility exposing to the taxpayer to anything as it relates to that problem?

Mr. SANFORD. Well, they are already exposed.

Chairman RANGEL. But you would not have supported——

Mr. SANFORD. I would not support adding to that exposure which is the nature of borrowing when you are already in a hole. The old saying if you're in a ditch, part of the quickest way to get out is to quit digging.

Chairman RANGEL. Do the people in South Carolina—have you felt the increase in unemployment at all in South Carolina?

Mr. SANFORD. Absolutely, as has the rest of the Nation. But the issue goes back to this larger notion. I have a chart here that shows household debt as a percentage of GDP. In 1953, we were at 20 percent; today we are at 100 percent.

Chairman RANGEL. Governor, you said Federal intervention was infectious, and that's kind of rough language that affects our economy with unnecessary and unintended fiscal consequences. So, I just want to see whether there is anything that we can do as a Government that you would agree makes some sense. Now, would you support unemployment compensation for these people that are unemployed in South Carolina?

Mr. SANFORD. We have obviously a program in place. The question is should we add to it.

Chairman RANGEL. I know—I am just asking. I don't want to be offensive and infect anything that relates to your concept of your Government. So, therefore, I want to make certain that is there anything that we can do that you agree with? Unemployment compensation, expand it, modernization, picking up those people who are looking for work and can't find it. Should the Federal Government look at that? Forget stimulus. Should we do it? Should we be involved in Medicaid and Medicare? Should we be involved in assisting and getting people an education, training, and being competitive? Should we do anything that would allow us to be competitive to get out of the fiscal mess that we are in that you would agree is the proper role for government?

Mr. SANFORD. Sure. That's why I made the last point that I made which is there are a whole series of unfunded Federal mandates at the State level that run us about 400——

Chairman RANGEL. That is not in States that were made under your watch and my watch. We are looking ahead now——

Mr. LINDER. Mr. Chairman, why don't you let him answer your questions?

Mr. SANFORD. So, there are very substantial unfunded mandates and——

Chairman RANGEL. Well, unfunded mandates, you can't put that in a stimulus package. The gentleman from Georgia

Mr. LINDER. If the Chairman will yield, I think what he said was he is not in favor of another stimulus package because all of these things could be more helpful to get rid of the unfunded mandates that could help themselves.

Chairman RANGEL. Well, I heard what he said. I don't have a hearing problem. I just want to be able as the Chair to get answers to my questions and not answers to questions I did not ask.

Mr. LINDER. Mr. Chairman, if you will yield further, the point I made was, if you want answers to your questions, let him answer them.

Chairman RANGEL. I thank the gentleman for his direction.

Do you support the Federal Unemployment Compensation program?

Mr. SANFORD. I do. We obviously have a program in place——

Chairman RANGEL. Do you support expanding that program?

Mr. SANFORD. I don't. In other words, I would——

Chairman RANGEL. That answers me, Governor. We don't have the problem that he thinks we have. That answers it.

Do you support any Federal assistance for infrastructure, bridges, roads, schools? Do you think the Federal Government should be involved at all?

Mr. SANFORD. The Federal Government is involved and——

Chairman RANGEL. Do you think we should continue to be involved? I don't want to get involved in unintended mandates.

Mr. SANFORD. The details matter here because again I go back to the basic reality which is you have got to differentiate between investment and borrowing to invest. The Federal Government——

Chairman RANGEL. I don't have a problem, Governor, with my question. Do you think the Federal Government should be involved in assisting in providing health care for the people in South Carolina?

Mr. SANFORD. Obviously, because we administer Medicaid, which is a Federal-State program that helps a lot of people in South Carolina.

Chairman RANGEL. What makes you think the Federal Government should have that obligation to take care of the health care of the people in South Carolina?

Mr. SANFORD. You are changing the words. You said should the Government be involved versus should we again expand that obligation? In other words, the two are different. We have a program. It is unsustainable. It has been growing at 9½, 10 percent a year over the last 10 years, and the question going forward, and this is the larger point that David Walker and Pete Peterson and a whole

host of others are making, which is if you have $52 trillion of accumulated liability, of political promises that have been made but not paid for, ultimately just as was the case with the homeowner whose households became underwater from a credit standpoint, somebody has got to pay for it.

Chairman RANGEL. How about in tornadoes, floods and hurricanes, do you think the Federal Government should be there for the people in the States at all?

Mr. SANFORD. Again, the Federal Government is——

Chairman RANGEL. I am asking you if you think we should be. We are. Do you think we should be?

Mr. SANFORD. Well, you are not asking the question that again, I am making which is——

Chairman RANGEL. I am so sorry. The Chair apologizes for not framing a question which you can answer. I yield to Mr. McCrery.

Mr. MCCRERY. Thank you, Mr. Chairman. I think the exchange between the Chairman and Governor Sanford highlights the underlying philosophical discussion that needs to be had. Many of us, Mr. Chairman, as you know, and I have no doubt that you went through the same many hours of deliberation when we passed the $700 billion package of assistance to the private sector, many of us voted for that very reluctantly because we were concerned about the precedent that that set. We were concerned about the erosion of the clear distinction between the public sector and the private sector, and I think Governor Sanford and your questions to the Governor bring to light the fundamental differences between States and the Federal Government and the responsibilities of each.

We have, to a great extent, over the past, say, 40 years or so blurred what were fairly traditional lines and some would say even constitutional lines between State responsibilities and Federal responsibilities and what many are suggesting here today is that we blur those lines even further, Mr. Chairman. I have concerns about that. I believe that fundamentally government which is closest to the people is government that is the most effective and the most responsive to the people. By definition, the Federal Government based in Washington, D.C. is the farthest away from the people.

So, the more power and the more money we take into Washington for redistribution around the country, the less responsive the Government becomes to the people. I think that is a fundamental question that should not be made light of. I think Governor Sanford, at least based on what I have heard him say here today and based on what I know about him, falls squarely on the side of maintaining some of those distinct lines between state responsibilities and Federal responsibilities. So, Governor Sanford, I would just like for you to share with us—I know your State has not been immune to the economic conditions prevalent around the country and that you too are facing a budget shortage in your state. Can you share with us some of the steps that your State Government is taking to rectify the situation, to close that budget gap?

Mr. SANFORD. Yes. The House and Senate came back in. They dealt with the budget shortfall the old fashion the way, and that is they made cuts. They submitted those cuts to me. I have until tomorrow to dispense with those cuts or veto some portion thereof. It is more than $400 million worth of real cuts that the bodies

made in bipartisan fashion, and so I guess my simple point is this——

Mr. MCCRERY. Can you give us some examples of those cuts?

Mr. SANFORD. I mean, literally A to Z with regard to government. There was no silver bullet. They are painful throughout agencies. As much as possible, they attempted to protect Medicaid for its impact with regard to people in need in health care and to protect education. So, there were more moderate cuts there. There were very substantial cuts in sort of a whole host of other areas of government.

Mr. MCCRERY. As a Governor of your State, are you concerned that these cuts that you are about to make in State spending will set back your State for 30 years or more in terms of the progress of South Carolina?

Mr. SANFORD. No, I don't think so. Because if you look across our State and Governor Paterson's State, other States across this country, there are a lot of families out there, a lot of little businesses out there that are making real world cuts in what they do. It doesn't mean that their business will be toppled for the next 30 years. It means they had to make the best decision within the context of a number of bad choices that were before them.

So, if a small business can cut, if a large business can cut in some cases I think it ought to be mirrored at the Federal and State level because that's the reality of what is happening in the economy after all.

Mr. MCCRERY. Does South Carolina have a rainy day fund?

Mr. SANFORD. We do. We have a capital reserve fund.

Mr. MCCRERY. Are you using that now?

Mr. SANFORD. We have. We have.

Mr. MCCRERY. What, in your opinion, would general revenue sharing which is to a large extent what some are talking about do to the incentive for States to create and maintain rainy day funds?

Mr. SANFORD. Again, I think that that is why I talked about in my testimony I talked about unintended—well-intentioned but unintended consequences and for States that have been more fiscally prudent, for the States that have set aside rainy day funds, for the States that have exhausted those rainy day funds, there would be the same effect that many people feel out there and saying wait, Wall Street's being bailed out but I am not being bailed out for a poor decision that I may or may not have made.

If I might get back to just what the Chairman was getting at just a moment ago, because we do see it through a different point of view, what I am saying is this: The way that you want to frame the question because you are a very smart guy and you want to get it framed within the context that you want to frame it is should government be involved or not, for instance, with regard to Federal disaster? I don't think there is a Governor out there who would say that the Federal Government shouldn't have a role in Federal disaster.

Our State was impacted by FEMA when Hurricane Hugo hit. I suspect we will be impacted down the road ahead. The question though, and I think this is the real question of this additional $150 billion that you are talking about, is should the Federal Government's role be expanded? Because one of the trend lines that we

seem to see is that with every disaster that comes our way, there is yet another Federal response. I mean, think about 9/11.

With 9/11 at that time, about 25,000 airport security folks were federalized even though countries like Israel who have a real vested interest in security and are doing an awfully good job of security have private contractors that take care of that same function. Or think about Katrina. Did some things go wrong with regard to emergency preparedness and emergency response there? Absolutely. But what it has precipitated is a big forward response from the standpoint of the Federal Government. In some cases, the Federal Government taking over emergency response efforts that have historically been handled at the local government level, at the Mayoral level or at the State level.

So, now, in the wake of this crisis that is before us, the question is not will Government be involved? The Government has been involved, always will be involved. But particularly given that some of the making of this crisis was created by Fannie Mae and Freddie Mac, quasi governmental entities, by a Federal policy, a variety of other things that were in play at the Federal level, should the response be yet another growing of Federal Government's role and scope in every one of our lives? I fall on the side of believing very strongly that that would create very strong negative untended consequences with the expansion, not, again, present involvement, but the expansion, particularly in light of the $52 trillion worth of liabilities the Federal Government already has.

Mr. MCCRERY. Thank you, Governor. One quick question for Mr. Mongan.

Mr. Mongan, you spoke about infrastructure projects that have been put on suspension, that have been suspended because of lack of money to go forward and I suppose by implication we would consider those projects ready to go. I mean, all the engineering has been done, everything has been set, you have just got to put money on the ground and construct; is that right?

Mr. MONGAN. Yes, that's correct. The numbers——

Mr. MCCRERY. Do you have any number that quantifies the amount of such suspended projects around the country?

Mr. MONGAN. The numbers that I cited, this $40 billion represents information that we received from Federal sources, testimony at the transportation and investment Committee of these suspended projects——

Mr. MCCRERY. $40 billion.

Mr. MONGAN. Yes. 40 billion that are available, ready to go.

Mr. MCCRERY. Okay. Thank you very much.

Chairman RANGEL. It would be helpful if we got that information about the schools around the country as well, those that are in the pipeline because of the immediate nature of infusing resources in this area is very important.

The Chair now recognizes the distinguished gentleman from California, Chairman of the Health Committee, Mr. Stark.

Mr. STARK. Thank you, Mr. Chairman. I would like to thank the panel for their input today. I wish we had a hospital administrator here and we could talk about that infrastructure in many parts of our country which lags behind and particularly in my State where Earthquakes are going to force us to spend probably $100 billion

just to make a hospital safe. But I want to draw the distinction for a moment just between two approaches. One of our distinguished leaders across the aisle today suggested that the way to stimulate the economy is to basically cut $100 billion in taxes and give it to large corporations in the form of reduced corporate taxes.

That would amount to some hundred, $125 billion a year less revenue that the Federal Government would get and thereby increase the deficit $100 billion a year to help large corporations. The opposing approach, I guess, that I would favor is if we are going to increase the deficit to use that to create jobs and invest that in infrastructure, which when we are all done, at least would leave us with, at the worst, a bandshell, at the best, maybe a new school or a hospital or something that people could use for the many years that our children will be paying off that debt. But at least it is there and would not result in just more very rich corporate executives making billions of dollars a year.

But this same leader across the aisle in his tour around the country said that he wasn't sure that you could increase construction. His comment was, and I am quoting here, that everything that could be built is being built. Now, I heard Governor Paterson earlier talk about—and I liked his quote—a shovel-ready project. So, my question is to our two distinguished panelists in the education field, do you think that every municipality and county and State in this country has a "shovel-ready project" that would improve the education of our children whether they are preschool or college age? Aren't there numerous projects that would put additional people to work immediately in the education field? Ms. Weingarten?

Ms. WEINGARTEN. We will get you, for the record, the types of project we think are ready to go already.

Mr. STARK. Across the country.

Ms. WEINGARTEN. Across the country. I know in New York because of some of the escalating costs we have at least several million, maybe a billion dollars worth of ready-to-go construction that if we had the funding to do it, people could put shovels in the ground. They have already been done. There has been a 5-year construction project and zoning program and whatnot.

Mr. STARK. I would ask then, if I could, Mr. Palmer and Mr. Firestine, and I can help, Mr. Firestine, because I know where there are a few potholes in Montgomery County and I am not so familiar with Mr. Palmer's area. But do you guys have projects that are right on the shelf that you could get going in less than 90 days if you had additional funding?

Mr. PALMER. Yes, absolutely. We have schools that are put on hold. We have designed them, the architecture done. Schools that could go now that could be built green, projects, sidewalk repairs, road projects that could go right now and help spur our economy. But I just want to mention something that Mr. McCrery said earlier about believing that government that is closest to the people, well, let me just tell you that mayors, you can't get closer than Mayors. You are hearing from the past president, immediate past president of the U.S. Council of Mayors.

We have testimony and reports of what we recommend, and hearing from people that are closest to the people, we believe that

there is a fundamental partnership that should exist between the Federal Government and cities to help us because we can't do it alone, whether it is in the stimulus package to help as it relates to transit, putting moneys into our roads, intermodal transportation.

We are the ones that deal with families that are losing their home. We are the people that are dealing with the people that have small businesses that can't make it because we have a water main break that has closed their street for 3 weeks and they are about to lose thousands of dollars. So, there is a fundamental partnership that needs to exist. Cities cannot be left on their own to pull ourselves up by our bootstraps when we don't have boots nor straps, and we certainly believe that the Federal Government can work in partnership to create jobs in our communities because at the end of the day, the cities are the ones that you read about that are having the most problems.

Mr. STARK. I have exceeded my time, but I think that the witnesses clearly point up the distinction that we can cut taxes, which puts a burden of further deficit on our children whether it is an increased State deficit in California or in South Carolina, or in New York or the Federal Government, or we can take that same increase of deficit and put some people to work, and that has a multiplier effect that I think would help us dig out of this recession far more quickly.

Thank you, Mr. Chairman, for indulging me in the extra time.

Chairman RANGEL. Thank you, Mr. Stark.

Before I recognize Mr. Camp, it has come to my attention that my Governor has to leave and I ask unanimous consent that he be given an opportunity to tell us whether or not he has been persuaded by Governor Sanford as it relates to the testimony because I would hate to go back home and find out that he thinks he made a big mistake in asking for help.

Governor Paterson

Mr. PATERSON. Governor Sanford turned my microphone on again to stop hearing from me, that he has gotten a little tired of my remarks.

But actually, I think Governor Sanford makes a couple good and it has to do with money going to the wrong places, and that at this time in our history when we have seen the frugality of spending going the wrong direction, recklessly and without regard for human dignity, I think we do have to pay a lot of attention to that. But I really do believe that there are needed services provided by the States, by the State governments, who do have to practice a great deal more of restraint in terms of spending but that they would go in the right place.

Now, the Federal bailout package and Governor Sanford talked about who is bailing out the bailers? Well, I mean we have to be careful about that. The bailout package, the $700 billion, one of the first ideas that was proposed by the Secretary of the Treasury, who was given almost unilateral control over it and not even responsive to the Justice Department, was to actually give—was actually to buy up the subprime mortgage debt of a lot of these banks, and in no way touching the structure of the banks themselves. I think that is what Governor Sanford was sort of talking about.

I am very happy that Prime Minister Brown in Great Britain had a different way of looking at it, which was to recapitalize the banks. If you are going to do a bailout, you have to come in—you have to get rid of the board of directors. You have to get rid of the people that got you into the problem in the first place. That is what our country is doing right now, and I think that is the right way to conduct a bailout in a way that the taxpayer now becomes an investor and if these stocks begin to go up again, we can actually make money or recover the resources we gave to the bailout.

So, I think that in terms of the States, you have to understand that a lot of our States, even though I am, at times, critical of how our State has managed in its own perimeters, the fact is that New York in 2006 got back $61.2 billion less than we paid in taxes to the Federal Government and in 2007, the statistics are now in. We got $86.9 billion less than we paid into the Federal Government. There is no other State that is even close. California is up to $55 billion that they get back less than they pay into the Federal Treasury. So, when I came in today, I saw in the newspapers that the Governor is coming to Washington, hat in hand, and the Governor is coming to Washington to beg.

I am not here to beg. I am here to say that New York doesn't need a handout. We need a hand back. We need the same resources that we have distributed to our National economy to bail that economy out many times, to help other States that get back far more than they pay in taxes. What we need right now is someone to recognize that a crisis, a national disaster, its epicenter is in Washington. Where Washington has the flu, New York has pneumonia. The $1.5 billion that we have to close our budget deficit this year, combined with the $12.5 billion that we will have to find a way to ameliorate next year, that $14 billion divided over what is our general fund, that is, our resources absent Federal money that goes directly to counties and villages and also special dedicated revenue funds, is $56 billion. So, in other words, we have a deficit that is 25 percent of our entire expendable resource, and we think that because we have already demonstrated—my first day in office, I cut the agencies 3½ percent and cut them again 3 months later.

Our State agencies have now down 10 percent. We are practicing the fiscal discipline that we think that Washington is looking for, and we are going to have to, in many ways, look to the Federal Government for assistance right now as we try to keep the Main Streets all over New York that are not affected at all, whether they are in Syracuse or Rochester or the north country of New York, Massina, Utica, other places, Bay Shore on Long Island, other places that are not going to benefit from anything that goes to Wall Street.

Chairman RANGEL. Thank you, Governor. I know you have to leave, and Governor Sanford, you will have another chance to persuade me before you leave.

Let me thank Congressman Camp for his patience here and recognize him for his contribution.

Mr. CAMP. Thank you very much, Mr. Chairman. I want to thank all of you for your testimony today and really relating to us the difficulties you are all facing with this economic downturn from your States and representing cities and the organizations also that

you represent, and I appreciate the very sincere testimony you gave today.

I do think it's critical that Congress take immediate steps to get the economy back on track and as Governor Paterson said in his oral testimony he would like to see us lower taxes on business. I think we should be talking about tax relief in this Committee for small businesses and families and we should be talking about ways to protect the investments of seniors and maybe that is suspending investment taxes or suspending the required forced distributions from 401(K) plans.

We should be talking about cutting taxes to stimulate growth and investment, which brings me to my question. Governor Sanford, you have a record of cutting taxes in South Carolina and reducing spending as you have outlined, and when you reduced taxes, did you create jobs or did you lose jobs in South Carolina.

Mr. SANFORD. We gained jobs. We are up roughly 150,000 net jobs from where we started 6 years ago. So, on a net basis, we positively gained them.

Mr. CAMP. It is very rare to hear somebody come to this Committee and say please don't provide me with any more Federal money. So, I think that may be the reason why you may have received some of the reaction you have gotten today. But I noted in your chart says that State spending has increased 122 percent in the last 15 years. While Federal spending 108 percent in the last 15 years, which proves that more money for States might simply just mean more permanent State spending. Given that, is there any flexibility that Congress could provide you over current dollars that the States relieve and do you have any specifics on the flexibility that you might be able to receive that could be helpful?

Mr. SANFORD. That is why I specifically mentioned unfunded mandates. As the Mayor just mentioned, the rubber meets the road at the mayoral level, at the county level and the State level and if you look at a number of those different mandates, I think that at the local level we have a far better grasp of the problem. I think we have a far better sense of how to deal with the problem than with all due respect the folks in Washington. So, you look at the number, $428 million worth of unfunded mandates at the Federal level to South Carolina that frankly would help us a lot more than a stimulus package, just simply allowing us more flexibility in how we spend our own money at the State level.

I would also say this: What needs to be remembered about contemplated deficits is that it is an eventual rise in taxes. A deficit is simply a deferred tax because if you believe in the soundness of our dollar and the credit worthiness of the United States, any accumulated deficit simply means that is an accumulated tax. So, what some people are saying that we will just increase the deficit to increase a stimulus package is to say we will increase taxes, and I don't think you are ever going to grow the economy by ultimately increasing taxes.

Mr. CAMP. We have seen in the last 2 years the deficit increase by about 77 percent, and that doesn't include the rescue package. It could be much higher. It doesn't include the potential deficit spending in the stimulus package. So, we are seeing a pretty significant increase in the Federal budget deficit in just the last cou-

ple of years, and that follows the last 3 years of actual declining annual deficits. You have mentioned the concern that this may ultimately mean higher taxes down the road. If we are trying to stimulate the economy and stimulate a pro-growth agenda and economic growth and job creation, how will raising taxes ultimately help do that? We are hearing this may be on incomes of at least $150,000 if you hear the vice presidential nominee, the Democrat vice presidential nominee in his recent remarks. What do you think this will do to economic growth in South Carolina?

Mr. SANFORD. I think it would hurt it in our State. I think it would hurt it in other States. It is interesting in the conversation about the possibility of $1 trillion dollar deficit this year in Washington. Barney Frank said, "I believe later on that there should be tax increases to deal with those deficits." That was his quote. Again, you look at this notion of increasing taxes, I think it has the so-called Laffer curve. I think that the historic example of what has happened with countries around the globe in their experimentations with tax rates is that if you increase taxes, there will be a drag on the underlying economy. So, that is why I think we ought to be paying particular attention on that front.

I would also mention the fact that some of the worthy public works projects that were just mentioned, Government at the Federal level, I think, is a very inefficient way of getting the dollars there. If you look for instance at the bandshell—I guess Pete was talking a moment ago about the worst you end up with is a bandshell, the best you end up with is some other infrastructure project that might be more notable. But even in what is talked about with this bill is, I understand, about $14 billion would go for infrastructure out of a total of $150 billion.

So, that is 1 in $10 that is actually going to infrastructure. The other important point to remember is that John Macon, who is a noted scholar at the American Enterprise Institute, did a study of the so-called lost decade within Japan, and what Japan tried to do was just that. We put a lot of money into infrastructure and maybe that will get our economy going. That proved not to be the case in Japan over that 10-year time period.

Mr. CAMP. Okay. Thank you. I see my time has expired, Mr. Chairman.

Chairman RANGEL. Let me make two things clear. There is no $150 billion package, and we will not have any package at all unless the President agrees, and of course, we are trying to in order to get the President's agreement to make it as bipartisan as we can. If you really want to get involved in presidential candidates and Barney Frank, I reserve the time to talk about your vice presidential candidate, but I don't think you want that to happen. Well, I just don't believe that this should be the forum in determining anything except what is best for the people in our congressional districts and the country and I will restrain myself in trying to make certain we stay on that road.

I would like to the gentleman from Michigan.

Mr. LEVIN. Thank you and welcome. Mr. Firestine, just two quick comments and then I want to go back to you, Mr. Sanford. Your suggestion regarding TARP, talk to financial services. I think it makes sense but it's not within our jurisdiction. But the AMT

issue is within our jurisdiction. Mr. Chairman and Mr. McCrery, I hope will take a look at that if there is a package.

Chairman RANGEL. Well, certainly, as it relates to the bonding——

Mr. LEVIN. Exactly. Exactly.

So, Mr. McCrery, you said that you thought that Governor Sanford's testimony helped show the basic differences between the two sides here, and Mr. Rangel has emphasized we try to bridge them. So, I want to try to see if we can bring this a bit. You were asked about unemployment comp. The question is extending the benefits which we have done in all previous recessions and we did once, and a bill passed this House just before we left, 368–28 to extend the benefits 7 weeks for those—for everybody and an additional 13 for those over 6 percent. I want to be clear this isn't a new program. You are opposed to what passed the House and is now in the Senate extending unemployment compensation benefits?

Mr. SANFORD. In its present form

Mr. LEVIN. But——

Mr. SANFORD. Because there is a substantial additional cost to doing so. I keep going back to my basic premise, which is, by all means, if you want to extend unemployment benefits but then cut some other area of Federal Government, I would applaud that effort. That is not what is being contemplated.

Mr. LEVIN. Well, except there is money. There are billions and billions of dollars in the trust fund for unemployment comp. The only reason it is scored is because of the unified budget. So, I think your State should, understand that you are with the 28 who voted no and opposed to the 368 including many Members of this Committee on your side.

Mr. SANFORD. I would grant you that it is always easy to spend somebody else's money——

Mr. LEVIN. It is not somebody else's money.

Mr. SANFORD. Whose is it?

Mr. LEVIN. It is the money of people who worked for it and the employers paid in for it for the purpose of extending. There are 2 million plus people who have exhausted their benefits, including many thousands in South Carolina.

Mr. SANFORD. Absolutely, but is that trust fund sustainable?

Mr. LEVIN. It is very sustainable. That trust fund has more than enough money to pay for the extension. I think it shows the difference between the two parties. I don't think we are blurring the difference.

I want to ask you about the highway trust fund because you say instead of a bag of money with strings attached. Now, I think you receive ample funds to the highway program. Are you opposed to Federal highway program?

Mr. SANFORD. We are a donor State. We send more money to Washington than we receive based on gas tax revenues.

Mr. LEVIN. I am glad you raised that. We don't have figures later—at least, I don't have right before me beyond '04, but I think the pattern is clear. This is South Carolina Federal tax paid versus Federal spending received. In '04 South Carolina received $1.35 for every dollar that it paid in Federal taxes. Governor Paterson said the opposite is true in New York and in Michigan we have debated

this forever and now it's up to 94 cents. So, you come here and say that you are a donor State in highway funds, but overall, you are a done State. It was in '04, $1.35, and that pattern has been true—the figures go back—I have 1981 when it was $1.21, and then the last years I have for it, it was $1.34, $1.36, $1.35. So, I don't understand it. Even though you are a donor State, how much do you receive back now in highway funds?

Mr. SANFORD. I don't have the number at the tip of my tongue, but what I would say——

Mr. LEVIN. Are you opposed to the highway fund, to our highway program?

Mr. SANFORD. Yes, in its present form. I will give you the perfect example. The question is in the delivery system itself. We can debate the merits of are you, a donor, versus not a donor State. We can go back and forth on that front and I would have numbers. You would have your sets of numbers. But what is interesting is——

Mr. LEVIN. My set of numbers aren't mine.

Mr. SANFORD. Right, I understand. But we could come up with different sets of numbers that we could debate on. But even if we said your numbers are right, I think what is interesting is still the inefficiency in the present model. For instance, Jim Clyburn, who is a Member of Congress from there in South Carolina, has proposed a $100 million bridge from Lone Star to Rimini. In other words, the folks in the Highway Department have said it is not needed.

There are a lot of more compelling infrastructure projects in the State based on transportation need and based on traffic counts. Yet to have that road picked from Washington, D.C. I think is at odds with, again, this larger notion that the Mayor was just getting at which is at times local knows best.

Mr. LEVIN. Look, Governor, you can pick out one earmark if you want. But the fact remains you come here and you talk about the role of the Federal Government. You want it diminished. You are a donee State in terms of Federal dollars dramatically so. You have a Federal highway program that is of major benefit to your State. You pick out one earmark and the infrastructure proposal is not to expand but to use an infrastructure that this country has benefited from. Essentially, I think you do shape, without getting into detail, the issue before the public this year and that is the role of Federal Government when times are difficult, when jobs are being lost, when a financial system is under immense pressure. I just want to close—you talk about the unfunded mandate and my time has expired—of the $428.366 billion—these are your own figures—are in education.

They are special ed and No Child Left Behind. Proposals that came through here on a bipartisan basis but have been underfunded in the last 8 years where the Republicans controlled the Congress. So,—and the mandate, the States aren't carrying out 100 percent special-ed in lieu of Federal moneys. So, to lump this all together when more than three-quarters is in education and the Congress that has been dominated by the party to which you belong has not funded the mandates, I think you need not to talk about the role of Government but the way certain people within the

Government have exercised or failed to exercise an appropriate role of Government.

Mr. SANFORD. Again, I understand what you are saying, but I keep going back to the deeper foundation that I am getting at which is we could come up with different programs, some of which we would find meritorious, some of which we wouldn't. But the bottom line is at the Federal level it is absolutely unsustainable. We have accumulated $52 trillion of unfunded political promises, and either we are going to default on debt or we are going to raise taxes or we are going cut benefits dramatically down the line.

Mr. LEVIN. You are talking to a now majority that has opposed the policies that have added $5 trillion to the debt of this country. You are preaching to the wrong choir.

Mr. SANFORD. I am not preaching. I am just saying here is where we are. I am not saying it is Democrats' fault; I am not saying it is Republicans' fault. Both folks share some blame in that equation. But I am saying based on where we are now, can we add $150 billion worth of debt when we are already $52 trillion in the hole?

Chairman RANGEL. The gentleman's time has expired. I wish I could go around the country with Governor Sanford myself, but your point is well taken and I wish we could hear more from you.

The Chair recognizes Mr. Ramstad, but before I do I would like to say that not only has it been a pleasure working with you but a part of your legislative legacy was that you brought some sense of fairness as to how we treat mental illness. You and Congressman Kennedy should be proud of the effort that you made over the years, and while you were successful, now people don't know how long you two actually worked at it. I want you to know it has just been a pleasure for all of us to have worked with you on that bill.

Mr. RAMSTAD. Thank you very much, Mr. Chairman, for your very kind words and I want to thank all the Members of Committee who worked on in a bipartisan way to achieve finally after 12 long years mental health and chemical addiction treatment parity. According to the New York Times, 113 million Americans will now be able to access treatment over the next 10 years who otherwise would not. It is very gratifying and humbling to have been part of that effort with not only Congressman Kennedy, but Senator Kennedy and Senator Domenici and many, many other Members. Thank you for your leadership on that, Mr. Chairman, and I want to thank Mr. Stark too as Chairman of the Subcommittee on Health.

At this time, Mr. Chairman, I would just like to yield very briefly to the ranking Member.

Mr. MCCRERY. Thank you, Mr. Ramstad.

Just to set the record straight on special ed funding, IDEA funding, Mr. Levin has gone on, but not that it matters but I was here when Republicans took over the House in 1995 and we increased the level of funding for IDEA. We increased the percent of funding for IDEA when we took the majority after decades of not funding it properly according to promises made by the then Democratic majority when the program was instituted.

So, I do take issue with that. We tried very hard to get the funding up. It is an unfunded mandate. I favor full funding for it. If

we are going to mandate it, I think we ought to fund it. I voted for increases, and we were very up front about our desire to increase the level of funding. We never got close to 100 percent but we got further along than the Democratic majority did for decades.

Mr. RAMSTAD. Reclaiming my time, Mr. Chairman, first of all, let me thank this distinguished panel for your testimony. We certainly appreciate your helpful input. Let me also say I believe one of Congress's better moments was coming together in a bipartisan pragmatic commonsense way to pass the $700 billion so-called bailout bill or economic rescue, economic stabilization bill, call it what you will, but to achieve that consensus and to see the Speaker, the Majority Leader and the Republican leader all on the same page and the Administration, by the way.

So, now we are seeing at this time $250 billion in troubled assets being purchased. We are seeing nine national banks injected with liquidity. So, my point is I think in approaching another package of $300 billion in stimulus elements, I think we need to approach this—first of all, I know we need to approach this in a bipartisan way to effect—to pass this legislation, and I think we also need to view it in context of four factors. First of all, we have got to be mindful of the Federal budget. I say this as somebody who strongly supported the bailout package, who is the chief Republican sponsor with our distinguished Committee Chairman of the ABC school modernization bill, who has consistently been there to support the Federal funding programs for education because I believe in public education.

I believe your priorities are the Nation's priorities, President Weingarten, when you say there are jobs, education, and health care are the main domestic priorities. But we have to be mindful that next year's deficit may be as much as $1 trillion and just because the Federal Government can print money, it doesn't mean it should. I think we need to take a big breath, if you will, to use a poor metaphor, but here the apparatus isn't even in place yet in the $700 billion bailout and there are already signs in the credit markets. Congress hasn't allowed time for the Federal Reserve's monetary policy to take effect.

In fact, as we meet here today, Wall Street is awaiting the Federal Reserve's most recent pronouncement. They are expected to lower interest rates. Thirdly, I think we have to look at legislation that instead of just a short-term temporary fix, we need to promote long-term growth and we need to pass something that is going to result in longer term solutions. For example, I think the school modernization bill is right on point, that partnership, Federal, State and local partnership. We can't deny here in Washington that 50 percent of the public school buildings are crumbling, are in a State of disrepair. I think we have to look at long-term growth initiatives as well as some short-term fixes. We need to look at investment incentives, expanding the child tax credit, small business incentives like expensing bonus depreciation and so forth.

So, I hope—because this President is not going to sign any package that doesn't represent a hybrid, if you will, that doesn't have growth incentives as well as some of these other elements that you so articulately advocate. So, let me just say this and ask the question of President Weingarten or anybody, but you mentioned, and

I think I heard you correctly when you said Congress should work with the new President to craft a stimulus package.

Is that to imply that we should wait until January 20, the new President and the new Congress, and give us time to see the effects of the bailout, to see the effects a little longer term of the Federal Reserve monetary policy and so forth?

Ms. WEINGARTEN. No, sir. I actually meant that in the next 6 days we will know—next 6 or 7 days we will know who the new President is; and the Constitution creates an important transition period, obviously. But in looking at this, obviously the circumstances—the economic circumstances in which we all find ourselves are not going to magically disappear on January 20th, and more work will have to be done over the course of the next several years, hopefully less than more.

But what we are seeing, what I was saying was that, in that same kind of bipartisan spirit, work now, try to pass things now. Some people have lost their unemployment insurance now. The creation of construction jobs to undertake projects in the pipeline that are not funded is critical. The State and local governments are cutting now even for the mid-term projects in this education year.

So, I was—what I was pleading for, and I was pleading, was to start dealing with these things now; because we on the ground—and I have been in 16 States in the last 6 weeks. We on the ground are seeing the effects of the economic crisis to real people, as you are in your congressional districts.

Mr. RAMSTAD. So, you are saying time is of the essence, and we should do it now. But I think that underscores my main point of bipartisanship, because we still have this current President in office until January 20th. Nothing is going to change as far as our statutes are concerned. We are not going to be able to pass anything without this President before January 20th. So, I think we need to be mindful of that factor, that bipartisanship is really critical, like it was in the $700 billion bailout package.

Let me just say finally, Mr. Chairman—thank you for your indulgence. Let me say finally while I have this opportunity, I have appreciated working with the National Education Association as well as the American Federation of Teachers, particularly the teachers of Minnesota, over the past 18 years of Congress. One of my true pleasures has been working on education issues. So, thank you for your leadership. I wish you all the best. I yield back the balance of my time.

Mr. MCDERMOTT. Thank you, Mr. Ramstad.

I represent a city in the Northwest, where we understand why the Earth shakes from time to time. The employees of this country are presently going through a rather shaky period; more and more families have lost their jobs, their health care, their pensions, and their economic security in this last recent period. Unfortunately, they have also lost confidence in the Government to solve any of the problems. Yesterday, the Confidence Board reported that consumer confidence fell to the lowest level ever recorded in this country.

The U.S. economy has lost jobs every month of 2008; corporate America got a $700 billion bailout, and have repaid the workers the favor by giving them pink slips. There are serious talks going on

in Detroit between General Motors and Chrysler about some kind of deal that will ultimately wind up with massive layoffs. Whirlpool is cutting 5,000 jobs. There are almost three unemployed workers for every job that becomes available, and there is more than one in 10 workers that are currently under—or unemployed in President Bush's ownership society. We know the unemployment situation is going to get worse.

I point to the monitor; if you will pay attention to it. When the general unemployment rate is 6.1 percent, if we count the total number of Americans who are underemployed, it is now 10 percent. Those are the part-time employees, those who have given up work, and that is where we are. That red bar represents today.

Now, things are going to get worse. The next slide shows Wall Street economists are expecting we will experience a general unemployment rate of 8 percent next year. That is across the country. That is of those who are out of work, and then you add on the underemployed.

So, as you know, the Congress has provided 13 weeks of additional Federal finance benefits in June. We passed it out of here. This was an important lifeline to workers who lost their jobs through no fault of their own and are looking for work that is not there. Now, since June, the job situation has continued to worsen, and thousands of workers who were able to take advantage of the original 13 weeks are now seeing them expire.

Before we went into recess in September, last month, the House overwhelmingly passed legislation providing an additional 7 weeks, with 13 weeks more for people in high unemployment States, of which South Carolina is one. Last year, the House passed an unemployment reform bill which will provide an additional $700 billion to States that make progressive reforms.

My question—and I am sorry that the Governor of New York left because his testimony, he says: We are ready to deal with low wage workers and part-time workers; and if the reform bill had passed, it would have been $400 billion to the State of New York. I wonder, Governor Sanford, are—I am trying to understand your testimony. You are in favor of extending unemployment benefits to those who have—whose benefits have expired. Is that correct?

Mr. SANFORD. Again, I am open to that. That wasn't my testimony, but that was in reaction to a question. Yes, sir.

Mr. MCDERMOTT. You are open to that?

Mr. SANFORD. Right.

Mr. MCDERMOTT. Are you open to modernizing your law to include people who are part-time workers? Because they are not covered presently under the Federal law in most States. Are you open to that?

Mr. SANFORD. Again, the nature of the workforce is changing. I think that there certainly can be adaptation of the process. My simple point is, not expansion of the whole of Federal Government and Federal power and authority over, whether it is the Mayor's job as a local municipal leader or my role or Paterson's role as Governor.

Mr. MCDERMOTT. So, that is a qualified—that is a kind of a political answer, I think. Isn't it?

Mr. SANFORD. No. It is straightforward. What it is saying is let's not make the Federal Government any bigger than it already is, because there are a lot of us out there who think it is too big. If you have accumulated $52 trillion of accumulated liability and political promises that have been made and not paid for, at some point you have got to pay for what is already on the table in terms of political problems. So, adding more political promises I think would be a problem.

Mr. MCDERMOTT. If we don't pass this unemployment extension, the 18,000 people in South Carolina who will have exhausted their benefits this year, it is your responsibility. Is that what you are saying? You don't——

Mr. SANFORD. No. What I am saying is, can we be more creative in that process of saying can we cut somewhere else in the Federal Government to pay for it, if in fact that is what the Federal Government wants to do.

Mr. MCDERMOTT. Well, give me the cut. Give me the cut you want to make. Do you want us to cut your Medicaid payments?

Mr. SANFORD. We will gladly take a block grant all day long in lieu of the current system.

Mr. MCDERMOTT. I find it hard to believe that you seriously are saying——

Mr. SANFORD. You don't think there is a dollar that could be cut in the Federal Government?

Mr. MCDERMOTT. I am sorry?

Mr. SANFORD. You don't think there is a dollar that could be cut in the Federal Government?

Mr. MCDERMOTT. Well, you haven't given me what it is. You are certainly not willing to have your highway funds cut. You are not willing to have your Medicaid funds cut.

Mr. SANFORD. No. I am saying that you are the one wanting to expand the program. I am saying, it would seem to me to be the impetus of that person that wants to expand the program to come up with a cut.

Mr. MCDERMOTT. That seems to me that, as this thing goes downhill, as more and more people exhaust their benefits, they are going to stop paying their mortgages and you are going to stop getting property taxes, and these county officials and these city officials in your State and everywhere else—I can't imagine what is happening to the local government as your tax base erodes when people aren't paying property taxes.

Mr. SANFORD. I am sure that the Mayor will tell you, but I will simply say this: This is not what made America great. I mean, the whole idea of we constantly have to rely on the Federal Government to take care of the latest problem or the latest ill I think is contrary to what made your State great or my State great or, for that matter, the country great as a whole.

Mr. WELLER. Mr. Chairman, would the gentleman yield?

Mr. MCDERMOTT. Yes.

Mr. WELLER. This is a friendly exchange, of course, Mr. Chairman.

Mr. MCDERMOTT. We will see.

Mr. WELLER. Your Unemployment Modernization Act, and like you, I urge the Senate to act on the extension plan that the House

overwhelmingly passed with bipartisan support before we left Congress a few weeks ago. But in your modernization plan, as I understand it—and the Governor may not have had an opportunity to study your bill. But you fund your expansion of benefits in your modernization legislation with an additional tax on small business and employers. But at a certain point, the States are expected to assume the cost of your expansion. So, from the standpoint of Governor Paterson and Governor Sanford, they would essentially have an unfunded mandate which they would be expected to pick up at a certain point. Is that correct?

Mr. MCDERMOTT. Reclaiming my time, the tax that we had in that bill was an extension of a tax that is already on. There was no increased tax in that bill of modernization; that was extension of a present FUDA tax that was put on some years ago.

I now will move to Mr. Johnson, I believe, is the next questioner.

Mr. JOHNSON. Well, Mr. Chairman, I think the Governor has departed or is about to. If we had enough money to put an exit sign up there, you could find your way out, Mark. Thank you for coming.

I thank you. You know, it seems to me that—I have been a longtime advocate for private-public partnerships, and I think private activity bond financing is an excellent way to get more activity. For each dollar of revenue spent by the Government with private-public partnership, we get tens of billions of dollars worth of spending by not having to use all tax dollars. I think that a lot of States, Texas and South Carolina, too, are using that. I feel like if we have got projects ready to go, that we ought to maybe consider that as a way of making that happen.

Mr. Mongan, I would like to ask you: Are you aware that the Chicago Skyline project and the Pennsylvania Turnpike are two major undertakings that were both public-private partnerships, I believe? Do you have any comment on these projects or private activity bond financing that you think might work?

Mr. MONGAN. The use of public-private partnerships and private bond financing is an excellent vehicle for those projects that meet certain criteria. It is not a panacea for every project that comes down the road.

Clearly, I think there are criteria that need to be established around the use of public-private partnerships so that the public interest is adequately protected.

There are two kinds of public-private partnerships: The asset sales, such as occurred in Indiana, or the project like you are going to be seeing here outside of Washington soon where we are building a new toll lane on the south side of the Beltway, and that is a public-private partnership.

Each needs to be evaluated on its particular merits. Obviously, there needs to be an economic return to the private sector in order for it to be a successful project. We have seen the problems in some projects, such as the tollway that exists from Dulles to Leesburg, where that wasn't adequately financed up front and there has been a lot of changes in ownership, but ultimately it is now successful and expanding. So, it is a very viable tool that is there for States.

What we would urge is that there are a number of States that don't allow it to be used, and we would urge that those States rec-

ognize the benefits of public-private partnerships as a means for financing, not just transportation, but many infrastructure projects.

Mr. JOHNSON. I agree with you, and I thank you for your comments.

I don't have any further questions, Mr. Chairman. I yield back.

Mr. MCDERMOTT. Mr. Pomeroy.

Mr. POMEROY. Mr. Chairman, thank you. I have been in and out, and this question may have been addressed when I was out. Actually, this is for the next panel.

I have got a slide I want to talk about relative to pensions; that is not this panel.

My question would be for Mr. Firestine. I have heard reports about municipal bond issues not being essentially marketable, even though highly rated municipalities are offering them in this environment of credit crunch. I am wondering what you are seeing relative to the ability of infrastructure issues that are bond funded in light of the market.

Mr. FIRESTINE. Again, as you know, the municipal market really backed up in September. Quite frankly, most of the crisis came in and, as still evident, actually started much earlier in the year with auction rate securities or short-term investments, any type of investment that had a guarantee or a backstop to it, whether it was a bond insurance company or a bank. The problem with those is, you know, dealers couldn't place them, so in a lot of cases you had banks holding perhaps that—those bonds, short-term bonds. What happens in those cases is the interest rate increases dramatically, as I said in my testimony in some cases 2 percent up to 9 percent. So, there is an immediate drain or impact on your budget.

Second, usually in those short-term financing situations, if they are used in a capital budgeting situation, the intent is at some point to take it out for a long-term financing, and perhaps convert it from short-term to something maybe 20 or 30 years. The problem is on the short-term financing, once the bank holds the debt, it accelerates the term of those bonds. So, now agencies not only are paying higher interest rates, but rather than having 20 years or 30 years to pay them off, suddenly the maturity is increased and they have got to start accelerated principal payments over a short period of time. So, significant budgetary impacts of that.

Mr. POMEROY. You have heard the discussion that Governor Sanford advanced relative to concern about spending and concern about the Federal versus State role. Being cognizant of those concerns, are there steps the Federal Government can make to add essentially liquidity to the municipal bond market opportunity that is going to make infrastructure investment locally financed through bond revenues easier to achieve?

Mr. FIRESTINE. Absolutely. As I indicated in my testimony, a simple backstop in your guarantee of a municipal debt in a general way would certainly add liquidity. It takes that liquidity issue off the table. I think it increases capacity for local governments to proceed with projects. I also think that it certainly would free up the short-term market to the extent it is not used for capital projects to give some comfort to those governments that are worried about having cash to make payrolls for their employees.

Mr. POMEROY. But the market has not been rationally evaluating the performance likelihood of these bonds when issued by municipalities. Do you think the Federal guarantee behind a AA, AAA municipal bond is going to enhance its ability to be marketed?

Mr. FIRESTINE. I do. I mean, I think it provides—again focusing on the short-term aspect of that, I think it helps highly rated bonds; I think you can still get it done. AAAs, you can probably still get done. It is those lower rated bond issues that in the past had bond insurance or other forms to help make them marketable. Right now——

Mr. POMEROY. Is there a way the Federal Government could develop underwriting capabilities, so basically we are not—I mean, we are signing on to highly—to bonds where the payoff is highly likely.

Mr. FIRESTINE. Right. Again, I don't want to imply what the form would be, but I think assuming some sort of a Federal guarantee——

Mr. POMEROY. That is what I am saying. But let's not guarantee just everything. How do we discern what to guarantee and what not?

Mr. FIRESTINE. Again, I think the place where the guarantee immediately would have an effect is in the short term, the variable rate market, or with respect to auction rate securities where I think there is over $200 billion worth of auction rate securities that are looking for some sort of backstop or guarantee.

Mr. POMEROY. But what I am asking is, within the Federal Government, if we would go down that road, how would we be able to discern what to guarantee and what not relative to likely performance? I mean, we don't want to give a blank check here; we would want to only guarantee things that are of high quality and illiquid only because the market is irrationally sorting these things out right now.

Mr. FIRESTINE. Again, I think there is some precedent with respect to what you are doing in the private sector with—you know, commercial paper in the private sector. We could follow a similar process with respect to tax exempts that you are following with commercial paper.

Mr. POMEROY. Thank you. Thank you, Mr. Chairman.

Mr. MCDERMOTT. Mr. English will inquire.

Mr. ENGLISH. Thank you, Mr. Chairman.

Mr. Chairman, I had hoped to engage the two Governors while they were here, because I think that many of the issues that will come up with the stimulus package have a direct impact on them, and many of their proposals I think will have impact based on the status of State finances, which I realize have been deteriorating because of the slowdown in the economy, which disproportionately affects State budgets. As someone who came out of State Government, I understand how State revenues are impacted by the economic conditions like we are currently experiencing.

I was hoping to get them to comment on the status of rainy day funds. I know that Pennsylvania, for example, has been aggressive about maintaining its rainy day fund and, as a result, may be a little better positioned to deal with the current situation than some other States.

But in lieu of that, Mr. Mongan, it is a real privilege to have you here given the status of the organization you represent. I think, as a Hamiltonian sort of conservative, philosophically, I agree with a great deal of what you have said here and the basic thrust of your remarks; but I also know that we are trying to maximize the dollars that we put in the stimulus. It seems to me that, in terms of infrastructure spending we need to make some important distinctions as we put together a stimulus package.

First, I would like you to respond to the Congressional Budget Office's comment in January. Here I will quote.

> "Because many infrastructure projects may take years to complete, spending on those projects cannot easily be timed to provide stimulus during recessions, which are typically relatively short lived."

That conforms with many of the things we have been hearing in this Committee and the Joint Economic Committee over the course of this year as we have looked at stimulus bills. Would you like to briefly respond to that?

Mr. MONGAN. Thank you. Much of the infrastructure in terms of new projects or, shall we term projects of national significance and regional significance, I would agree are projects that extend in terms of multiple years for construction and have life expectancies, if you will, of 50 or more years. But there are literally hundreds and hundreds of projects that are out there that are of, we will call, system preservation.

Recently, there was an article that Virginia is going to be forced to reduce its highway program by another $1.1 billion; and the article indicated that now they are going to be cutting back on maintenance or system preservation. There are projects in terms of bridge repair that need to be funded now and need to be done now. There are highway expansions and widenings. As the mayor said, "I have got sidewalk projects." They are projects that are easily done, quickly put on the street, and they create jobs.

Yes, does that sidewalk have a 50-year life? Probably not. So, I think you have to look at the apples versus the oranges, and make sure you are looking at the same kind of infrastructure improvements.

Mr. ENGLISH. I think that is a good response. Would you also like to respond to the comments of Allen Blinder, in a recent working paper? Obviously, someone who is not considered a doctrinaire conservative, his quote is, "The slow natural spend-out rates remain a serious handicap. For example, out of each $1 appropriated for highway expenditures, less than one-third is likely to be spent within a year. Accelerating the pace of spending on public works for stabilization purposes would be inefficient and wasteful."

Can you challenge that?

Mr. MONGAN. Again, for the same reason that is quoted, you have to look at the project and the nature of the project. If we are looking at large infrastructure projects that are multi-year construction projects, then the gentleman's statement is relatively accurate.

Mr. ENGLISH. Would you then agree that perhaps, whatever we do on stimulus, we have to be extremely discriminating about the parameters of how we spend on infrastructure?

Mr. MONGAN. I would agree with that. Yes, we should discriminate.

Mr. ENGLISH. Thank you.

Mr. Chairman, I appreciate the opportunity; and a very distinguished panel today.

Mr. MCDERMOTT. Mr. Thompson will inquire.

Mr. THOMPSON. Thank you, Mr. Chairman. I thank all the witnesses for being here.

I am one who believes that the best stimulus that we can possibly do is to figure out a way to get funds for capital project improvements. I know that Mr. Mongan had spoke to the value of these capital projects and infrastructure projects. There has been a lot said about the value of that and how the multiplier works and how many jobs will be created, and I believe all of those numbers and think it is important to say. But there has not been much said about the cost of doing nothing in regard to the infrastructure projects that are out there. I know just in my district alone, I run up to the Sacramento River, and if that levee, which is in bad, bad shape and the Sacramento River breaks, if it breaks on my side of the river, there is tremendous damage that is done to both homes and to farmland. If it breaks on the other side of the river, the town of Sacramento is under water and the cost to Government at every level to respond to that would be horrendous, not to mention the fact that over 60 percent of Californians would be without drinking water.

You can talk about other examples from bridges collapsing to roads falling apart. I am very concerned that we deal with this and believe at the same time it would provide a tremendous stimulus.

So, I would like to hear from both Mr. Mongan as well as Mr. Firestine and Mayor Palmer about that issue, the cost of doing nothing, and what waiting for State matching funds could do to hurt or delay any local or State projects, and are there any State projects or local projects that have been started but if we don't come through with Federal money, given the tough economic times, those projects—are there projects that may have to be stopped?

Mr. PALMER. Yes. You are exactly right, Congressman. The cost of doing nothing, we can't afford anymore.

There are so many examples, if you look at even water main breaks, our crumbling infrastructure under the ground, our pipes. When you had the issue that happened, unfortunately, in Minneapolis, Minnesota Mayor Rybak did an excellent job showing strong leadership there along with the Governor. But when that bridge went down, not only was there a tragic loss of lives, but also look at the effect it had on the economy and the effect of—you know, if trucks can't go through routes, it is going to be a problem that is going to cost—goods and services are going to cost more. If you have a water main break or a pipe that bursts in New York City, the economic toll that that costs to the small businesspeople in and around that area.

I think we are at a time now where we recognize that we just cannot continue as a nation to be crisis oriented. We have to plan ahead, we have to look at investing in our infrastructure and resources so that we don't have these kinds of things. I believe the American people are ready for that kind of bold, strong leadership

when you tell them, "This is an investment." You don't have to wait until a bridge collapses or the roof crumbles down on kids for you to want to do the right thing. I think this is an opportunity for all of us as Americans to do the right thing now and invest in our cities and our communities.

Mr. MONGAN. Just to point out a statistic relative to highways. The poor road condition in this country costs the U.S. motorists over $67 billion a year in additional repair and operating costs. That is over $330 per motorist because of the quality of our roads. Then, if you look into the delay costs the industry experiences because of congestion or poor roads and the fact of just-in-time delivery is the way that our industries works today; if those products are delayed, then you have idle workers, you have products that aren't delivered to the market on time.

So, yes, you are absolutely correct that doing nothing costs our economy real dollars, and it costs our environment real dollars and our energy by the additional gasoline and idling that is done in—just in road construction, road congestion.

Mr. THOMPSON. Thank you. Anything to add, Mr. Firestine?

Mr. FIRESTINE. I do. I think if you look regionally you can see dramatic examples of infrastructure needs. Even in wealthy parts of the region, Montgomery County earlier this year, we had a large water main break shut down almost half of the county, businesses closed for 3 or 4 days. If you live there, you know how uncomfortable it was over that period of time.

The need for infrastructure replacement, it is a place where clearly the contracts are in place, we know we can do it; it is just a matter of how quickly we can fund replacement of that aging infrastructure.

Another example is the work being done by the D.C. Water and Sewer Authority. I sit on their board. There is a mandate to help clean up the Chesapeake. It is a $4 billion requirement; $2 billion of that is focused on the antiquated sewer system within the District, which is a combined sewer system which causes overflows. That needs to be corrected, that is a $2 billion project. Reducing the nitrogen flow out of Blue Plains, which is the largest sewage treatment plant in the world, is another $2 billion project.

So, there are huge infrastructure requirements here in the region that certainly we need, and it is difficult in advance to pay for those.

Mr. THOMPSON. Thank you, Mr. Chairman, for the time.

Mr. MCDERMOTT. Yet again, Mr. Weller, I am going to say goodbye to you in public.

Mr. WELLER. We may be back again in November.

Mr. MCDERMOTT. Mr. Weller will inquire.

Mr. WELLER. Thank you, Mr. Chairman. I know, as a courtesy, the Committee allows Members to insert into the record an opening statement, and I would just ask that my opening statement be inserted into the record.

Mr. MCDERMOTT. Without objection.

[The prepared statement of Mr. Weller follows:]

JERRY WELLER
[illegible]

DEPUTY MAJORITY WHIP

COMMITTEE ON
WAYS AND MEANS

SUBCOMMITTEE ON TRADE

SUBCOMMITTEE ON
SELECT REVENUE MEASURES

UNITED STATES
HOUSE OF REPRESENTATIVES

HOUSE POLICY COMMITTEE

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INTERNATIONAL RELATIONS

SUBCOMMITTEE ON
WESTERN HEMISPHERE
(VICE CHAIR)

SUBCOMMITTEE ON
INTERNATIONAL TERRORISM &
NONPROLIFERATION

Statement for the Record

Representative Jerry Weller

Presented to the Committee on Ways and Means

Hearing on Economic Recovery, Job Creation and Investment in America

October 29, 2008

Mr. Chairman, thank you for the time today during this economic stimulus hearing. I must ask the question: what's missing from this hearing? Amid all the talk about economic stimulus, we are not talking about the gains from trade, the one bright spot in our economy. In fact, 90% of our economic growth in the last quarter was due to exports.

The facts tell us that previously implemented fair trade agreements are working. Exports are the one shining example in our economic picture – literally keeping the recession floodwaters at bay. Virtually all economic growth has been due to surging exports, and let's not forget exports support 57 million workers, over 40% of the workforce. Jobs in trade are also good jobs, paying up to 18% more in average wages, and trade means the average American family has $9,000 more in purchasing power every year.

Opponents of fair trade agreements try to argue opening trade markets hurts our economy and causes job losses. Again, reviewing the numbers proves this is just not true. First, 40% of our exports go to countries we have signed trade agreements with – but those countries make up only 7% of the world's economy. Since 2002, twelve fair trade agreements have been implemented. Our trade balance with those nations is now 341% better, with a surplus of almost $22 billion. We also now enjoy a manufacturing trade surplus with our fair trade agreement partners of $11.6 billion as of August.

Opponents of fair trade agreements like to argue that CAFTA-DR is a bad agreement. This couldn't be further from the facts. It has proven to be an excellent agreement. Before the agreement, we had a deficit of $1.9 billion with the CAFTA-DR countries because of the one-way preferential access for these countries. By 2007, because of CAFTA-DR, we had a $3.7 billion surplus, and so far through August of this year we have a surplus of $4.3 billion. CAFTA-DR is actually growing our economy and creating jobs for U.S. exporters! It is a model for the potential of Colombia and Panama, both agreements that open one-way markets to full partnership. Colombia, with a larger population than CAFTA-DR countries, can be an even greater market opportunity with implementation of the agreement.

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Let's look at the numbers: pending agreements with Colombia, Panama, and South Korea would grow exports of American-made products by at least $10.8 billion. That means jobs for U.S. workers at a time when those jobs are needed most. Importantly, in the case of Colombia and Panama, let me reiterate the fact that virtually all products, goods and services that are produced in those countries come into the United States duty free, but our products we want to export face significant tariff barriers. In the case of Colombia, it has meant an ever growing tax of now over $1.3 billion on American-made products – money that could be going back into our economy with passage of this trade agreement. Our products face an average 14% tariff going into Colombia, hurting our competitiveness, stifling economic expansion.

As of today, it's been 708 days since the Colombia agreement was signed, and this committee has failed in its responsibility to even hold a hearing on the pending agreement. What possible reason can there be for not holding hearings and moving forward with this good agreement? The facts show we can change our one-way street with Colombia to a two-way partnership where both our countries benefit and our economies grow.

Mr. Chairman, to help stimulate the economy, I urge you to work with the Democratic leadership to move forward with pending trade agreements with Colombia, Panama and Korea, agreements that would help our economy now and in the future.

I ask the following article, "Uribe: Colombia Investor-Friendly" by Colombian President Alvaro Uribe be inserted into the record as well as these 108 editorials in support of the Colombia Trade Promotion Agreement.

Mr. WELLER. Thank you, Mr. Chairman. I would note the discussion; like my friend from Pennsylvania, I support infrastructure investment as part of any stimulus plan. I would note, unfortunately, States like Illinois, we have been suffering under one-party Government for 7 years. Unfortunately, even though one party controls the Government of the State of Illinois, between the Governor and the State legislature they have failed for 7 years to pass a capital projects bill necessary to fund road projects and other infrastructure in the State. So, Illinois, unfortunately, probably wouldn't be able to benefit from any Federal infrastructure program because the State would not be able to put up the matching dollars. So, until they get their act together, it is going to be difficult for a State like mine to be able to benefit from this type of initiative, which I do support.

I would like to direct this question to Mr. Firestine. I want to ask our two Governors because of their role, and particularly the Governor of New York, but unfortunately they had to leave. But this week, I noted in U.S. News & World Report there is an article which talks about how the Chairman of the House Education and Labor Committee, Mr. Miller, is pursuing a plan which would essentially eliminate private retirement accounts as we know them, a plan which would eliminate the tax preferred status or the preferential tax treatment of accounts like 401(k)s, take that away, and so which would in my view certainly change how 401(k) plans operate.

Mr. Firestine, I note that Montgomery County as part of your benefit program for your county employees, that you have a 401(k) or a 401 retirement plan which receives preferential tax treatment. If that preferential tax treatment was taken away, as appears to

be being advocated now by the Chairman of the House Education and Labor Committee, how would that impact the retirement plans of your employees, and how would that impact your ability to provide this type of benefit to your employees?

Mr. FIRESTINE. First of all, what is interesting about that, we had the traditional defined benefit plan for county employees; and one way we were trying to control our long-term liability was to move to a 401 type approach, a defined contribution approach. The main purpose is you know what the amount is that you have to contribute, the employee contributes a share, it gets the tax treatment that it does. So, we moved in that direction thinking that most governments would go that way. What we found is a lot of governments haven't.

It is a challenge for employees who are in those plans now, because obviously what has happened in the stock market, there is a lot of pressure to somehow make up for those employees' losses, to somehow get them back to whole, in order for us to stay competitive as an employer in the region.

Mr. WELLER. But if you take away the tax preferred status, where the employees would have higher taxes on their contribution, would that have an impact on your employees' decision to participate and make contributions into those type of plans?

Mr. FIRESTINE. First of all, the employees who were hired since 1994 don't have a choice; they are automatically enrolled. That is really their only retirement benefit.

Mr. WELLER. So, that would mean a tax increase on those employees if you take away that tax preferential treatment?

Mr. FIRESTINE. I believe so.

Mr. WELLER. Mr. Mongan, do many of your members, civil engineers, do they have 401(k)s as part of their retirement plan?

Mr. MONGAN. I have no knowledge of that.

Mr. WELLER. Do you?

Mr. MONGAN. My firm? I have a firm. Yes, we have the 401(k) plan in my firm.

Mr. WELLER. So, with your particular firm—you are an engineer.

Mr. MONGAN. Yes, sir.

Mr. WELLER. So, for you and your colleagues with your firm, if the preferential tax treatment was taken away for your 401(k) contributions, would that affect the—how would that affect the decisions being made by your employees and you, yourself, regarding your retirement contributions and your intent to save?

Mr. MONGAN. I really can't speak for my 200-plus employees. I mean, each one has to make their own individual decision.

From my perspective, obviously I don't like to pay any more taxes than anyone else does. But that is my retirement plan, and I will continue to fund it, even if it means with after-tax dollars as opposed to pre-tax dollars.

Mr. WELLER. Maybe I could just ask, since I am running out of time here, ask each panelist, just give me a yes or no, if you support taking away the preferential tax status for 401(k) accounts, if you support that idea.

Mr. PALMER. I don't have enough information on that to give you an answer right now.

Mr. FIRESTINE. I think for the reasons I stated, no, we don't support taking that away.

Mr. VAN ROEKEL. I would not support it.

Mr. WELLER. Thank you, Mr. Chairman. I realize I have run out of time. Thank you to the panelists.

Mr. MCDERMOTT. I yield to the Chairman to say good-bye to the mayor.

Chairman RANGEL. I wanted Mayor Palmer to know that not only did I recognize he wasn't talking about the people of the great City of Trenton, but the problems that are faced by the Conference of Mayors in his statement that was entered into the record. But I cannot overemphasize the importance of mayors working with their congressional delegations and making certain that the importance of the pain that you are suffering from State as well as the Federal Government can be shared as we come back, and hopefully in a bipartisan effort, to make our contribution to stabilize the economy the best that we can as relates to jobs, infrastructure, health care, and other things. Because there is no place for our Mayors to run. I want to be as helpful as I can, and I am certain that Jim McCrery, if he was around, would be the first one to come to me, and not necessarily saying what you should be advocating, but I would hate to see this Congress just adjourn without making some effort to ease the pain, and not just for our fiscal institutions but for the people of your great cities. So, thank you for making the effort, I appreciate your time.

Mr. PALMER. Thank you, Mr. Chairman. Just so you know, the U.S. Conference of Mayors represents 80 percent of the population of the country. We are a bipartisan organization. We work very well, both Democrat, Republican, and Independent, and we will continue as the U.S. Conference of Mayors has in the past to reach out to all the Members of Congress, both Republican and Democrat. As was said, there is no Republican or Democrat way to fix a pothole; but we do recognize it has to be a bipartisan approach to this with the support of the President. We look forward to reaching out and working with you, because we really want to make sure that we can help Main Street. Mayors represent Main Street. So, we are hopeful and will continue to work with you. Thank you for the opportunity for us to be a part of this great distinguished panel and to testify. Thank you.

Chairman RANGEL. I look forward to working with you. I yield back the balance of my time.

Mr. MCDERMOTT. The gentleman from California, Mr. Becerra, will inquire.

Mr. BECERRA. Thank you all for your patience. Thank you for having come. I would like to just focus on a couple of things. Mr. Firestine, perhaps I can start with you.

I suspect your area of Maryland is going through much of what my Southern California area of Los Angeles is going through, and that is that we are having a tough time moving forward with a lot of our infrastructure projects because the money that we thought we had in revenues principally through property tax and so forth has really been depleted, and we are seeing far less money coming in for this coming fiscal year.

I suspect your different infrastructure projects go to schools, to the issue of schools, to the issue of—I know Mr. Stark mentioned hospitals, retrofitting hospitals and all the rest. Do you have issues of water in your area of Maryland?

Mr. FIRESTINE. Yes. I had referred earlier to some very serious issues in this region in the water and sewer front. We have aging infrastructure in Montgomery County, and we actually have an agency that covers two counties; it is a bi-county organization that provides water and sewer service. The challenge has been to try to maintain some replacement schedule of our water facilities, water mains. To the point that earlier this year we had a major water main break that shut down about a half of the county, a lot of businesses were not able to open for 3 or 4 days, had a dramatic impact economically on the county. I also referred to a major project in the region related to the District's combined sewer overflow system, which is over 100 years old and creates a situation of polluting our waterways in the region. A major improvement at the Blue Plains facility, a $2 billion project to reduce nitrogen going into the Bay.

But in addition to that, I also just want to note, I mean, we have a $4 billion capital program in Montgomery County with a lot of projects that have been designed, would be ready to go. They are schools. Schools are easy to proceed with. They are easily designed. It is not like building a bridge which requires separate engineering. We do fire stations, we do libraries, we do all of that type of infrastructure with a lot of projects that have been planned but are sitting there waiting in a 6-year capital program until the right timing comes along that they can be constructed.

Mr. BECERRA. I know in my City of Los Angeles, there is always some water project underway, whether it is replacing old pipes or trying to install a newer system into areas where it is very needed.

I suspect if we were to tell you we could find a way to add in an economic recovery bill some provision to help you with water, some people will say water will become the next oil or energy crisis, that we may find that the price of oil will be dwarfed by what we having to pay to get good clean water, not just potable water but also water that we can use for crops and other things.

If you had dollars to make investments in your water infrastructure, would that be something helpful to the cities and counties or the jurisdiction that you represent?

Mr. FIRESTINE. I think the constancy across the country—and this gentleman is probably more appropriate to answer that, but everybody provides water and sewer services. I am sure most find that that is the place where infrastructure lags in terms of maintenance, because it is not seen; it is in the ground. You tend to in a lot of cases have a strategy that focuses on simply repairing the break when it occurs, not staying ahead of the curve by replacing those pipes in advance.

Mr. BECERRA. I imagine there is no shortage of projects, both small and large scale, which any one of the cities or villages or towns in your jurisdiction probably could undertake if they saw that there was an opportunity to get some partnership with the Federal Government to try to make it possible for us to do these infrastructure projects. I would also imagine that most of those

projects employ people who are paid at a pretty decent construction or manufacturing wage level. Would that be correct?

Mr. FIRESTINE. That is correct.

Mr. BECERRA. So, good paying jobs for a lot of Americans, you can't ship abroad a job to do infrastructure in Maryland.

Mr. FIRESTINE. Right.

Mr. BECERRA. Questions for our two Presidents from the teachers associations, Mr. Van Roekel and Ms. Weingarten. Chairman Rangel has had this notion for a long time that if we provided the local governments an incentive to put out the bonds, to build more schools, that we would all benefit in the long term by having educated these kids far better. Has there been anything that you are aware of in the literature, in the work that has been done—because we have done some of these bondings through these credits—bond credits in the past, to make available to local school districts moneys where you put out the bond, we will pay the interest, so you in essence get an interest free loan for the life of the bond, which saves you a ton of money, and at the end you end up with not only a savings of dollars but you also end up with a brand spanking new school for your kids? Are you aware of anything that says that that is still not a good idea and a good investment by the American people?

Mr. VAN ROEKEL. Everything I know says it is still a great idea.

Mr. BECERRA. Is that about as big a softball as you have ever seen thrown your way?

Mr. VAN ROEKEL. Yes. I appreciate it.

Ms. WEINGARTEN. The question was asked earlier about the kind of ready for construction programs right now. We have gotten technology that is so great these days, we have gotten an answer that there is at least around the country $10 billion to $20 billion of ready-to-construct school construction projects that if there was the money to do it shovels could be in the ground immediately.

Mr. BECERRA. I appreciate your responses. It is amazing, as big a softball and as easy it is to hit that one out of the park, we still haven't taken the strikes necessary over the last many years to really get on the ball. Everyone complains about the fact that we don't graduate enough engineers out of our colleges to fill the spots that we have right now waiting for them, and we import thousands of people from around the world to take high-paying engineering computer jobs. Yet when we have an idea that everyone says works, which the literature says works, we still haven't moved on it.

So, I thank you for having been here. Hopefully, these difficult times, these extraordinary circumstances give us a chance to do some extraordinary things in very simple ways that will let us hit the softball out of the park.

Mr. VAN ROEKEL. I might just add, we have done surveys in several States about the environment in schools and its impact on student achievement and student learning. I will be glad to provide the details. But it is literally tens of thousands of surveys; and then, when you see the results. So, not only is it a good investment in terms of the economy, it is an investment and the return is good. But what happens when you improve the learning condition of stu-

dents by good construction and good buildings, especially supporting green values? Learning increases and that is absolutely a win-win for everyone.

Mr. BECERRA. Thank you for your testimony. Thank you, Mr. Chairman.

Mr. MCDERMOTT. Mr. Larson will inquire.

Mr. LARSON. Thank you, Mr. Chairman. I would like to thank the panelists as well.

I have just two questions that I would like to direct my first one at the educators present here, as a fervent supporter of Mr. Rangel's infrastructure bill to get aid out to our States for school construction. I have this question.

With regard to the infrastructure as it relates to broadband, how would you rate our public school system currently in terms of its ability in a global economy to respond digitally by—and how much broadband is within our schools currently? What, in your estimation, needs to be done to make us current or make us truly schools of the 21st century, number one, from an infrastructure standpoint?

Number two, with regard to the school setting itself, Ed Zeigler out of Yale often talks about schools of the 21st century and their capability, especially in neighborhoods in urban and rural areas, to be able to have child care before and after school. So, any new construction, albeit green and clean, should also take into consideration the obvious stress on the current workforce that, during these economic times or even worse, what are your projections on that? So, fundamentally, from a human capital perspective, the schools' ability to facilitate child care; and, from a technological standpoint, where we need to be in terms of technologically being able to ramp up like, well, say our competitors in India, Ireland, China, just to name a few.

Ms. WEINGARTEN. We have been through the course of the last 20 years, I would say, attempting to always catch up in terms of ensuring that our infrastructure meets the current academic needs. That is not—and there is no clearer place than in technology. This Congress, over the course of many, many years, has really endeavored to help with that. The Chairman's bill has been one way of doing it. The eRAID program, other kinds of programs like that have been other ways of trying to ensure that we could actually ensure that our schools, buildings that were built 80, 100, 150 years ago, not only converted from coal burning to other kind of heating and now green kind of technology, but also ensuring that you had the technology and the wiring to even have a basic computer.

Mr. LARSON. How many schools would you estimate probably do not have sufficient broadband in order to participate in 21st century technology; i.e., schooling and education, in this age of knowledge-based communication?

Ms. WEINGARTEN. Unless my colleague has the answer to that question. Our sense is we are never catching up enough. We certainly now have—I will tell you in terms of New York City, after two big capital programs which the Congress has provided significant help in, particularly Chairman Rangel, we have been able to wire most of the schools. But when you start talking about

broadbanding and all that that would allow us to do, we are nowhere near where we need to be.

Mr. LARSON. That was my point, especially when we are talking about an infrastructure program and the public wants to see the direct benefit. We don't want to just put bricks and mortar, however important they are, and they are. But if we are not putting, making the investments so that it is going to pay off long term so that our children are able to compete long term with their—you know, it used to be you competed across State borders; now we compete globally. It never ceases to amaze me the investment that other nations are willing to make because they understand the significance and importance.

Mr. VAN ROEKEL. To add to that, as we do interviews with businesses outside, what they talk about is that too often our students power down when they get to school, meaning that the technology available at school is far less than what some of our students carry around in their backpacks when they are out of school. The inequity of that, of the ability to have those technology tools, is huge.

Our organization, the National Education Association, has been a partner with the Partnership for 21st century skills, to talk about what are the skills and knowledge that we have to put into our schools and our education system today in order to be competitive in the world and in the years to come. That is a huge step that we need to take, and we are not anywhere near where we need to be.

Mr. LARSON. Mr. Mongan, if I could ask you, from a civil engineering perspective. As it relates to over the last 25 years, what we have seen in terms of investment is investments in bubbles that ultimately burst; and, for the most part, they are paper assets that we have been dealing with. Whether it is real estate, whether it is financial paper assets, et cetera, even speculation in the commodities markets based on paper rather than actual tangible goods, in your view, does the country need an industrial policy centered around civil engineering, science, and manufacturing? If so, what are some of the areas that you think we should go to?

Mr. MONGAN. This country and the Congress has tried to help, but we have clearly a report that the National Academy of Engineers published a few years ago, Rising Above the Gathering Storm relative to science, technology, engineering, and math education. We are continuing to fall behind our colleagues outside of the United States in that area. That we must do more to promote that type of education. Clearly, our investment in infrastructure and STEM education has lagged behind significantly our foreign competitors.

I had the privilege of traveling to Tunisia this past summer on a presidential trip, and their President, Ben Ali, for the past 20 years has had a program of education focused around science, technology, and math. Their GNP doubles what Europe's average GNP does, just a small country of 10 million people. They have 20 colleges of higher education granting engineering and technology degrees out of a population of 10 million. We don't even come close. It is simply because they have the leadership and the vision to say

that science technology and engineering and math are our way out for the future.

Mr. LARSON. Thank you. I thank all three of you for your responses.

Mr. MCDERMOTT. Mr. Brady will inquire.

Mr. BRADY. Thank you, Mr. Chairman. I thank the panel for your information today.

Congress does not have a good track record when it comes to economic stimulus efforts. Our last one earlier this year had no impact; that all those checks went down the gas tank because of high fuel prices, and this Congress refused to deal with high fuel prices. The aid to the States in 2003 had little impact other than, unfortunately, many States padded their State payrolls. Today we face a bigger problem because of that.

It seems to me that the bigger picture is that our National Government is on very shaky financial ground. Republicans I think did a poor job controlling spending. When we left control of the Congress, we had a deficit of $160 billion. Today, in the first year of Democrat control of Congress, that deficit more than triples, over $400 billion. When we finish this year, we will have the highest Federal deficit in American history. That is not even counting the bailout or the $50 trillion or more in unfunded liabilities for Social Security and Medicare. Governors and mayors have rightly criticized Washington for its out-of-control spending habits.

So, today, having Governors and cities asking Washington for financial aid is a little like Lehman asking the auto makers for financial aid today. We may well do best to get our own financial houses in order. I wonder if the best signal that we couldn't send to our financial markets is that Congress is going to deal with its financial house, and it is going to take the necessary steps not on a spending spree but on spending reform.

I do think there is merit in exploring the unemployment benefits issues, because we have some States that are struggling terribly. Schools in Texas tell me, in my district, that fuel prices continue to be the hardest part of their budget. They are laying off teachers, consolidating bus routes, ending extracurricular programs. They just can't handle those fuel prices. What Congress should do to address that in a meaningful way I think would help our schools a great deal.

I do think there is merit in exploring a direct injection of infrastructure funding for highways and bridges. If I were in charge, I would bypass the U.S. Department of Transportation and send that money directly to the States for projects that are ready to bid today. I would pay for every dime of that injection by—for 1 year, I would lower the gate, the tax gate; allow U.S. companies to bring back more than $300 billion of profits that are stranded overseas because our Tax Code penalizes them for reinvesting in America. Not only would that double the economic injection into the U.S. economy, but the taxes from that 1 year lowering of the gate would pay for every dime of that highway and bridge infrastructure funding.

So, I guess my question to you, Mr. Mongan, is we know the Highway Trust Fund is flat broken and needs to be addressed in a meaningful way. But do you believe bypassing the Federal mid-

dleman, injecting dollars directly into the—let me give you a choice. What is the smarter move for Congress, to fix the Highway Trust Fund permanently or to directly inject dollars into the States for ready to bid contracts?

Mr. MONGAN. Well, I think Congress needs to address next year in the transportation reauthorization ways to deal with the trust fund, ways to provide sufficient revenues to ensure the trust fund doesn't go broke again and that there are adequate resources there to invest in transportation. I think there are a multitude of issues associated with our trust fund and the spending, the mandates, the categories. All of that needs to be examined.

In immediate terms, I think that a direct grant, if that is what we are talking about, to States with mandates that will be used in transportation or bridges probably would put the most dollars on the street in the short term. But I see that purely as a short-term option, not in terms of a longer term approach. We need the criteria, we need the discipline that the Federal Department of Transportation brings to our transportation problems, and that shouldn't be destroyed in the process of trying to fix the trust fund.

Mr. BRADY. Do you object to our paying for that infrastructure funding rather than borrowing money to do that?

Mr. MONGAN. We think that there are a number of ways that infrastructure funding can be financed and that those ways should be explored.

Mr. BRADY. Thank you. Mr. Chairman, I yield back.

Mr. MCDERMOTT. The gentleman from Oregon, Mr. Blumenauer, will inquire.

Mr. BLUMENAUER. Thank you. Thank you, Mr. Chairman. Thank you, Chairman Rangel, for the laser like focus on infrastructure. This is going to be a major item for us not just in the context of the stimulus, but it is one of the major unfinished agenda items we have for the next Administration and the new Congress. I appreciate your patience sticking with us and adding your voices to the drumbeat of the challenges that we face with the economy, with fraying infrastructure, whether it is roads, bridges, water, transit, or our educational infrastructure or lack thereof, and in the context of some of the new realities that we are facing like a carbon-constrained environment where we are going to have to be doing things to meet the challenge of global warming.

I am hopeful that if there are any observations that you can help us with, with all the smart people that are within your organizations and the experience that you folks have, that we might be able to obtain from you some thoughts about what the vision should be for the big picture. I don't want to put you on the spot now for 37 seconds but to the extent to which—I know, Mr. Mongan, we have had these conversations with you and your team in the past—as we try to sort out what Congress and the new Administration needs to be doing with the big picture to renew and rebuild America for this century in these contexts, beyond just the short-term economic stimulus but something that you can count on year in and year out and be part of a broader comprehensive effort that we can look at so we know what it is that we are financing and how we squeeze more value out of the process. The extent to which you have some thoughts and can supply them at least to me I would

deeply appreciate that over time and look forward to following up with you.

I would have a very specific short-term question to Mr. Firestine, if you wouldn't mind, and others of you may have some thoughts. We are looking at agencies, municipal agencies, school districts, airport authorities that are AAA, gold plated, that have a revenue stream, have not missed a debt service payment ever, and are watching, and you referenced, the skyrocketing short-term problem. I am wondering if there are approaches that occur to you that we might be able to take now to help those local governments, those school districts, those transit authorities that are running into the serious short-term buzz saw that the Federal Government could do with a different type of bond, for instance, or a bond in reinsurance or something that would enable you to work, function at a reasonable price given how creditworthy many of these entities are.

Mr. FIRESTINE. Again, I think because there is no market out there for liquidity providers, there is nobody willing to provide guarantees for short-term liquidity, that is the best place where I think the Federal Government could help. I think the authority is already there in terms of what you have approved. As I said earlier, I think the issues with respect to Treasury, looking at you know what has been done for assistance with commercial paper in the private sector, certainly would apply to the health that is needed with short-term commercial paper on the tax-exempt side. There are issues with short-term variable rate debt where it is used basically in those situations where it is an interim financing tool for capital projects. Because you don't have access to that and because you are delaying issuing long-term debt you have now put long-term projects on hold.

So, again I think most places where we see the immediate need is in the short-term market in the form of guarantees, and that is, I think, one of the quicker ways to provide stability there. There are jurisdictions concerned about making payroll because they don't have access to commercial paper, to assure in advance of tax receipts that they have cash to make payroll, and it is all related to the fact that you can't get a liquidity facility.

Mr. BLUMENAUER. Thank you. Our friends from education, any thoughts about this bigger picture?

Ms. WEINGARTEN. We have actually put out a report on green schools and our vision of what a green—how we can green our schooling—our schools and what it means both in terms of higher productivity, satisfaction rates, helping kids as well as what a school like that would look like, and we would be happy to get that to you.

The other point I would make is over the summer I started talking about how you pull together a lot of what we do in schooling and in social service and you try to do that maybe either with wrap-around programs or under the same roof. So, for example, there are many places where the S–CHIP program, other—the children health programs have been brought into or coordinated with schooling. So, you have some health clinics either in schools or coordinated with and so if you look at a long-term vision of what schools will do or can do, that is a way of looking at infrastructure side by side with long-term coordination, which I think would actu-

ally, again, save money in terms of having a lot of services that we believe kids should have coordinated under the same roof.

[Not available at the time of printing:]

Mr. VAN ROEKEL. Just to follow up again on the concept of green schools, I worked with the U.S. Green Building Council and they are doing incredible work on the environment and green schools and what we can do in the long term about a vision of what it looks like. One of the leading reasons for absenteeism is asthma and the incidences have gone up just dramatically in the last 20 years. We see a difference of air quality in schools with the absentee rate and the impact it makes on student learning.

So, there is much there. I would love to provide that to you.

[The information follows:]

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December 3, 2008

The Honorable Charles Rangel
Chair, Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Rangel:

As a follow-up to my October 29 testimony on "Economic Recovery and Job Creation Through Investment," I am pleased to submit the following supplementary information:

- **Surveys on school environment and the impact on student achievement.** As I indicated in my oral testimony (referenced on page 120 of hearing transcript), NEA has conducted a number of surveys about the impact of teaching and learning conditions on student learning. The results of these surveys clearly show a link between quality learning environments and student achievement. Attached for your information is a brief summary of NEA's Teaching, Learning and Leading Survey (TELLS) as well as a list of additional references.

- **Link between school air quality and absenteeism.** In my oral statement (page 134 of hearing transcript), I discussed the relationship between school air quality and student learning. Asthma has reached epidemic proportions in the U.S. Nearly one in 13 school-aged children has asthma, and the percentage of children with asthma is rising more rapidly in preschool children than any other age group. Asthma is the leading cause of school absenteeism due to a chronic illness, accounting for over 14 million missed days per year (http://www.epa.gov/iaq/schools/managingasthma.html#The%20Asthma%20Epidemic).

  The Environmental Protection Agency commissioned a National Academy of Sciences Institute of Medicine expert panel review of the scientific evidence on the relationships between indoor air pollution and asthma. The landmark report, *Clearing the Air: Asthma and Indoor Exposures*, released in 2000, guides much of the national effort to improve environments through various EPA programs.

  Additional information on the link between asthma and indoor environments as well as the impact of indoor air quality on student performance is available at http://www.epa.gov/asthma/science.html and http://www3.interscience.wiley.com/journal/118785730/abstract.

I would be happy to provide any additional information needed by the Committee. Thank you again for the opportunity to provide testimony on these important issues.

Sincerely,

Dennis Van Roekel

Dennis Van Roekel
President

Teaching, Learning and Leading Survey (TELLS)

Since 2005, the National Education Association has partnered with the New Teacher Center, University of California Santa Cruz (NTC) to support the work on conducting statewide teacher working conditions surveys. Based on the work started in 2001 in North Carolina, the Teaching, Learning and Leading Survey (TELLS) process has been successful in providing data that can inform substantive school improvement, teacher recruitment and retention concerns, legislative and political programs, as well as provide the voice of teachers into school reform. TELLS results provide individual districts and schools with reliable data regarding their own teachers' perspective on their working conditions and the impact of these conditions on student achievement. The data allows individual schools and communities to consider appropriate policies and programs to address the unique concerns of their teaching force. Data gathered from the tens of thousands of surveys representing more than ten states and/or large school districts has the potential to improve teacher working conditions in every school based on the voice that matters most—classroom teachers. Consequently, the initiative holds the promise to dramatically stem teacher attrition and significantly improve student learning results.

Policymakers, practitioners, and researchers have long realized that teaching quality is the most important variable for the success of students (Hanushek, Rivkin & Kain, 1998; Sanders & Rivers, 1996). Supportive school environments, where educators are valued, trusted, and have the time and ability to collaborate to improve instruction, are necessary to enable teachers to be successful. Policymakers have paid little attention to the working conditions in schools (Hanushek & Rivkin, 2007) that are so critical to teacher retention and teacher and student success. A growing body of research clearly demonstrates that assessing, understanding, and improving such conditions can have many benefits:

- **Improved Student Learning:** Teachers' success with students is facilitated by a positive school context, such as support from leadership and being in a safe and collaborative working environment. Several statewide studies have demonstrated that the presence of positive work environments is significantly connected to increased student achievement (Hirsch & Emerick, 2007, 2006a, b). In particular, having strong, trusting relationships— both internally and externally—,and supportive school leadership are both essential to improving student achievement.
- **Improved Teacher Efficacy and Motivation:** Teachers' perceptions of their school are their reality; therefore, teachers' behavior and efficacy are a direct result of those views. In a recent literature review on teaching conditions, Leithwood (2006) found that teacher efficacy is significantly shaped by teaching conditions and that the degree of burnout and teacher engagement are critical to classroom performance and job satisfaction. He notes, "What teachers actually do in their schools and classrooms depends on how teachers perceive and respond to their working conditions." The TELLS surveys that have been conducted support this research.

- **Improved Teacher Retention:** Teachers who leave schools cite an opportunity for a better teaching assignment, dissatisfaction with support from administrators and dissatisfaction with workplace conditions as the main reasons why they seek other opportunities (NCES, 2004, Marvel, et al., 2006). Teachers indicate that a positive, collaborative school climate and support from colleagues and administrators are the most important factors influencing whether they stay in a school (Hirsch & Emerick 2007, 2006a,b). Research has linked teachers' negative perceptions of working conditions with their exit from schools. Factors such as facilities, safety, and quality of leadership have a greater effect on teacher mobility than salary (Hanushek & Rivkin, 2007). In particular, it appears that facilities that are safe coupled with supportive school leaders who create trusting environments where educators are engaged in decision making impacts the latter group's decisions about where to work (Hirsch & Emerick, 2007, 2006a,b).

- **New Recruitment Strategies to Entice Educators to Work in Hard-to-Staff Schools:** Teachers who are willing to teach in hard-to-staff schools indicate that strong supportive school leadership, an engaged community and parents, safety, and working conditions are all important factors when selecting where to work. Further, when Alabama educators were asked about incentives that would attract them to schools, non-financial incentives, such as guaranteed planning time and reduced class sizes, were found to be more powerful recruitment incentives than salary supplements and bonuses (Hirsch, 2006c). Improving teaching conditions could also bolster the teacher supply pool because many educators who left due to poor conditions may come back if such conditions were enhanced. A survey of 2,000 educators from California found that 28 percent of teachers who left the profession before retirement indicated that they would come back if improvements were made to teaching and learning conditions. Monetary incentives were found to be less effective in luring them back (Futernick, 2007).

To help ensure that all students learn, teachers need to work in schools designed for their success. Positive teaching conditions and safe facilities, where educators feel supported and empowered, are essential to creating schools where teachers want to work and students can thrive.

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Mr. BLUMENAUER. We look forward to it. Thank you very much.

Mr. MCDERMOTT. Mr. Porter will inquire.

Mr. PORTER. Thank you very much. I appreciate your patience. Thank you for being here, and the next set of panelists that are awaiting the opportunity.

I come from the great State of Nevada, and we are very proud of who we are as a community. When times are good, we excel and we reap the benefits of a strong economy. But we are also one of the first hurt in travel to or in Nevada when things are bad, the economic challenges. We have one of the worst foreclosure rates in the country, 1 out of 40 some homes in my district. We currently are laying off individuals from families from jobs. We may well see up to 9 percent projections for unemployment in Nevada. Our Government's cutting, State Government, between 14 and 20 percent. Having been a Mayor of a much smaller community than some of our teammates here today, but a Mayor of a small community, I decided to run for the State Senate because of all of the mandates that were being put on me by the State of Nevada as a city. Then as a member of the State legislature, I also realized there are also a lot of mandates the Federal Government puts on States, local governments and schools. As families are struggling in Nevada, families are hurting, they really are looking at their own mandates and looking at what they can afford and what they can't afford. So, families are cutting their budgets. Schools are cutting their budgets. Cities and States are cutting their budgets.

I am very, very concerned that one area we have not addressed as we try to help find solutions to some of your problems is that not only are my constituents angry with the Federal Government, they are also angry with the local and State Government because they think they are bloated budgets. Now, I don't believe that in State and local governments. But one thing we haven't done as the Federal Government is look at our own waste and our own mandates, and I applaud and I am sorry that the Mayor isn't here, but the Main Street stimulus package. I agree in principle and I am sure there are some areas we don't agree with, but I think that is a very, very positive step. You are giving us some possible solutions to problems. But what I would really like to see that local governments and State governments, if they would help us with your list of mandates. I know you know what they are because we used to do that. You know what they are, those mandates that we are not funding that are putting burden upon you.

I would also like to ask that this Congress take a look at where we have duplications in service. We have hundreds of programs that are very, very important but there are hundreds of agencies doing the same thing.

So, in the midst of this crisis, unlike we have seen in probably 70 or 80 years, what I would encourage Congress to do is to look at the Main Street stimulus package but also at the same time have the local governments give us their list of mandates that aren't necessary, that you don't think are necessary that we are not funding. I think that the Federal Government at the same time could reduce some of its duplicate programs, and I think that by November 17, when Congress comes back into session, we ought to

look at these. What can we do to help you? What can we do as a government? We owe it to our constituents. It is just common sense. As we move forward trying to help you, we need to find where our moneys are being wasted as well.

So, having said that, I would just like to ask off the top of your heads, are there some mandates that you think we ought to be reducing on you as local governments and unnecessary services to help your constituents? I know the schools have a couple. Is there anything in the schools?

Ms. WEINGARTEN. Look, there is—we can spend a lot of time talking about this issue and much of even we—even when No Child Left Behind, for example, was passed on a bipartisan nature, it was passed in a way that immediately after it was passed much of the funding that was supposed to be intended never happened and as a result you have—even for those who believe in testing you have variable testing all across the country, the work that was done to try to lift standards, a lot of that work has not materialized. So, part of this is making sure every dollar that is spent is spent in a wise way, which is what your question is, and I am sure we can look at many of the other programs——

Mr. PORTER. I would think—I guess I am offering that. I am not disagreeing. We probably would agree with most of the things you are talking about today, but help us then also with things that are a burden to you. I know special needs, we need to help these kids but we are not funding it. What are we, 20 something percent now? So, I would ask, November 17, I would wish that this Congress would put all of this together as we move forward. Whether infrastructure needs, we need to look at these things. So, again thank you very much——

Mr. FIRESTINE. If I could add one which I think is a good example of imposition of an unfunded mandate. There is a requirement at the local government level for a 3 percent withholding on payments that are made to vendors, and the impact of that is quite significant. We don't think there is any benefit to be received from that, but it is a clear mandate that we are going to have to put new systems in place to deal with and for an effect that, you know, will crowd out moneys that would be needed for other more important priorities at the local level.

Mr. PORTER. Thank you. My last thing in closing, to my knowledge this Congress has not looked at ways to reduce mandates and burdens on local government. I have not heard anyone on this panel suggest we raise taxes. Actually the Governor said it would be the worst thing we could do. I think we can do this together especially at this time of need, and again I appreciate all of you being here today.

Mr. MCDERMOTT. The gentleman from New Jersey, Mr. Pascrell, will inquire.

Mr. PASCRELL. Thank you. Mr. Chairman, I want to associate myself with the remarks of the gentleman from Nevada, the questions also, the line of questioning, but I am perplexed. Although I know that Governor Sanford had to leave, I really am perplexed that his State of South Carolina has the fourth highest unemployment rate in the Nation and when you look at how many folks that have been unemployed just in this past year and how many—in

South Carolina rather—have exhausted their unemployment benefits and will no longer be considered unemployed in the system that we have, as you well know. I am perplexed as to his position and I wanted to express it.

I want to go to Mr. Mongan because you answered the questions—you were asked questions by my good friend from Pennsylvania, Mr. English, about capital investment and I was a little perplexed as to whether you were agreeing with the line of questioning that we have to have these projects in the pipeline, they are taking too much time, this is not the best way to spend our money. I want to know if that is what I was hearing from you.

In testimony later today we are going to hear folks—in fact, he hasn't testified yet but Mr. Viard of the American Enterprise Institute, which totally shoots down the possibility of any kind of infrastructure investment, and he talked about—he used the same words that you are using. There are time lags. Now, you are here as a civil engineer to tell us we need to be investing in the infrastructure. You are here to tell us that infrastructure is important and we could put people to work. Yet your response to Mr. English almost contradicts that.

We are here, as I understand the Chairman, we are here to go to the heart and soul of the average American who is suffering during this recession, call it whatever you wish. That is why we are here. We read in the papers the last few days that the very money that we voted for out of the $750 billion, the money that went to the banks is not being lent to the American people. So, here we are 2 weeks past the time that we voted, 3 weeks past the time we voted, and the money that we voted for in good faith, many of us, the second stimulus package, the second vote that Friday, the money is not getting to the people. We are never going to be able to build new homes. So, I am very concerned about not only providing dollars for an infrastructure. I am very concerned about whether that money is ever going to put people to work and as quickly as possible.

There are thousands of projects, are there not, Mr. Mongan in the pipeline, that is my first question, in each State, yes or no?

Mr. MONGAN. Yes.

Mr. PASCRELL. That means, Mr. Mongan, that we have got design, we have got the schedules ready to go. We just simply don't have the money in those States to fulfill either building access to airports, either expanding roads, repairing roads, fixing the bridges. Thirty-nine percent of the bridges in New Jersey are falling down, falling down, falling down. Thirty-nine percent of the bridges. Now, do you think it is expedient for us, this Committee, to explore the possibility of money going to the infrastructure, Mr. Mongan?

Mr. MONGAN. Yes. I am sorry if I misled you in my answer to the Congressman's question. As I interpreted his question, is that there are large infrastructure projects like the intercounty connector here in Maryland that is going to cost $2 billion and is it prudent to have a stimulus package that funds an infrastructure project of $2 billion that is going to take 10 years to build? Well, what my comment was is that there are lots of other projects out there that are——

Mr. PASCRELL. As a civil engineer——

Mr. MONGAN [continuing]. That are ready to go, that can be worked on immediately and are not going to be multi-year——

Mr. PASCRELL. Well, there are a lot of those projects, aren't there, ready to go?

Mr. MONGAN. There are thousands and——

Mr. PASCRELL. What about the water projects? What about the sewer separation, which is a Federal mandate—I am sorry the Governor is not here. We have tried for 8 years on a bipartisan basis to get money into those facilities of separating our sewer system to ensure clean water, drinking water. How many of those projects would you imagine are in the pipeline ready to go, ready to go next Monday morning if we provide the dollars—at least help provide the dollars with partnership with those States?

Mr. MONGAN. There are hundreds and hundreds of those types of projects.

Mr. PASCRELL. So, to give the impression that we would have to wait so long before any of these projects to get off the back burner, so to speak, and put people to work, that is just not so?

Mr. MONGAN. That is correct.

Mr. PASCRELL. Why aren't we pushing for that?

Mr. MONGAN. We are pushing for that. The answer——

Mr. PASCRELL. You are. So, in other words, you would clarify what you said to Mr. English——

Mr. MONGAN. Yes.

Mr. Pascrell [continuing]. And responded to it because he was quoting directly from this gentleman from the American Enterprise Zone. I mean I am not shocked what he is saying, but I was interested in how the dialog went. You do support immediate infusion of dollars in partnership with the States to get the projects, these infrastructure projects that are in the pipeline, getting them going. We can do that in a very short period of time after we pass the legislation; is that correct?

Mr. MONGAN. Yes.

Mr. PASCRELL. You support that?

Mr. MONGAN. Yes.

Mr. PASCRELL. Thank you for clarifying.

Thank you, Mr. Chairman.

Mr. MCDERMOTT. The gentlewoman from Nevada, Ms. Berkley, will inquire.

Ms. BERKLEY. Thank you very much, Mr. Chairman.

Thank you for being so patient with us and staying all this time. I appreciate it.

I represent the urban core of Las Vegas. I grew up there, and for the last 45 years that I have lived there it has been nothing less than a boom town with extraordinary growth and extraordinary prosperity. If we were talking a year ago, my comments would have been dramatically different than they are going to be now.

At this time I have got the highest mortgage foreclosure rate in the country in my congressional district. One out of every twenty-two homes is in foreclosure. Since people don't have skin in the game they are mostly just abandoning their homes and leaving town or leaving the neighborhood. My unemployment rate is far

higher than the national average. It is 7.3 percent. As my colleague from Nevada stated, we have received indications that that unemployment is going to go up. Mine wasn't quite as dire but close, to 8.6 percent by the end of the year, which is going to have catastrophic consequences to the people I represent. Our State economy, which is based on sales tax and 87 percent of the land in the State of Nevada is Federally owned; so there is no tax base, our State budget is in shambles right now. This is relatively new and shocking and difficult to grapple with when you are unaccustomed to it.

I thought it was very important to fly back for this hearing because there isn't anything that you have proposed that we are discussing that won't have a direct and beneficial impact on the people that I represent. Providing an infusion of funds to Medicaid for my State will mean the difference in many instances between life and death and permanent health problems because people will be able to continue to access a doctor, and that is very important. An extension of unemployment benefits so that we have a bridge for many families that are recently unemployed, struggling, and until this economy turns around there is not going to be any hope for them to be able to support their families.

But the part of this discussion that intrigues me the most and I think will have the longest and most lasting consequences for the people I represent is the infrastructure component and investing in the infrastructure of this Nation. I think that is a wonderful way to stimulate the economy.

Our State legislature last session did a study and found that there was—we had between $3.5 billion and $5 billion worth of infrastructure needs. I don't have crumbling bridges and—I don't have enough of them. So, the fact that we would be able to put money into these projects is very, very important.

But the question I have for you, Mr. Mongan, I am getting conflicting numbers. I used to say that for every billion dollars that we invest in our infrastructure we employ 47,000 construction workers. I recently read that number was 35,000. Would we be employing 35,000 construction workers, and I understand ancillary jobs as well, or 47,000? Either number is startlingly good but which one would it be so I am accurate?

Mr. MONGAN. The U.S. Department of Transportation I believe in April earlier this year published their number, which is for 1 billion of investment in transportation, and that is not just Federal investment but State investment, too, but a billion dollars equals slightly over 47,000 jobs. It may not be all construction jobs, but 47,000 people are employed for every billion dollars spent.

Ms. BERKLEY. I am glad to know that the higher number is what is accurate. My building trades people are dead in the water. So, many of the projects on the Las Vegas Strip have been stopped and of course our hotel building has slowed down and our housing market is nonexistent. So, to be able to put those people back to work I think will have a direct impact, an immediate impact, on our economy and do what a stimulus package is supposed to do. Do you agree with that assessment?

Mr. MONGAN. Very much so. I will be honest. I have a firm of 225. Because the State has cut back on transportation spending,

they have canceled some of my projects that we are working on. I laid five people off this week and that will occur again because the projects aren't there and the money isn't there.

Ms. BERKLEY. Mr. Chairman, may I continue to question for another moment? Thank you. I wanted to speak to the Presidents of both of our teachers associations.

I think that the package to provide zero interest bonds for school construction is very important. That is not one of the—I have been a proponent of that ever since I came to Congress. Las Vegas builds a school a month in order to keep up with our growth. Now, we passed a substantial bond issue, two of them over the course of the last 20 years; so we are financing. I would like to go into the schools with you, if I may.

I have got one of the highest dropout rates in the country and that was before the economic slowdown. So, many of these kids when they turn 16, they drop out of school because they have been able to get a job. What—I know this is a much—you could talk for hours on this, but what are the social implications of youngsters dropping out of school at the age of 16 before they have completed their high school education much less their college education or occupational training?

Ms. WEINGARTEN. The implications, the moral, the social, the economic implications are huge. There is a recent study that actually shows that every dollar invested in early education yields a savings of $7 later on in foregoing—or in increased graduation rates, in reduced incarceration rates and things like that. Chairman Rangel has spent a lot of time on the issue of. dropouts. We have tried—wearing my New York City hat, we have tried to spend a lot of time looking at that. We are starting to see that if you focus on career and technical education, if we start thinking about green schools in a very different way and green jobs in a different way, if you link kids in middle school—and you are right, Congresswoman, this is a very long and we can spend hours on this—but if you link kids from middle school onward to something that they actually want to do in school, you cut change that dropout rate significantly. Some of it is long term, some of it is short term. But when you actually have—and I think that Dennis said this as well. When you actually have an infrastructure in a school that has a science lab when you are tying to ensure that kids have to take science, that have the kind of new career and technical skills so that kids can come out of school prepared for life or prepared for college or both, these are things that will hugely help.

Ms. BERKLEY. Let me ask another question, and maybe you can incorporate it because my time is up. I was appalled when the President vetoed the S–CHIP legislation. I spent a lot of time at my elementary schools. I have got a very high incident of single-parent households, lack of child care. So, when these kids get sick, their moms are going to work. These are people that don't have insurance and their kids are sitting in a classroom sick as dogs. Do you think that passing that S–CHIP program will be a benefit to the school children across this Nation like those that I represent in southern Nevada?

Mr. VAN ROEKEL. Absolutely. It is just impossible to teach a child when they are not feeling well and they are sick, and it is

so unfair to a parent. The idea that as a parent your child is sick and you have no means of taking them to a doctor for health care I think is just wrong. We need to change that and we need to provide the resources for families so they can take their kids to the doctor, and when they are well we will teach them.

Ms. BERKLEY. Thank you very much.

Chairman RANGEL [presiding]. The Chair would like to recognize Congressman Van Hollen.

Mr. VAN HOLLEN. Thank you, Mr. Chairman, and thank all of you for your testimony here today. I have some questions for Mr. Firestine. The first relates to your testimony on the alternative minimum tax. I think a lot of us on this Committee would like to either eliminate or revise the alternative minimum tax going forward, but for now we have it in place, and in your testimony you suggest eliminating the alternative minimum tax penalty that exists for some tax-exempt bonds, and I would like you to elaborate on that point and discuss the impact on State and local bond issuances. That is one question.

The second, if you could comment a little bit on the challenge many of our public transit agencies are facing across the country right now as a result of the credit crunch, for example, the WMATA, the Washington metro authority, because of certain relationships and having AIG as having one of its insurers is right now experiencing a significant potential squeeze, which is also something I think that may be felt by other transit systems around the country.

If you could address those two issues, please.

Mr. FIRESTINE. Thank you. On the first one on the AMT, the issue there is it that there are a large range of categories, types of facility bonds that there is an extra cost associated with issuing them and there is an extra—a higher interest rate associated with those bonds. Some of the things we have heard mentioned today are public-private partnerships are a good way to create infrastructure, whether it is the hot lane project going on in Virginia, which is a public-private partnership. Any of those types of bonds are subject to AMT, and there is a penalty related to those. What we are saying is that plus you heard comments earlier about the need for improvements at airports. Airport bonds would fall within this category.

So, the theme is to relax the AMT penalty for those types of bonds similar to what was done earlier for housing so that they become more attractive and it is easier to find investors.

Mr. VAN HOLLEN. Just on that point do you have any idea what kind of additional participation you might get in those public-private partnerships or how many people are not participating today because of the penalty? Is there any data on that?

Mr. FIRESTINE. I don't, but I think it just makes them more attractive in terms of as an investment because the penalty isn't there plus the increased cost of issuance, you know, would go away.

With respect to transit agencies, and I am surprised it hasn't come up earlier, Metro in this region faces some huge issues related to the elimination—there was a downgrading guarantee provided on a lease payment deal that they had done with respect to their projects. Because of that there was action taken to basically

require some payments by the Metro system. I think the same thing is going on in MTA in New York. I think New Jersey has a similar problem. These relate to lease deals that were performed in the past. Once the guarantee—guarantor was downgraded, suddenly it became immediate that they would have to make certain payments. Those transit agencies in order to make those payments they are—something has to give. They are going to have to lay off staff, cut service.

So, I know they have approached Treasury to see if there are some ways to get Treasury to provide the guarantees so that they can continue or there are options they are looking at to work out those deals so that they don't have those payments. But I know it is hundreds of millions of dollars in some instances.

Mr. VAN HOLLEN. Thank you. Mr. Chairman, I think if we could pursue this issue, it is an issue I know New York I believe is experiencing. I know the Washington Metro, other metro systems, the consequence of the meltdown in the financial sectors and especially in some instances the fact that AIG was an insurer here, and I think when you have got the Treasury Department intervening on behalf of a lot of private sector entities, it also makes a lot of sense that they intervene to help some of these public sector entities that the entire—that the public depends on for the purposes of their transportation.

So, I thank you for your testimony. This is something that is urgent right now. We have been trying to get the Treasury Department to at least meet with the heads of some of these transit agencies so that we can resolve this right away. Thank you, Mr. Chairman.

Chairman RANGEL. I thank the gentleman from Maryland and recognize the gentlewoman from Pennsylvania, Congresswoman Schwartz.

Ms. SCHWARTZ. Thank you, Mr. Chairman. Thank you for your patience and for the panel's patience and we actually have another panel coming up. So, this has been a long hearing, but I think we are—and you have heard today from so many of us and reasons of our interest in that we are seeing both really human needs, the individual needs, but also we see the infrastructure needs, and they are related. As you have talked about that unless we can put people back to work, we are not going to get ahead of the curve here on this. I was particularly interested in some of the local needs.

I am thinking particularly—I represent both the city of Philadelphia and my Montgomery County, Mr. Firestine. It is Montgomery County in Pennsylvania. I have heard certainly from both sides, but certainly the City of Philadelphia is going through a difficult time and the suggestion that was actually made by Governor Sanford that cuts are being made, that people—that our local elected officials are not being responsible I think is really one that certainly many of my local folks would take offense at because they are making some very, very difficult decisions right now. They are seeing a very direct hit in terms of careful budgeting, States and local municipalities that have to balance their budget. We are seeing in Philadelphia, which has a $4 billion annual budget, they are looking at upward of an almost $850 million shortfall over 5 years and they are under a requirement to balance the budget every 5

years. So, finding—I think they are looking to find $100 million in the next 6 months when most of their spending, just as it is at the Federal level, is not discretionary. So, the cuts are coming out of 42 percent of discretionary funding, $100 million in 6 months. Serious dollars that has a real effect on not only the people who are working in the city but the people who are served by the city and that is really all of us. I know that some of that is happening as well in my suburban communities.

So, really what I want to ask about is the public infrastructure. We have talked about our schools and in Philadelphia we have gone through a serious rebuilding of our schools. They are old and they can't meet the technological needs for either the teachers or the students, let alone security needs or some of the new theories about schools, and we talked about early childhood. Some of the schools couldn't add early childhood because they simply didn't have the space or the facilities that are appropriate. So, if you think about that, that was kind of stunning. But we have really made some real progress on school construction.

The other area of public infrastructure that hasn't been mentioned today that I wanted to get your comments on were police and fire stations. We have been devastated in Philadelphia at the loss of four police officers who have been killed in the line of fire literally in Philadelphia, and when I visit not just the families but the police officers in our police stations and our fire stations, there literally is crumbling infrastructure. I mean it is old. It is—talk about not green, it is deeply inefficient. We probably overheat these buildings and they are losing dollars every day. So, I have—sort of building on the Chairman's notion for rebuilding schools and school construction, use a short-term borrowing instrument that you referred to, the tax credit bonds, these are public-private partnerships. It is a way to use public dollars with a little bit of help from the Federal Government in terms of repaying the interest; so there is a stake at the Federal level. The local communities have to repay the interest. So, this is not a grant. This is the way we are talking about school construction—this is not—we are being very careful in the spending. We are looking to bring in private investors. So, the notion that we just ourselves at the Federal level are not being fiscally responsible is one that I want to also address.

I for one—I will talk for myself—I am very deeply concerned about the fiscal irresponsibility of the last 8 years and our serious interest in balancing our budget, and in doing so we want to look at some of these more creative instruments, if we want to call it that, to be able to bring in the private sector to work with the local community and to help incentivize that through some dollars from the Federal level.

I think this question is mostly to Mr. Firestine, but maybe Mr. Mongan would want to respond to it as well. The use for tax credit bonds for both school construction but potentially for public infrastructure and, as I said, I have a bill to apply these to police and fire facilities. Theoretically you could look at them also for recreation centers, for parks, for other kinds of infrastructure, public infrastructure, that the private sector might well be interested in as well. So, could you speak to specifically both the instrument and potentially the flexibility or other infrastructure needs on the local

level that we could really kick start very quickly through these public-private partnerships?

Mr. FIRESTINE. Sure. I think tax credit bonds have proven to be a good tool. I think there were challenges when they first came out for QZABs, but certainly, and I know we have heard testimony earlier about the value of them. I think it is a way clearly for you to target the tax credit to a specific problem. The QZAB program, for example, it focuses I believe just on reconstruction or rehabilitation. Perhaps that is an area where it could be expanded to new construction as an option. So, I think it is another tool in the tool box. It is a good idea. My only concern would be that we just be careful it doesn't have—diminish the value of the general tax exemption on tax-exempt bonds. But I do think it is a good tool. I know renewable energy bond credits have also been an effective tool, and initially there were some issues but we were able to work through a more streamlined application process which I think facilitated that. So, again, it is another good tool for the tool box.

Mr. MONGAN. I would simply echo that. The more tools we have in the tool box, the more opportunity we have. So, we just need to keep allowing those to be developed and to be able to be used.

Ms. SCHWARTZ. Right. Again the point here is these are not make work projects. Maybe that is the other thing we ought to talk about because the sort of suggestion somehow that cutting back—again Governor Sanford sort of suggested that he could make cuts seemingly to not have much impact in his State. That is, I guess, lucky for them. But there are some cuts we can make and we have to make because we want to be fiscally responsible, but by not going forward on some of these projects, as we talked about with the schools, has serious consequences in our communities. To suggest that we could not just not do them and it would have no effect—we just have to be creative, give a lot of options so we can just move forward on this. But our interest in terms of an infrastructure stimulus is to actually do what we need to do, to do them quickly. Stimulate those jobs, put people back to work, and meet those kinds of requirements in our local communities.

So, I yield back, and I thank you for your patience, and you must be starving. So, go have lunch.

Chairman RANGEL. I thank the gentlelady for yielding back. Let me thank——

Mr. NEAL. Mr. Chairman, I didn't have a chance to be recognized.

Chairman RANGEL. I am so sorry.

Mr. NEAL. I appreciate that. Just when you thought all the testimony was exhausted. In fact, I want to thank Mr. Van Hollen for asking the question that I had waited 4 hours to ask.

Well, I do welcome the panelists with the thought that I am an alum, one of the few really who served in Congress. There aren't a lot of Mayors or county executives that have been elected to Congress over the many years. So, I have great regard for what it is you do every day in terms of confronting the real problems that Americans have every day and the responsibilities that you have. I really believe that improving roads, schools, airports, bridges, highways, it really does put people back to work very, very quickly. It is not as though these needs are somehow made up. They are

for real. Getting on with them would make us much more competitive. A very simple notion of how we get from one point to another, the ease with which we travel there certainly adds to productivity and efficiency every single day, not only in local economics but in national economics.

But let me come back to the question that Chris Van Hollen raised, and, Mr. Firestine, specifically to you. What is the impact of the elimination of AMT on private activity bonds and your ability to borrow and fund local projects, understanding that I filed legislation on the private activity bond front as we did last year for housing bonds in the bill that passed last summer? Could you give us a quick analysis?

Mr. FIRESTINE. Sure. Again, the fact that there is a large range of types of projects that are subject still to AMT that are public-private partnerships. We said earlier it is a good tool for us to proceed on projects. What we are encouraging is the elimination of that AMT penalty mainly because it sort of separates them out, they are more costly to issue, and there is a higher cost of interest on those bonds. So, they tend to be sort of—take the back seat to other tax-exempt instruments. To that extent we said eliminating that penalty as you did for housing bonds we think would certainly go far to help make them more attractive as an investment instrument.

Mr. NEAL. The public in some regards, they tend to object to Government spending in general but they support it in the specific. I think that while from time to time there is a project that garners a lot of attention here and people get really upset because they think that it is an erroneous use of their money, and understandably so in some instances, nonetheless, I think local officials would argue pretty aggressively for the idea that public funding for many of these infrastructure projects represents a very good investment in the future. That is what we are talking about, investment.

While I was on the subject of alumni, I know that Mr. Sanford was a Member of this House a number of years before he was elected to the Governor's office, and I had hoped to have the opportunity to ask him a couple of questions, including the fact that how might he suggest that we pay for the war in Iraq. We are now at $750 billion of borrowed money for Iraq. The rescue package, $750 billion. What our veterans are going to need upon returning from Iraq, 31,000 wounded and those who are going need services far beyond that as well, that is going to cost more than $1 trillion. So, now between the war and the rescue package, we are over $1 trillion. So, we are at $2 trillion and I appreciate the cut a dollar here and cut a dollar there, but there is also another reality and that is the President's tax cuts in 2001 and 2003 took $2.3 trillion from Federal revenue. That is a very important consideration, $2.3 trillion over 10 years.

The reason I raise that issue is largely to make this point: There is no end in sight in Iraq. The civil institutions are not being put in place and the deliberations go back and forth, but there is a pretty grim reality, and that is that it costs $2.5 billion a week. So, to argue that we ought to continue borrowing the money for Iraq and to make these arguments that you can cut a dollar here and a dollar there and to hear presidential candidates say that their

budget balancing position is that they are going to eliminate earmarks, all $18 billion worth of those earmarks, and again in a $3 trillion budget, won't balance any budget anywhere.

I am very proud of what we did in the mid-1990s, and it was done in a bipartisan spirit. We balanced the budget. We projected revenues of $5.3 trillion for the next decade, and now we find ourselves in this awful predicament because I think of many positions that were adopted that were simply in the end quite irresponsible.

So, thank you, Mr. Chairman, for allowing me that time.

Chairman RANGEL. Thank you for your contribution, and let me again thank this panel for its endurance, for sharing your time with us, and for the educators, Mr. Van Roekel and of course my dear friend Randi Weingarten. I want you to know that in the various meetings I have had with the Business Roundtable in the U.S. Chamber of Commerce, they all agree that education is a national priority and it is so important for not only our fiscal recovery but for our international trade and competition. The problem we have is CEOs don't lobby us. They just send people who look for preferential tax treatment to lobby us. But as they come to us to ask us to expand our immigration laws to allow the technicians to come here, it proves, as the Secretary of State has said, Condoleezza Rice, that our failure to produce educated Americans is a threat to our National security. I hope you might take advantage of this Administration or the next Administration's willingness to stand with you as we go to our businesspeople to indicate this is in our national security interest to have an educated, competitive workforce. It is not a question of this is the right thing to do. It is something that we have to do as a nation.

I just want to thank all of you for your commitment to this. It is hard for me to think of anything that is more important because an educated person even takes care of their health needs better. So, that it is a win for the country and a win for our community, and thank you all so much. We will be come calling upon you the closer we get to finding what we are able to do. We will still need the expertise to put together the package. Thank you so much.

The Chair now calls the second and last panel: Jared Bernstein. Dr. Bernstein is the Director of the Living Standards Program from the Economic Policy Institute; Robert Greenstein, an old friend of this Committee who does a fantastic job at the Center on Budget and Policy; Christine Owens, an Executive Director of the National Employment Law Project; Dr. Jeanne Lambrew, professor at the LBJ School of Public Affairs, University of Texas; and a neighbor, Martella A. Turner-Joseph, Vice President of the Joseph & Turner Consulting Actuaries; and Alan Viard, Dr. Viard, Resident Scholar at the American Enterprise Institute.

We had no idea that the first panel would take so long, but because of the interest it did and we were all well served. But at this time I want to thank you for your patience and waiting to be called. I call upon Dr. Bernstein to give testimony. As we said earlier, your full records and statements will be by unanimous consent entered into the record and you can proceed for the 5 minutes as you see fit, starting with Dr. Bernstein.

STATEMENT OF JARED BERNSTEIN, PH.D., DIRECTOR, LIVING STANDARDS PROGRAM, ECONOMIC POLICY INSTITUTE

Mr. BERNSTEIN. Chairman Rangel and Ranking Member McCrery and Members of the Committee, I thank you for the chance to testify today on this urgent topic.

The current downturn threatens to be longer and deeper than the last two recessions, both of which lasted 8 months and were relatively mild in GDP terms, though much less so regarding jobs and incomes. A key reason for this is consumer retrenchment. Our GDP is of course 70 percent consumption, and it is widely expected that the combination of the recessionary job market, sharply declining asset values, and the credit crunch will lead to the first contraction of real consumption in 17 years. I would also note that consumer confidence, a strong predictor of expenditures, fell to its lowest level on record despite the falling price of gas at the pump.

A recovery package of considerable magnitude is needed to offset this demand contraction. At least 1 to 2 percent of GDP, $150 to $300 billion, is likely warranted though some analysts believe more will be needed. The package should include an extension to unemployment insurance and food stamp benefits, State fiscal relief, infrastructure investment, and possibly direct payments to middle and lower income households.

The key guidance in structuring this proposal must be to get the most bang for each stimulus buck. In this regard infrastructure investment focused on projects that are either ongoing or ready to launch could be a particularly potent way to accomplish a few important goals, including filling productivity enhancing public investment deficit and creating much-needed good jobs.

While fiscal rectitude is of course a benchmark of any legislation, the stimulus package, not unlike the TARP package targeted at the financial sector will involve deficit spending. Once the economy recovers Congress may decide it is necessary to reduce the fiscal deficit, but at this point in economic time budget austerity would not simply be unwise, it would be unnecessarily damaging to both the macro economy and to the living standards of American families.

I am going to speed it up.

Thus demand-side stimulus is warranted. What form should the stimulus take? The first round of stimulus passed last February focused largely on direct payments to households called rebates. Analysts generally agree that these payments helped generate some extra growth earlier this year, but their impact was limited by largely emphasizing rebates. The last stimulus package overlooked other important priorities, and these other channels are likely to provide a bigger bang for the buck in this round.

Other panelists will stress the importance of extending unemployment insurance benefits given the weakness in the job market and the literally hundreds of thousands of jobless persons currently exhausting their unemployment insurance benefits. This extension is both necessary and will provide a large multiplier of bang for the buck. I urge the Committee to consider the Unemployment Insurance Modernization Act in this regard with its expanded eligibility, alternative base periods, and increased replacement rates from their current ceiling to one as high as perhaps 70 percent.

State fiscal relief was also left out of the last stimulus package and the need to correct that omission is large and growing.

Finally, infrastructure investment should be a significant part of the recovery package. One common argument against such investment is that in the context of a stimulus package, the water won't get to the fire in time because the implementation time lag is so long that it will be unable to inject growth quickly enough to help the ailing economy.

However, research by economists at my institute, the Economic Policy Institute, and others have carefully documented current infrastructure needs that could quickly be converted into productive job-producing projects. Consider the August, 2007, bridge collapse in Minneapolis. The concrete for the replacement bridge began flowing last winter and the bridge was recently completed well ahead of schedule. The American Association of State Highway and Transportation officials claim that according to their surveys, quote, "State transportation departments could award and begin more than 3,000 highway projects totaling approximately $18 billion within 30 to 90 days from enactment of Federal economic stimulus legislation."

Similarly, the American Transportation Association just released a survey wherein they asked their members about projects based on these criteria. The project could be implemented within 90 days of Federal funding, constitutes an eligible use of Federal funding for the agency, and would not proceed—and these are projects that would not proceed in the current Federal fiscal year without supplemental funding. They find 170 public transportation agencies responding to the survey pointing out 559, quote, "ready to go projects" with an estimated cost of $8 billion.

I have many further examples in my written testimony, including those documented by Bracken Hendricks at the Center for American Progress Action Fund that puts an emphasis on green production.

RPTS JURA
DCMN BURRELL
[2:10 p.m.]

Mr. BERNSTEIN [continuing]. The Congressional Budget Office is often cited in this discussion for noting that since infrastructure spending does have a time lag, it may not be adequately suited for countercyclical economic stimulus. But this claim rests on historical evidence based largely on traditional public investments such as the outlay rate of the Highway Trust Fund. By focusing on a different set of projects that meet the criteria noted above, faster outlays could and should include an eligibility criteria, as Members of this Chamber have recently included language to that effect in the stimulus legislation.

Former Treasury Secretary Larry Summers recently noted that while infrastructure spending is often seen as operating only with significant lag, I have become convinced that properly designed infrastructure support can make a timely difference for the economy.

Finally, I urge the Committee to recall that while the last two recessions were both mild in GDP terms and short lived, they were both followed by long jobless recovery. Once the last recession

ended in November 2001, payroll shed another net 1.1 million jobs, and the unemployment rate rose for another 19 months and for almost 2 years for African Americans. Private sector employment took 51 months to reach its previous peak after the end of the last recession, which is more than twice as long as the average figure for prior recessions. Thus, from the job market's perspective, these investments will still be needed well after the recession is officially ended.

Thank you.

[The prepared statement of Mr. BERNSTEIN. follows:]

Testimony of Jared Bernstein
Senior Economist
Economic Policy Institute

Before the House Committee on Ways and Means

Hearing On:
"Economic Recovery, Job Creation and Investment in America"

October 29, 2008

Chairman Rangel, Ranking Member McCrery and members of the committee, I thank you for the chance to testify today on this urgent topic. As this committee well knows, our economy faces many deep challenges. As we speak, economic turmoil in both financial markets and the so-called "real economy" are taking a toll on the living standards of many American families. My testimony both elaborates those challenges and suggests policy solutions for the committee and the Congress to consider.

The key points in this testimony are:

- The current downturn threatens to be longer and deeper than the last two recessions, both of which lasted eight months and were relatively mild in GDP terms, though much less so regarding jobs and incomes. A key reason for this expectation is consumer retrenchment.
- A recovery package of considerable magnitude is needed to offset the demand contraction. At least 1-2% of GDP ($150-300 billion) is likely warranted, though some analysts believe more will be needed.
- The package should include an extension to unemployment and food stamp benefits, state fiscal relief, infrastructure investment, and possibly direct payments to middle- and lower-income households. The key guidance in structuring this proposal must be to get the most bang for each stimulus buck.
- Infrastructure investment been criticized in the context of stimulus based on the view that lead times to implementation render it an ineffective strategy for a quick injection of demand-side growth. But, based on research by economists at the Economic Policy Institute and the Center for American Progress, along with that of former treasury Secretary Larry Summers, I have listed many examples of ready-to-go projects that would be effective in terms of quick job creation, while filling a public investment deficit. Furthermore, the fact that we may well be facing a more protracted downturn than usual implies that even if longer lead times do occur, our economy will likely still need the stimulus.
- While fiscal rectitude is of course a key benchmark of any legislation, the stimulus package, not unlike the TARP package targeted at the financial sector, will involve deficit spending. Once the economy recovers, Congress may decide it is necessary to reduce the fiscal deficit. But at this point in economic time, budget austerity would not simply be unwise, it would be unnecessarily damaging, both to the macro economy and to living standards.

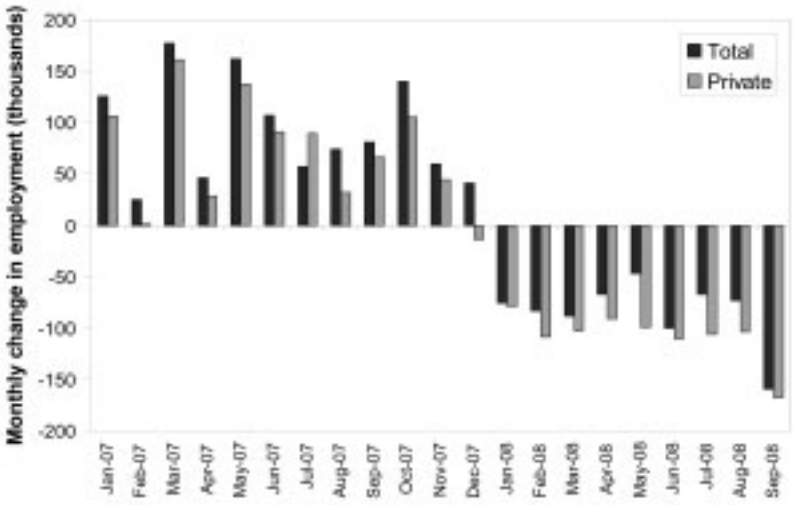
Current Conditions

Though it has not been officially recognized, it is widely agreed that the U.S. economy is currently in recession. There are questions as to how long and deep this downturn will be, but recessionary conditions have prevailed, especially in the job market, throughout 2008. This section will present an overview of these conditions, emphasizing the impact on middle and lower income families.

Labor Market: Figure 1 shows the monthly changes in payroll employment from January 2007 through September of this year, for both total and private sector employment. Both have significantly and consistently fallen, and this pattern of job loss has not occurred outside of recessions.

At this point, most sectors are losing jobs, with the consistent exceptions of government—often a counter-cyclical sector—and health care. The latter reflects continued large public and private expenditures into the system, an aging population, and an inelastically demanded service (i.e., health needs cannot typically be put off until the cycle improves).

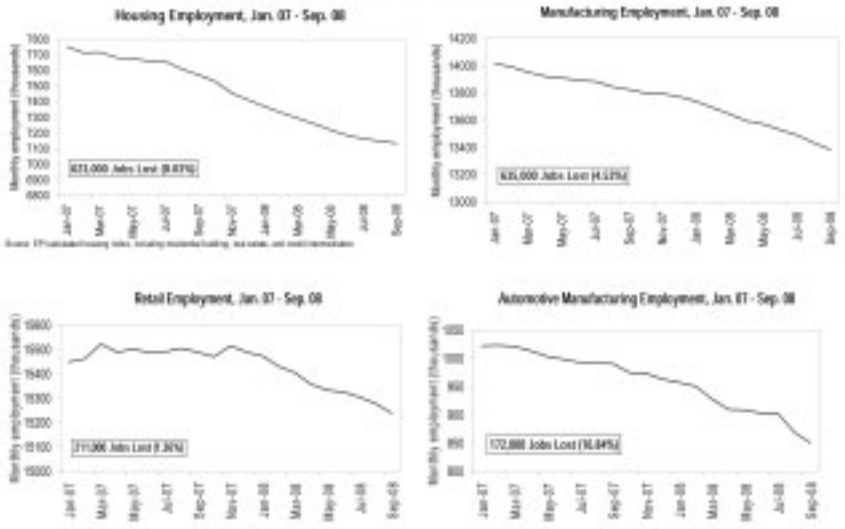
Figure 1. Total and Private Payroll Employment, Jan. 07-Sep. 08



Source: Bureau of Labor Statistics

Of course, jobs in residential construction are far off their peak, driven down by the bursting housing bubble. EPI constructs a residential housing index which includes employment both directly and indirectly linked to the sector (the index includes jobs in construction, real estate, and credit intermediaries related to home financing). **Figure 2** shows losses in the housing index, retail sales, and manufacturing, with autos shown separately. The fall-off in consumer spending is reflected in declining retail jobs, while the sharp fall-off in car buying shows up in that sector's employment losses. Note that these declines in manufacturing have occurred despite improvement in our trade balance. While we have exported more goods and imported fewer in recent quarters, manufacturing employment has not reflected these gains. Some evidence suggests that this is related to the content of our trade flows, which have been more concentrated in commodities such as grain than in durable goods.

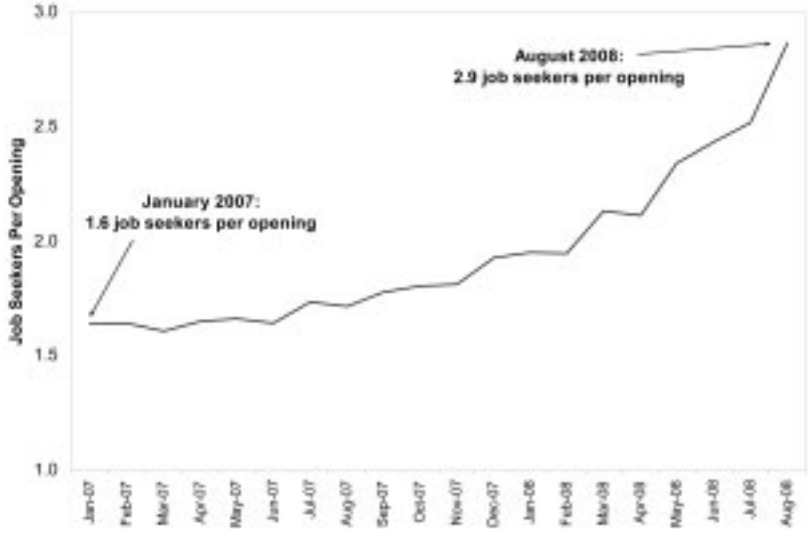
Figure 2. Employment Declines Across Sectors



Source: Bureau of Labor Statistics

Another recessionary indicator is the increase in job seekers relative to job openings. The lack of job creation, as shown in Figure 1, has led to a sharp increase in this metric, a clear indicator of increased slack in the labor market. **Figure 3** shows that in January 2007 there were 1.6 job seekers for every job opening in the economy; in the most recent data available, that ratio had risen to 2.9 job seekers per opening.

Figure 3. Job Seekers Per Opening, Jan. 07 - Aug. 08



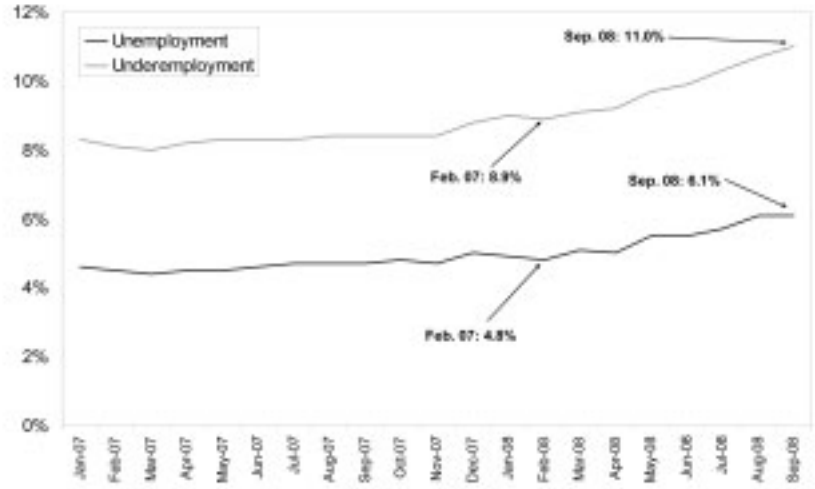
Source: Bureau of Labor Statistics

This mismatch between labor supply and demand leads, of course, to higher unemployment. **Figure 4** plots the unemployment and underemployment rates since January 2007, showing the cyclical rise in both measures.

The fact that underemployment has risen more quickly than unemployment is important because it shows that employers have adjusted to diminished demand not just by laying off workers, but also by cutting workers' hours. The difference is largely driven by the increase in the number of part-time workers who would prefer full-time work but can't find it. Since January 2007, the number of these involuntary part-timers is up by 1.8 million, to 6.1 million, and they now represent 4.2% of employment, the highest share on record since 1994.[1]

[1] Though this series existed before 1994, the BLS significantly changed the way part-time workers are indentified in the Household Survey that year, so the series is only consistent since January 1994.

Figure 4. Unemployment and Underemployment, Jan. 07 - Sep. 08

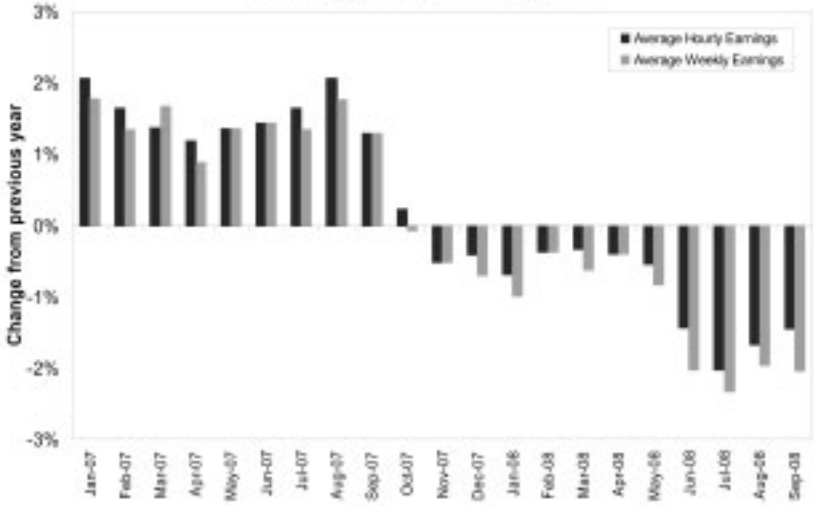


Source: Bureau of Labor Statistics

The fact that many workers are able to find fewer hours than they'd like has led to diminished weekly earnings. **Figure 5** shows yearly changes in inflation-adjusted hourly and weekly earnings since January 2007 for the 80% of the workforce in production or non-managerial occupations. This measure has been flat or falling since October of last year, with real weekly earnings down about 2.5% for the past three months.

In other words, the buying power of most workers is declining as inflation outpaces their weekly paychecks. Three factors are contributing to this erosion. First, the slack job market is leading to slower nominal (i.e., before accounting for inflation) wage growth. Nominal hourly earnings rose 3.5% percent in the third quarter of this year, compared to 4.2% in the first quarter of last year. Second, fewer weekly hours, as noted above, explains why the weekly bars in the figure show larger losses than the hourly bars. Finally, faster inflation has been a major factor in eroding the buying power of working families' earnings.

Figure 5. Yearly Changes in Average Weekly and Hourly Earnings, Jan. 07 - Sep. 08

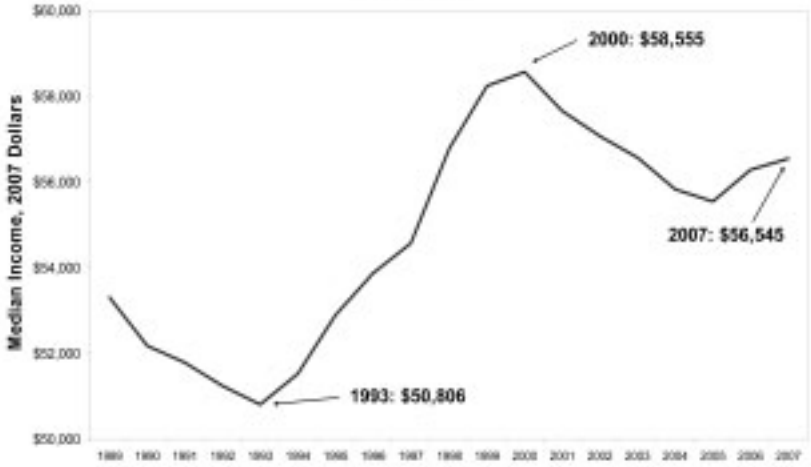


Source: Bureau of Labor Statistics

Incomes of Middle and Low-Income Families: Figure 6 provides some recent historical context for the current conditions discussed thus far. The figure shows the trend in the real median income of working-age households—those headed by someone less than 65— 1989-2007. Their median income, after adjusting for inflation, fell $2,000 between 2000 and 2007, from about $58,500 to $56,500 (2007 dollars).

The trend was very different in the 1990s. After declining in the recession (and the jobless recovery that followed), the median income of working-age households reversed course and rose consistently through 2000. Over the 1990s (1989-2000), it was up almost 10%, or about $5,200. Had this growth rate prevailed in the 2000s, the median income of working age households would have gone up $3,600 instead of falling $2,000.

Figure 6. Real Median Income, Working-Age Households, 1989-2007



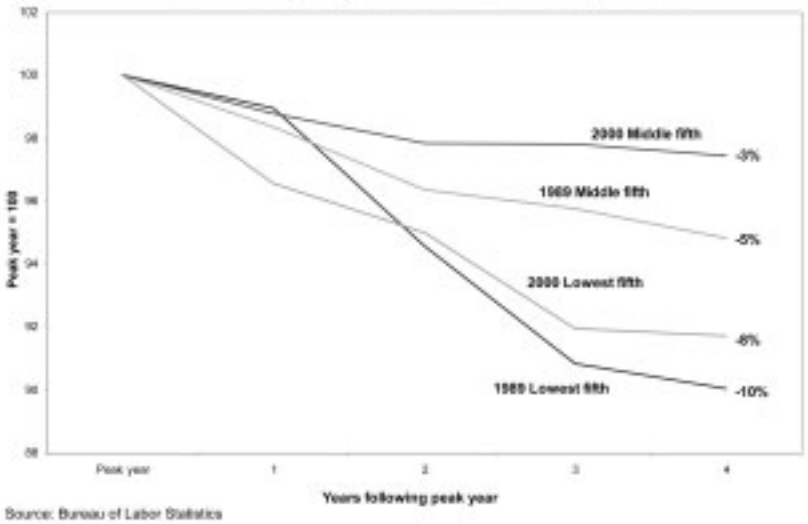
Source: Bureau of Labor Statistics

One key factor behind this result, which is an important source of worker insecurity, is the historically weak job growth over the 2000s business cycle, the weakest on record going back to the 1940s. When employment growth is weak, the abundant supply of labor in the job market means that there is less need for employers to bid wage offers up in order to get and keep the workers they need. This lack of worker bargaining power shows up as weak wage and income growth for working families, even amidst strong productivity growth and relatively low unemployment.

Due to the factors discussed above regarding job loss, fewer hours, and the slower wage growth driven by the weaker job market, incomes usually fall in recessions. Moreover, as the recoveries following these downturns were both weak (both were labeled "jobless recoveries"), family income fell in the early years of these recoveries as well.

These dynamics are plotted in **Figure 7**, which shows the trend in the real average income of low- and middle-income families (the first and third income quintiles). The peak year is either 1989 or 2000, and the years that follow include the recessionary period (both of these recessions lasted eight months) and the first few years of recovery. Note the lower income families tend to experience greater losses, as these families' response to labor market changes is more highly "elastic." This is one reason, as can be seen for middle-income households in Figure 6, that real incomes rose quickly in the latter 1990s, when the job market was uniquely tight.

Figure 7. Change in Average Real Family Income Following Peak Years, by Selected Income Quintiles

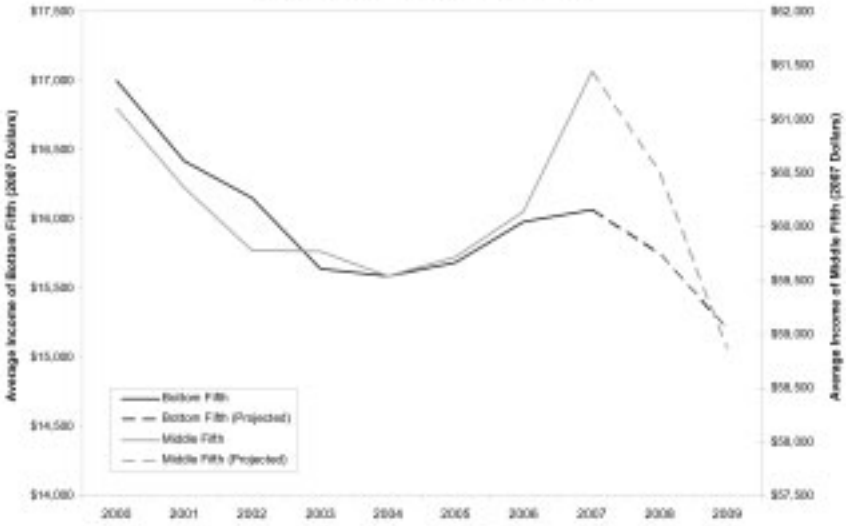


Source: Bureau of Labor Statistics

Using elasticities from economist Tim Bartik that map changes in unemployment to changes in real incomes by fifth (and poverty rates), we are able to predict the impact of the current downturn on incomes over the next few years. One forecast, by Goldman Sachs (GS), expects the unemployment rate, 6.1% in September, to be 8% by the end of next year (and 7.6% on average for 2009).

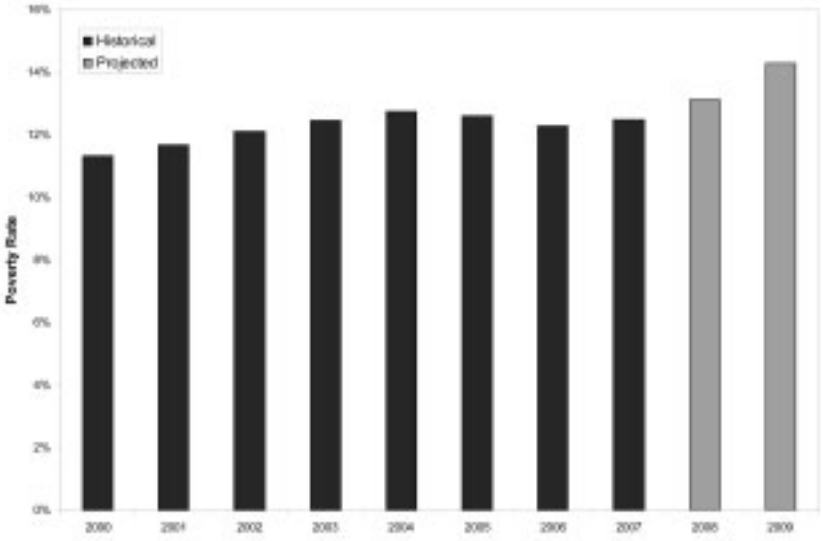
Figures 8 and 9 forecast the impact of the downturn through 2009 on incomes and poverty rates. Based on the GS estimates of rising unemployment through at least next year, we expect the average income of low-income families to fall by 5% in real terms, about $900 in 2007 dollars. Poverty may increase from 12.5% to 14.3%. We expect the average income of the middle fifth to fall about 4%, or $2,500. These losses are commensurate with those shown in the prior two recessions/weak recoveries, as shown in Figure 7. As that figure reveals, however, these losses continued for a few years into the recovery. Assuming that a recession began sometime in early 2008 and lasted through most of 2009, if past patterns persist regarding these income and poverty measures, losses could continue for another few years.

Figure 8. Average Income of Bottom and Middle Fifths, 2000-2009 (Projected)



Source: Bureau of Labor Statistics

Figure 9. Poverty Rate, 2000-2009 (Projected)

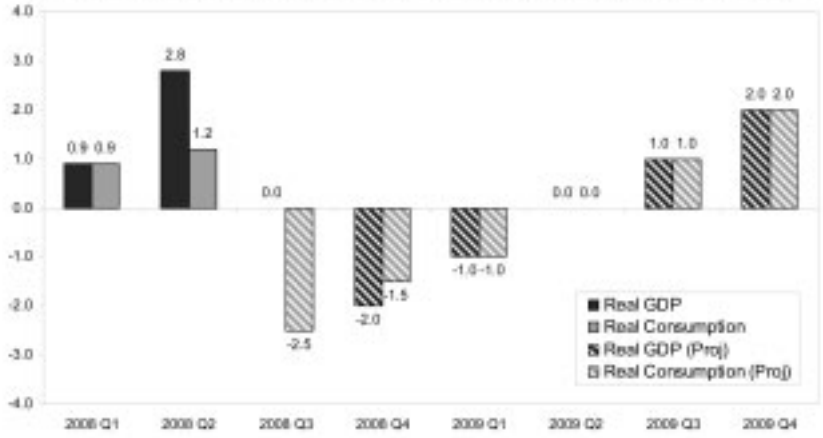


Source: Bureau of Labor Statistics

Macroeconomic Forecasts: The combination of the bursting housing bubble, the financial market turmoil, including the credit crunch, and the labor market and income data shown above implies that the American consumer will likely be spending much less, and saving more, for several quarters if not for years. While raising the national savings rate is an important longer-term goal, in the current context—and in an economy that is 70% consumption—it will extend the length and depth of the current recession.

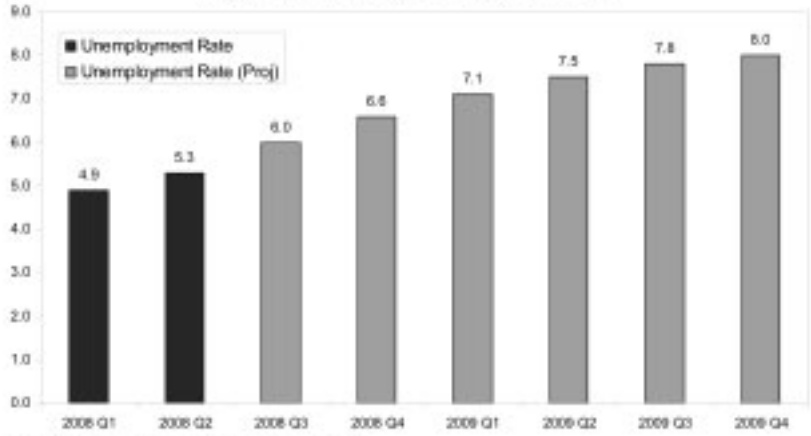
Figures 10 and 11, from forecasters at Goldman Sachs, plot the annualized change in real GDP and consumption, as well as the quarterly unemployment rate, through the end of 2009. Real consumption, which grew at an average rate of 3% over the 2000s expansion (and has not had a negative quarter since 1991), is expected to contract at an annual rate of 2.5% in the quarter just ended (2008q3), and remain negative or stagnant for the next few quarters as well. Unemployment is expected to reach 8% by the end of next year.

Figure 10. Annualized Percent Change in Real GDP and Real Consumption



Source: Author's analysis of Goldman Sachs projections

Figure 11. Quarterly Unemployment Rate



Source: Author's analysis of Goldman Sachs projections

With these expected outcomes in mind, I now turn to a discussion of the recovery package currently under consideration by many in Congress.

A Recovery Agenda

Public officials, both in Congress and at the Federal Reserve, have historically acted to offset recessionary conditions. Both the Federal Reserve and the Treasury have been aggressively intervening in financial and credit markets, and their efforts are starting to show some thawing of the freeze in those markets. I view these as supply-side interventions. That is, by opening up frozen credit lines, these actions have cleared the supply lines of credit such that borrowers and lenders will now lend at least somewhat more freely to each other. But in the absence of stronger demand, it is less likely these supply lines will be tapped.

Thus, demand-side stimulus is warranted. But what form should such stimulus take, and what should be its magnitude? I recommend a one-year recovery package in the neighborhood of 1-2% of GDP, about $150-300 billion, targeted at infrastructure, state fiscal relief, unemployment insurance, and food stamps. This is similar in size and composition to other recommendations, such as Irons and Pollack (2008), or Baily (2008), though smaller than that suggested in a recent Goldman Sachs analysis ($300-500 billion). For reasons I am about to discuss, I do not stress direct payments to households, but these may be helpful as well.

The first round of economic stimulus, passed last February, focused largely on such direct payments, called rebates. Over $100 billion in payments were sent to households over the summer, and some share of these payments, perhaps around half, found their way into the economy (the rest was saved, used to pay off debt, or leaked on import spending). Retail sales

and personal income reports, for example, showed fairly clear evidence of the impact. Both of these measures factor directly into gross domestic product, and analysts generally agree that the stimulus package was an important contributor to the 2.8% growth in GDP in the second quarter of this year (real consumption spending contributed just under 1 percentage point to that growth).

But in almost solely emphasizing "rebates," the last stimulus package overlooked other important priorities, and these other channels are likely to provide a bigger bang for each stimulus buck.

A first priority should be to further extend unemployment insurance benefits. As discussed above, net job losses have led to higher unemployment, and at this point about a fifth of the jobless have been so for at least six months. Congress previously enacted the Emergency Unemployment Compensation (EUC) program, which provided up to 13 weeks of federally funded extended jobless benefits beyond the 26 weeks of unemployment insurance provided by the states. The National Employment Law Project (NELP) estimates that 800,000 jobless exhausted these benefits in October and will thus be left without any unemployment compensation.

Expanding the EUC for more weeks should thus be part of any stimulus package. Another 13 week extension is warranted, with further weeks triggered in states with particularly weak job markets.

But Congress may want to go beyond the extensions in two ways: raising the benefit levels of UI compensation and extending eligibility to unemployed persons who currently need but do not qualify for benefits. Given the income deficits facing the unemployed, not to mention the strong macro-multiplier associated with these benefits, increasing the share of lost salary replaced by UI is warranted. Replacement rates—the share of lost salary replaced—are typically well below 50%. As part of a stimulus package, a temporary, federally funded initiative to take replacement rates up to 50-70% would be highly stimulative and provide the unemployed with a much needed boost.

Ways to expand eligibility, such as alternative base periods, are in the language of the UI Modernization Act, well known to this committee. It is my understanding that some of these eligibility expansions could be implemented under the rubric of stimulus.

Regarding multipliers, research by Moody's economy.com finds that since unemployed persons typically spend their checks to meet basic needs, the program yields a particularly large "bang for the buck:" a dollar spent on the UI extension yields $1.64 in terms of GDP growth.[2]

Unfortunately, parts of the initial stimulus package were not spent so wisely. Accelerated depreciation of business expenses, for example, generates only $0.27 extra GDP per dollar spent, the smallest multiplier in the cited study (see previous footnote).

In contrast, a food stamp expansion would resemble UI extension in that it would likely generate a large multiplier ($1.73, according the Moody's economy.com), thus both providing an effective

[2] See Moody's economy.com, Assessing the Macro Impact of Fiscal Stimulus, 2008.

macroeconomic stimulus and addressing a critical human need. The Food Research and Action Council reports that while food prices are up 7.6% over the past year, significantly more than overall prices (4.9%), food costs facing low-income households have risen even more quickly, by 10.3% (this is the increase in the USDA's Thrifty Food Plan, a market basket reflecting the food consumption of low-income households). Consider these increases in the context of the projected income losses for the bottom fifth, as shown in Figure 8.

A temporary increase in the benefit level of food stamps would help to offset this combination of spiking prices and lagging incomes.

Similarly, this committee should consider the inclusion of a provision to reverse the cuts in child support enforcement that were enacted as part of the Deficit Reduction Act. Reversing these cuts—worth about $1.1 billion for a two-year moratorium on the cuts—would provide much needed resources to families that are particularly vulnerable even in good times, and especially so now, given the particularly steep real income losses faced by low-income families in recessions (see Figure 7). Such stimulus is well-targeted because child support disproportionately reaches lower-income families who are more likely to use the income to meet their consumption needs. One in four children in our nation relies upon the child support enforcement program, and most of these children live in families with relatively modest income, where child support is used to meet basic household expenses.

Furthermore, child support income makes up 30 percent of the income of poverty-level families who receive it, and when families do not receive this money support they are more likely to need public assistance. Research shows that for every dollar that the federal government spends on the child support program, it saves nearly a dollar on means-tested programs, such as Food Stamps, Medicaid, and Supplemental Security Income.

State fiscal relief was also left out of the last stimulus package, yet the need to correct this omission is large and growing. According to the Center on Budget and Policy Priorities, "at least 29 states faced or are facing a combined $48 billion in…budget shortfalls."[3] These states typically must balance their budgets. Thus, in the absence of help from the federal government, they will be forced to draw down rainy-day reserves or take actions that would exacerbate the negative macroeconomic cycle (tax hikes or service cuts). The CBPP reports that states are actively tapping their reserves, but that these funds "generally are not sufficient to avert the need for substantial budget cuts or tax increases."

Thus, a second stimulus package should contain considerable aid to states. The two mechanisms through which such grants are typically made are a temporary increase in the federal government's contribution to the state's Medicaid program or general grants to the states. Following the last downturn, each of these programs received $10 billion. CBPP analysts note that these grants had their intended effects of preventing state actions that would deepen the negative cycle. But they also point out that "The major problem with that assistance was that it was enacted many months after the beginning of the recession, so it was less effective than it could have been…"

[3] http://www.cbpp.org/1-15-08sfp.htm

This time, the states' budget needs are considerably larger, and various analysts of such conditions have suggested that $50 billion, split between Medicaid and block grants, could be usefully absorbed by states to offset the effects noted above.

Irons and Pollack (IP, 2008) also point out that the credit crunch has significantly raised the cost of borrowing for states, who, despite their sterling borrowing record, are facing much higher interest rates on bond issues. They note that "the Metropolitan Washington Airports Authority recently postponed plans for a $2.2 billion bond sale to expand the terminals at Dulles and Reagan National Airports. … Foregone infrastructure projects [like these]—which so far have been estimated to total $100 billion—will result in more unemployment, less demand for goods and services, and less overall economic activity." [4]

This example brings us to the final crucial area that the last stimulus package did not address, which is infrastructure investment. I urge this body to strongly consider including funding for infrastructure projects in a second package.

Three facts motivate this contention. First, as noted, American households are highly leveraged, and may well be poised for a period of enhanced savings and diminished consumption. In this context, public investment should be viewed as an important source of macro-economic stimulus and labor demand—the creation of new, often high-quality jobs—which is clearly lacking from our current labor market.

Second, there are deep needs for productivity-enhancing investments in public goods that will not be not made by any private entities, which, by definition, cannot capture the returns on public investments in roads, bridges, waste systems, water systems, schools, libraries, parks, etc. Third, climate change heightens the urgency of the need to make these investments with an eye towards the reduction of greenhouse gases and the conservation of energy resources.

For example, Irons and Pollack also note that according to the American Society of Civil Engineers, over two-thirds of roads are in poor or mediocre condition,[5] resulting in $54 billion per year wasted on repairs and operating costs.[6] More than a quarter of all bridges are rated structurally deficient or obsolete, leading to closings, and in some cases to collapse.[7] Half of all waterway locks are functionally obsolete, resulting in waterway shutdowns and substantial business losses.[8]

In this regard, infrastructure funding serves both to enhance productivity through investment in pubic capital and to create good jobs for workers that might otherwise be unemployed or underemployed. One common argument against such investment in the context of a stimulus

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[4] http://www.washingtonpost.com/wp-dyn/content/article/2008/10/03/AR2008100303486.html?hpid=topnews
[5] "Key Facts About America's Road and Bridge Conditions and Federal Funding." TRIP, 2005 http://www.tripnet.org/nationalfactsheet.htm
[6] "Report Card for America's Infrastructure: Roads." *American Society of Civil Engineers*, http://www.asce.org/reportcard/2005/page.cfm?id=30
[7] "Key Facts About America's Road and Bridge Conditions and Federal Funding." *TRIP*, 2005 http://www.tripnet.org/nationalfactsheet.htm
[8] "Report Card for America's Infrastructure." *American Society of Civil Engineers*, 2005 http://www.asce.org/files/pdf/reportcard/2005_Report_Card-Full_Report.pdf

package is that the water won't get to the fire in time; i.e., the implementation time lag is so long that we will be unable to inject growth quickly enough to help the ailing economy. However, research by EPI economists has carefully documented current infrastructure needs that could quickly be converted into productive, job-producing projects.

Take, for example, the August 2007 bridge collapse in Minneapolis. The concrete for the replacement bridge began flowing last winter, and the bridge was recently completed, well ahead of schedule. The American Association of State Highway and Transportation Officials claims that, according to their surveys, "state transportation departments could award and begin more than 3,000 highway projects totaling approximately $18 billion within 30-90 days from enactment of federal economic stimulus legislation."[9]

Thus, we at EPI recommend that the following criteria be met in terms of infrastructure investment.

- the projects are underway or ready-to-go, such that both payout and actual work could begin within a narrow time frame, say three months;
- the projects will create good jobs;
- they will meet a pressing infrastructure need and when possible, will do so with an emphasis on environmental protection;
- legislative conduits to fund these projects already exist.

Here are some examples identified by EPI researchers (e.g., Ross Eisenbrey, John Irons, Ethan Pollack):

- There are 772 communities in 33 states with a total of 9,471 identified combined sewer overflow problems, releasing approximately 850 billion gallons of raw or partially treated sewage annually. In addition, the Environmental Protection Agency (EPA) estimates that between 23,000 and 75,000 sanitary sewer overflows occur each year in the United States, releasing between three and 10 billion gallons of sewage per year.
- According to a survey by the National Association of Clean Water Agencies, communities throughout the nation have more than $4 billion of wastewater treatment projects that are ready to go to construction if funding is made available. Funds can be distributed immediately through the Safe Drinking Water and Clean Water State Revolving Funds and designated for repair and construction projects that can begin within 90 days.
- The National Center for Education Statistics (NCES) put the average age of the main instructional public school building at 40 years. Estimates by EPI find that the United States should be spending approximately $17 billion per year on public school facility maintenance and repair to catch up with and maintain its K-12 public education infrastructure repairs.

[9] http://www.transportation.org/news/96.aspx

- According to EPI's Ross Eisenbrey, the 16,000 public school districts in the United States have a backlog of deferred maintenance and repairs that exceeds $100 billion. Many school buildings are 50 or even 100 years old and thousands of buildings have antiquated electrical wiring, old, leaky windows, damaged or poorly insulated roofs, old, energy-inefficient boilers or air conditioning units, damaged or leaky toilets and plumbing, and damaged plaster and paint. Every district has identified its needs and would do these repairs if they had funds, and most of the projects are the kind of work that can be completed in 60-90 days. There are important returns in terms of energy savings, teacher morale and student achievement from many of these improvements, in addition to safety and health benefits, and $10 billion could be quickly and efficiently spent by distributing the funds through the Elementary and Secondary School Act formula for Title 1. It is possible that as much as $20 billion could be spent quickly and well. It is critically important that Davis-Bacon Act prevailing wage requirements be applied for all funded work.
- The U.S. Department of Transportation has identified more than 6,000 high-priority, structurally deficient bridges in the National Highway System that need to be replaced, at a total cost of about $30 billion. A relatively small acceleration of existing plans to address this need—appropriating $5 billion to replace the worst of these dangerous bridges—could employ 70,000 construction workers, stimulate demand for steel and other materials, and boost local economies across the nation.
- The House Committee on Transportation and Infrastructure has identified more than $70 billion in construction projects that could begin soon after being funded. An effective short-term stimulus plan could include resources directed at projects for roads, rails, ports, and aviation; only projects that can begin within three months would be considered.
- APTA, the American Public Transportation Association, just released a new, up-to-date survey of its member transit agencies with information about public transportation projects that meet the criteria noted above. In fact, these were the survey criteria asked of respondents (state transportation agencies): projects can be implemented within 90 days of federal funding being made available; they constitute an eligible use of federal funding for the agency; they would not proceed in the current federal fiscal year without supplemental funding, thus fostering new economic activity. APTA reports that 170 public transportation agencies have responded to the survey, providing 559 "ready-to-go" projects with an estimated cost of $8.03 billion.

Bracken Hendricks from the Center for American Progress Action Fund has extensively documented these types of ready-to-go projects with an emphasis on green production.[16] He notes that these projects "could rapidly deploy $54.8 billion to provide immediate stimulus and near-term economic recovery and growth, and make a long-term commitment toward building a clean energy economy." The projects include (lifted directly from his document):

- Energy Efficiency and Conservation Block Grants: Increase appropriation to $6 billion to fund states, cities, and counties in pursuing clean energy projects.

[16] Bracken Hendricks, Center for American Progress Action Fund, Recommendations on Green Infrastructure and Economic Recovery, October 22, 2008.

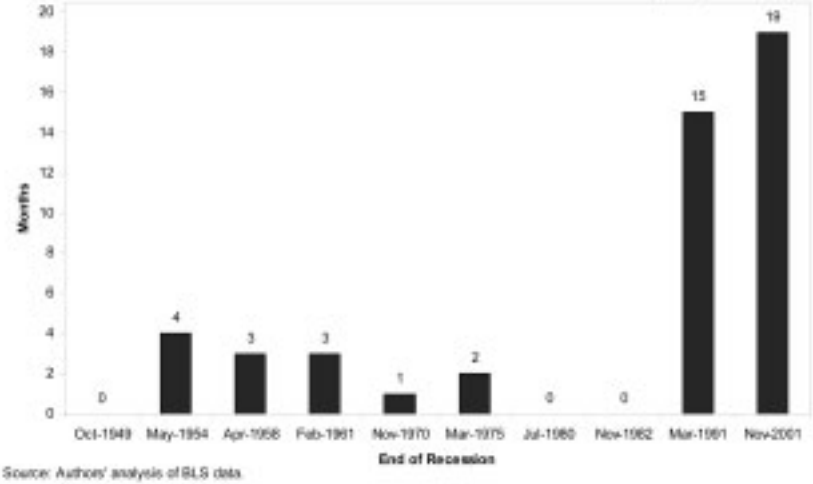
- New Starts Transit Project Investments: Fund 74 identified and permitted projects in 23 states that could begin construction within months, at $30.5 billion.
- Transit Agency Assistance: Provide $1 billion in assistance to transit agencies to reduce transit fares for commuter rail and buses and expand services.
- Green School Construction and Renovation: Support state and local school modernization, renovation, and repair at $7.25 billion.
- Weatherization Assistance Program: Fully fund the Weatherization Assistance Program at $900 million, the amount Congress is authorized to spend on the program in FY 2009, and build toward a goal of weatherizing 1 million homes.
- Emergency Home Retrofit Rebate Program: Initiate a $500 million rebate program for energy retrofits to overcome market barriers to weatherization for middle-income homeowners.
- Green Affordable Housing HOME Block Grants: Supplement block grant funding through the HOME program with $1 billion for energy-related projects.
- Green Community Revitalization: Appropriate $800 million for greening HOPE VI projects to meet Energy Star and green communities standards.
- Workforce Investment – Green Jobs Act: Increase appropriation for the Green Jobs Act, authorized in the 2007 EISA to $250 million to provide job training and workforce investment in energy efficiency and renewable-energy installations.
- Manufacturing Extension Partnership: Expand the capacity of domestic manufacturing modernization efforts, by increasing MEP funding to $200 million.
- Advanced Coal Technology to Capture Carbon: Invest $1.1 billion in beginning construction of the experimental FutureGen Carbon Capture and Storage demonstration coal-fired power plant.
- Consumer Rebates for Solar Roofs: Initiate a $1 billion rebate program to provide rebates of up to 50 percent for home renewable-energy installations.
- Smart Grid Federal Matching Funds: Fund the Smart Grid Title of the Energy Independence and Security Act of 2007, to support R&D, pilot projects, and federal matching funds at $1.3 billion.
- Additional Green Infrastructure – Clean Water: Invest in broader community benefits and green jobs with $3 billion in green storm water infrastructure.

Finally, while I have discussed these infrastructure needs in the context of recession and stimulus, it is important to recognize two important points. First, these are all necessary and productivity-enhancing investments that should be made regardless of the state of business cycle. And second, recent history suggests that it is a mistake to think that labor market slack will no longer be a problem when the recession officially ends.

This last point deserves elaboration. Much of the current recession/stimulus debate has stressed that recent recessions—the ones in 1990-91 and 2001—were both mild and short-lived, and perhaps the next recession will follow the same pattern. It is critical to recognize that these claims are based solely on real output growth, and not on job market conditions. The allegedly mild 2001 recession, wherein real GDP barely contracted, was followed by the longest "jobless recovery" on record. Though real GDP grew, payrolls shed another net 1.1 million jobs.

As **Figure 12** shows, the unemployment rate rose for another 19 months after the recession, and the unemployment rate for African-Americans rose for almost two years. The pattern was similar, though not quite as deep, after the early 1990s recession. The figure also reveals how different these recent patterns were from earlier downturns, when unemployment peaked much closer to the end of the recession.

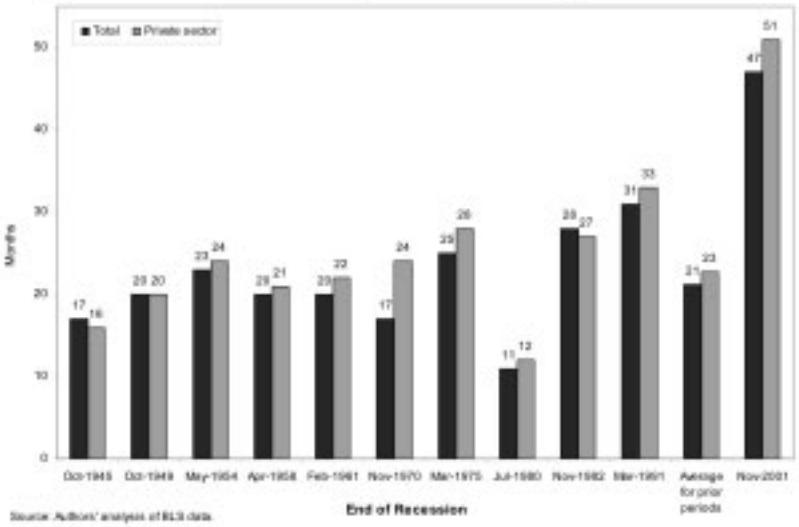
Figure 12. Number of Months from End of Recession Until Unemployment Peak



Source: Authors' analysis of BLS data.

Similarly, employment levels take longer to recover from recessions than does GDP, and this disparity was again much more pronounced in the last recession. As **Figure 13** shows, private sector employment took 51 months to reach its previous peak after the end of the recession of 2001, which is more than twice as long as the average figure for prior recessions.

Figure 13. Number of Months to Regain Peak-Level Employment after a Recession



Part of the explanation for this disjuncture has to do with the way recessions are officially dated by the committee at the National Bureau of Economic Research, as they have apparently given less weight to the job market and greater weight to output growth. But policy makers are likely to give greater consideration to working families whose employment and income opportunities are significantly weakened as unemployment rises and job growth contracts. Thus, from a stimulus perspective, these investments will be still be relevant and needed well after the recession is officially ended.

The Congressional Budget Office is often cited in this discussion for noting that since infrastructure spending has a significant lag time, it may not be adequately suited for counter-cyclical economic stimulus. Their claim rests on historical evidence based largely on traditional public investment, such as the outlay rate of the Highway Trust Fund, which was recently scored as 27% in the first year and 69% in the first two years.

However, by focusing on a different set of projects that meet the criteria noted above, this outlay rate could be increased. Members of the House of Representatives, for example, recently included language stressing that investment priorities would be given to ready-to-go projects that can award bids within 120 days of legislative enactment. Such language is critical to make sure that stimulus resources go to ready-to-go projects.

Former Treasury Secretary Lawrence Summers recently wrote that "While infrastructure spending is often seen as operating only with significant lags, I have become convinced that properly designed infrastructure support can make a timely difference for the economy…Properly designed infrastructure projects have the virtue of being helpful as short run stimulus, especially for the employment of the workers most hard hit by the housing decline, while at the same time augmenting the economy's productive potential in the long run."[11] In this latter sense, by helping to generate faster growth than would otherwise be the case, infrastructure investments can help pay for themselves.

Conclusion

The first part of this testimony lays out the dimensions of the current recession in some detail, while the second section outlines what to expect in coming years, including forecasts of likely losses to income, driven by higher expected unemployment. The third section discusses a recovery package, including expansions to the unemployment insurance and food stamp programs, rollbacks of the cuts in child support enforcement, state fiscal relief, and infrastructure investment, with an emphasis on projects that can be up and running within months, quickly generating much needed new jobs. This package could involve expenditures, roughly speaking, of between $150-300 billion, with $50 billion for states, $50 billion for infrastructure, and $50 billion for UI and food stamps (UI would absorb most of this, perhaps $30-40 billion, depending on whether Congress pursued benefit and eligibility expansions). Beyond that, Congress may decide that direct payments to low- and middle-income households is also useful. A recovery package of this magnitude is strongly recommended to meet the current economic hardships that many American families are undergoing, as well as those that lie ahead, as the downturn persists in coming months.

My testimony also stresses the utility of infrastructure investment as short-term stimulus. This approach has, in the past, been criticized as invoking long lead times, rendering it an unsuitable strategy. But, based on research by economists at EPI and CAP, along with that of former treasury Secretary Larry Summers, I have listed many examples of ready-to-go projects that would arguably be effective in terms of job creation, while filling a public investment deficit. We also are likely to face a more protracted downturn, implying that if longer lead times do occur, the economy will likely still need the stimulus.

I thank Tobin Marcus, Ethan Pollack, Ross Eisenbrey, Bracken Hendricks, Larry Summers, John Irons, and Monique Morrissey for helpful input.

[11] http://www.brookings.edu/projects/hamiltonproject/~/media/Files/Projects/hamilton/testimony/0909_Summers_budget_testimony.pdf

Chairman RANGEL. The Chair will now call on an old friend of the Committee, Bob Greenstein, who is the Executive Director of the Center on Budget and Policy Priorities. We thank you for making yourself available.

STATEMENT OF ROBERT GREENSTEIN, EXECUTIVE DIRECTOR, CENTER ON BUDGET AND POLICY PRIORITIES

Mr. GREENSTEIN. Thank you very much, Mr. Chairman. Unlike most of the other witnesses, I have been asked to talk today about widening inequality in the United States, and to talk about that in the context of the current problems that we face.

There is broad consensus among economists and analysts that inequality has grown substantially over the last 30 years or so. The best data we have are from the Congressional Budget Office and cover 1979 through 2004, and they do show a pretty stark picture of sharp increases in inequality. The CBO data show that, after adjusting for inflation, the after-tax income in the bottom half of the population was only 6 percent higher in 2004 than it had been 26 years earlier in 1979. The increase was 21 percent for the middle fifth. But the average income of the top fifth rose 80 percent. For those in the top 1 percent of the population, it more than tripled.

In dollar terms, the CBO data show that the average after-tax income of people in the bottom fifth was $900 higher in 2004 than in 1979, an increase of $8,700 in the middle, and an increase of $745,000 per household for those in the top 1 percent.

Now, today, every economic indicator points to a deteriorating economy. Normally that increases inequality further, but the current downturn is somewhat different. The direct fallout from recent events is likely to have a large impact on incomes of people at the top of the income scale. That is what happened in the dot-com collapse, when for a few years income at the top fell pretty sharply. Yet, that turned out just to be a speed bump, and incomes at the top then more than made up for the lost ground from 2004 to 2006, as the pattern of rising inequality returned.

So, we shouldn't be surprised if we see at least a temporary decline in the concentration of income at the top of the income scale over the next year or so, particularly given the sharp declines in the stock market. But the larger question going forward is whether this will be just another pause in the rise toward greater concentration of income that we have seen in this country since the mid-1970s, or whether, when we get past the downturn and the economy starts growing again, it will be possible to return to a period like we had from the mid-1940s to the mid-1970s when the gains from economic growth were more broadly shared.

Now, needless to say, policy decisions are important here. For example, the rise in inequality in after-tax income in recent years was exacerbated by the tax cuts of the decade. The CBO data show that the percentage of income in the top fifth pays in Federal taxes has fallen to its lowest levels.

As we look forward, our country faces tough challenges in all sorts of areas, from the current financial crisis to an unsustainable long-term deficit, a need for tax reform, health care reform, and climate change. In every one of these areas, how we address the issue can either exacerbate inequality or lean against it.

I would like to close with a few comments about the current economic downturn. As you know, there is a growing near consensus that unemployment will rise to probably 8 percent or more by the end of 2009, and that we will be facing a recession substantially

more severe than what we have seen in any other time in the past quarter century.

We are likely to face in the next year or two very large increases, not only in poverty, but in deep poverty; that is to say, people living below half of the poverty line. The reason for this is that we are going into this likely deep recession with holes in the safety net that did not exist in the 1974–1975 recession or the 1981–1982 recession, which were the last two deep recessions that we had.

In particular, the unemployment insurance system has not kept up with changes in the labor market and, as a result, many of the female, low income, and part-time workers who are laid off don't qualify for UI benefits. The House has passed modernization legislation to address this, but it is not yet law. It becomes even more important now.

In addition, and this is my final point, the basic safety net for jobless families and individuals who don't qualify for UI benefits and wouldn't be touched by the UI modernization bill also is much weaker than in past major recessions. The safety net of last resort for jobless individuals without children, State general assistance or general relief programs, essentially does not exist anymore. Most States had those programs in 1974–1975, 1981–1982. Most States abolished them between the mid-1980s and mid-1990s. In addition, only about 40 percent of very poor families with children who qualify for TANF cash assistance actually receive it, whereas in the two previous deep recessions that I have mentioned about 80 percent of poor families eligible for such aid got it.

The bottom line, and I want to be clear about this, is I think we are facing a growing prospect of levels of destitution—not just poverty, destitution—severe hardship, and increases in homelessness that we haven't seen in several decades.

Thank you.

[The prepared statement of Mr. Greenstein follows:]

Statement of Robert Greenstein, Executive Director, Center on Budget and Policy Priorities

Thank you for the invitation to testify about widening income inequality in the United States, including the impact of recent developments in financial markets and the economy. As former Federal Reserve chairman Alan Greenspan has said, "this is not the type of thing which a democratic society—a capitalist democratic society—can really accept without addressing," and I commend the committee for holding this hearing.

My testimony falls into three parts.

- The first is an overview of the data on household income and its distribution, where I will discuss recent developments in the context of longer-term historical trends.
- The second is a discussion of the role of public policy in influencing the distribution of income. That discussion largely focuses on Government tax and transfer policies—that is, on how Government policies affect the distribution of after-tax income. But policy also can have some influence on the distribution of pre-tax income determined by market forces, through such things as trade policy, education policy, and labor-market policy.
- The third is a discussion of the implications for public policy generally and some specific policy recommendations for addressing the problem of widening income inequality.

Recent Developments and Longer-Term Trends in Income Inequality

I would like to start by placing the issue of income inequality into the context of recent economic developments and to review some of the salient data on longer-term trends in inequality.

In recent years, income inequality in the United States rose to historically high levels. This was not because the economy was in a recession—the latest available data on inequality do not reflect the current economic slump. And it was not a new development. Inequality has been increasing for more than 30 years.

There was, however, something different about the increase in inequality from 2001 until last year that I want to comment on before discussing very recent developments and then examining the longer-run trends. Usually, concerns about inequality move to the back burner, at least in the public discourse, during economic expansions when most people see their standard of living rise and feel good about their economic prospects. That happened, for example, during the second half of the long economic expansion of the 1990s. But those good feelings were noticeably absent in recent years, even though economic statisticians would characterize the economy's performance from the end of 2001 through most of last year as a business-cycle recovery and expansion following the 2001 recession.

The disconnect in recent years between how the overall economy was doing statistically and how most people living in that economy were doing was puzzling to some pundits and some elected officials and their advisors. But it really was not that complicated. First, the post-2001 period was the weakest of all economic expansions since World War II by almost every economic measure. Second, to an unprecedented degree, the gains from economic growth after 2001 accrued to a narrow slice of the population at the top of the income distribution.

When I said the recovery was weak by *almost* every measure, I was alluding to the fact that there was one important exception—corporate profits. While aggregate wages and salaries grew *less than half* as fast after 2001 as they did in the average postwar economic expansion, corporate profits grew almost 30 percent faster. Both employment growth and wage and salary growth were weaker in the most recent expansion than in any prior expansion since the end of World War II; growth in corporate profits was stronger than the average of all post World War II expansions.

What were the consequences for income inequality of that weak and unbalanced economic recovery? First, in 2006 the share of pre-tax income flowing to the top 1 percent of households reached its highest level since 1928. Second, the gap between the after-tax income of people at the top of the income distribution and the after-tax income of people in the middle or at the bottom continued to widen. It should not be surprising that people were pessimistic about their economic prospects even before the stunning economic and financial developments of the past few months. It was not just in their heads.

Now, of course, every new economic indicator points to a deteriorating economy. That by itself should increase inequality. A weak economy has a disproportionate impact on people who struggle against economic hardship even in a better economy, on low- and moderate-income households that don't have a savings cushion to absorb unexpected expenses or losses of income, and on people who lose their jobs and face longer spells of unemployment than they would in a stronger economy.

At the same time, however, the direct financial fallout from recent events is likely to have its most significant impact on income at the very top of the income scale. This is what happened in the dot-com collapse when, for a few years, income at the top of the distribution fell sharply. That was just a speed bump, however, and incomes at the top more than made up the lost ground from 2004 to 2006.

Thus it would not be surprising to see at least a temporary decline in the concentration of income at the very top of the distribution over the next year or so, particularly considering the sharp declines in the stock market. What happens after that will depend on how the economy and financial markets perform, and also on economic policy and what kind of institutions and social norms regarding inequality emerge from the current crisis.

Let me turn now to a discussion of the data on income inequality and what they show about longer-term trends. There are two primary sources of annual data on household income and its distribution. The first is Census Bureau data on poverty and income based on the Current Population Survey, and the second is income tax data from the IRS. Neither alone can give a complete picture of trends in income inequality. The tax data provide good coverage of people who pay income taxes, including people with very high incomes, but they omit people with low incomes who are not required to file an income tax return. The Census data have good coverage of that low-income population but for various reasons do not have good coverage of people with very high incomes.

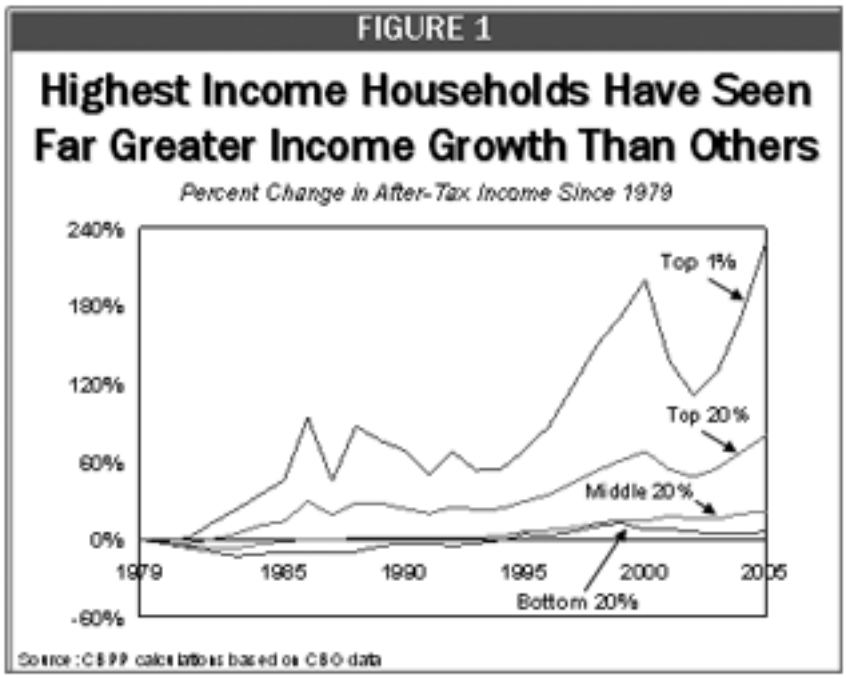
To bridge the gap, the Congressional Budget Office has developed a method for combining the two data sources that provides the most complete picture available of the distribution of before- and after-tax income. Although the Census data are available in one form or another back to the end of World War II and IRS data are available in one form or another back to the beginning of the income tax in 1913,

CBO's comprehensive data series goes back only to 1979, and the most recent published CBO estimate is for 2004. We do have a much longer consistent series on concentration at the very top of the income scale derived from IRS data thanks to the efforts of economists Thomas Piketty and Emanuel Saez. The Piketty-Saez data series covers the years from 1913 through 2006.

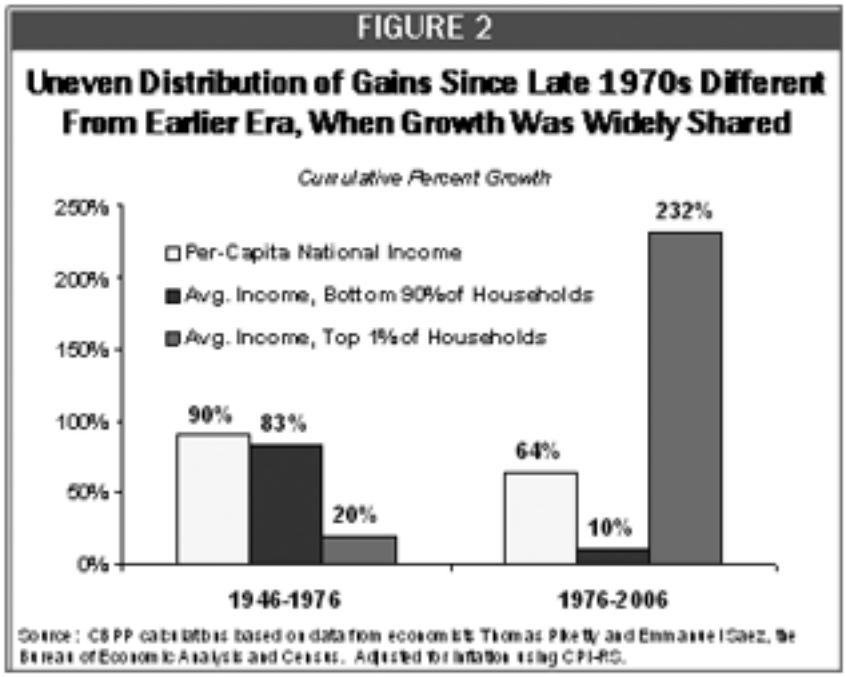
What do these data tell us about long-term trends in inequality? First, the CBO data in Figure 1, which shows the percentage increase in after-tax income at different points on the income scale since 1979, portray a widening gap between income at the top and income in the middle and at the bottom, with the largest income gains accruing at the very top. As Table 1 shows, after adjusting for inflation, income in the bottom fifth of the population was only 6 percent—or $900—higher in 2004 than it was twenty-six years earlier in 1979, and income in the middle fifth of the population was 21 percent—or $8,700—higher. In contrast, income in the top fifth of the distribution rose 80 percent—or $76,500 per household—from 1979 to 2004, and income in the top 1 percent more than tripled, rising 228 percent—or $745,100 per household.

TABLE 1: Change in After-Tax Income, 1976–2004, by Income Group

	Bottom 20 percent	Second 20 percent	Middle 20 percent	Fourth 20 percent	Top 20 percent	Top 1 percent
Increase in 2004 dollars	900	4,600	8,700	16,000	76,500	745,100
Percentage increase	6.3%	15.8%	21.0%	29.5%	79.9%	228.3%



While these CBO data show a strong upward trend in inequality over the past 25 years, it would be a mistake to think that rising inequality and increasing concentration of income at the very top of the income scale have been an inevitable feature of the American economy. As Figure 2 shows, the pattern of growth in household income over the past three decades is distinctly different from the pattern over the first three decades after the end of World War II. The data here are for pretax income, but the story for after-tax income (if it were available for this whole period) would likely not be noticeably different for the reasons discussed later in my testimony.



From 1946 to 1976, the increase in the average income of the bottom 90 percent of households closely matched the growth of per capita national income, while income at the very top grew more slowly. In other words, the gap between the average income of the very richest households and that of the bottom 90 percent of households narrowed over this period. Over the next three decades, in contrast, growth in the average income of the bottom 90 percent of households fell far short of growth in per-capita national income, while growth in the average income of the top 1 percent of households soared. If we had a figure like Figure 1 for this longer period, we would see the incomes of the top, middle, and bottom fifths trending upward together at roughly the same rate from 1946 to sometime in the 1970s, followed by a sharp divergence in the years since 1976 like that depicted in Figure 1.

Figure 3, which is based on the Piketty-Saez data, provides an even longer-term perspective on trends in the concentration of income at the very top. These data show that the relatively slow growth in income at the very top from 1946 to 1976 was part of a longer term trend beginning after 1928. The share of total pre-tax income in the nation that goes to the top 1 percent of households fell from 1928 to the 1970s, but as we have seen, since then the share of income going to the top 1 percent of households has soared. Although the upward surge was interrupted by a major speed bump in 2001 as a result of the dot.com collapse, by 2006 the share of income going to the top 1 percent was at its highest level since 1928.

These data also show that the trend toward greater inequality is once again rising sharply. From 2004 to 2006, the average before-tax income of the top 1 percent of households increased by almost $60,000 (or 5.8 percent), after adjusting for inflation, while the average income of the bottom 90 percent of households rose by less than $450 (or 1.4 percent). (Note: this bottom-90 percent figure is somewhat misleading because it is heavily influenced by the larger gains received by those in the upper ranges of this group. The typical, or median, gain for the bottom 90 percent was smaller than the average gain.)

As I mentioned earlier, we are likely to see another dip due to recent financial market events. But the real question going forward is whether that will be just another pause in the rise toward greater concentration of income or whether it is possible to return to a period more like the first three decades after the end of World War II when there was both strong economic growth and broadly shared prosperity.

How Do Government Policies Affect Inequality?

TABLE 2: Pre-Tax and After-Tax Income Shares and Effective Tax Rates by Income Group, 2001 and 2004

	Bottom 20 percent	Second 20 percent	Middle 20 percent	Fourth 20 percent	Top 20 percent	Top 1 percent
2001						
Share of pre-tax income	4.3	9.2	14.2	20.8	52.3	14.7
Share of after-tax income	5.1	10.3	15.2	21.5	48.8	12.6
Effective tax rate	5.1	11.5	15.3	18.9	26.7	32.8
2004						
Share of pre-tax income	4.0	8.5	13.3	19.8	55.1	18.1
Share of after-tax income	4.8	9.6	14.4	20.6	51.6	15.6
Effective Tax Rate	4.3	9.9	14.2	17.4	25.5	31.2
Percent change in income, 2001–2004						
Pre-Tax income	−3.0%	−1.6%	1.4%	2.4%	14.8%	34.8%
After-tax income	−1.9%	0.3%	2.7%	4.1%	16.6%	38.0%

Government policies affect the distribution of income most directly through taxes and benefit programs, and Federal taxes are, on balance, progressive. As a result, there is modestly less inequality in the after-tax distribution of income than in the before-tax distribution. But while this difference is real, it should not be exaggerated. Furthermore, the large tax cuts enacted in 2001 and 2003 favored higher income groups that were already benefiting from disproportionate gains in pre-tax income. As a result, Federal taxes, while still progressive, are less progressive today than they were before the 2001–2003 tax cuts.

The progressive structure of Federal taxes, as well as its erosion in recent years, is illustrated by the CBO data in Table 2. In 2004, households in the bottom fifth of the income scale paid an average of 4.3 percent of their income in Federal taxes, those in the middle paid 14.2 percent, those in the top fifth paid 25.5 percent, and those in the top 1 percent paid 31.2 percent. The bottom fifth of households received 4.0 percent of before-tax income and 4.8 percent of after-tax income. For the middle fifth, those percentages were 13.3 percent of before-tax income and 14.4 percent of after-tax income. The top fifth of households, in contrast, received a larger share of before-tax income (55.1 percent) than of after-tax income (51.6 percent) as did the top 1 percent (18.1 percent of pre-tax income compared with 15.6 percent of after-tax income). Nevertheless, both before-tax and after-tax income distributions reveal a high degree of inequality. Moreover, the shares of after-tax income going to the top 20 percent and to the top 1 percent in 2004—like their shares of before-tax income—are the highest on record in the CBO data, which go back to 1979.

I have already mentioned how high-income households benefited disproportionately from the economic growth that occurred after 2001. They also benefited disproportionately from the 2001–2003 tax cuts. As shown in the bottom section of Table 2, the before-tax income of the top fifth of households rose by 14.8 percent from 2001 to 2004. And because their effective tax rate (the percentage of income that they pay in Federal taxes) fell to its lowest level on record in the CBO data, their after-tax income grew by an even greater proportion—16.6 percent. For the top 1 percent of households, pre-tax income rose 34.8 percent from 2001 to 2004, and after-tax income rose by 38 percent. In contrast, low-income households experienced income *declines* over this period, and gains in the middle 60 percent of households were quite modest.

We hear from some quarters the argument that the tax system has become more progressive—and that this is proven by the fact that the affluent are now paying a higher share of total income tax revenues. This argument does not withstand scrutiny. A progressive tax cut, like a progressive tax system, is one that reduces inequality. The 2001–2003 tax cuts have done the opposite. When fully in effect, those tax cuts will boost after-tax income by more than 7 percent among households with incomes of more than $1 million, but just 2 percent among middle-income families, according to Urban Institute-Brookings Institution Tax Policy Center. That is an average tax cut of $158,000 in 2010 for households with incomes of over $1 million, but just $810 for middle-income families. Tax analysts know that effective tax rates and shares of after-tax income, *not* the share of taxes paid, are the proper indicators of progressivity.

The CBO data are clear about effective tax rates at the top: they are *lower* than they have been since at least 1979. These data show that the tax system has become

less progressive. The share of taxes paid by high-income households has been going up, but this is because these are the households that have gotten most of the increase in before-tax income. Their income gains have been so large that they are paying more in taxes even though they have gotten substantial tax cuts and the percentage of their income that they pay in taxes has gone down. Between 2000 and 2004, the average income tax burden of the top fifth of the population fell by an amount equal to 4.8 percent of their income; in contrast, the middle and lowest fifths of the population saw their average income tax burdens reduced by amounts equal to less than 2 percent of their incomes.

So far I mainly have been documenting trends in inequality. But what has caused those trends? Princeton economist Alan Blinder expresses the view of many economists that market forces not Government policies are primarily to blame:

> Let me be clear: The main culprit has not been the Government but the marketplace. While there are a number of competing theoretical explanations, the fact is that, starting sometime in the late 1970s, the market turned ferociously against the less skilled and the less well educated.

Blinder criticizes Government for not doing more to use the tax-and-transfer system and other policies to cushion the blow, and he condemns policies of enacting tax cuts for the wealthy while either permitting or causing large holes to emerge in the social safety net. These policies he labels "piling on," which in football would draw a penalty for unnecessary roughness. But just as football is a rough game to begin with, so too has been the labor market faced by workers without strong skills and sufficient education and training.

I will not endeavor here to disentangle the complex economic arguments about how much of the market's turning against the less-skilled and less-well-educated is due to international trade versus technological change or other factors, such as the weakening of the labor unions. I think the state of our knowledge is that there is a constellation of factors, and no single-bullet theory is sufficient. Instead I would just like to make a couple of observations.

First, to state the obvious, if the market has turned fiercely against those with lower skills and less education and training, smart policies to close the skill gap should pay off over the longer term both in boosting productivity growth and in causing the benefits of that growth to be somewhat more widely shared.

Second, an interesting but underdeveloped strand of the economics literature has begun to focus on the role that changing institutions have played in producing greater inequality. In particular, I would note the work of MIT professors Frank Levy and Peter Temin. They argue that the quite different experiences with inequality I have described between the first three decades after the end of World War II and the most recent three decades were shaped by quite different sets of economic institutions. Levy and Temin argue that the early postwar years were dominated by unions, a negotiating framework that heavily influenced wage-setting, progressive taxes, and a high minimum wage. They describe this set of institutions as "parts of a general Government effort to broadly distribute the gains from growth." They argue that the economic forces of technology and trade that most economists look to in explaining trends in earnings inequality "have been amplified by the collapse of the institutions of the post-war years." If they are correct, both Government intervention and changes in the norms of private sector behavior will be necessary to avoid the widening gaps in income that seem to be a feature of market-determined incomes in today's global economy.

I don't think we should interpret the Levy-Temin analysis as an argument for trying to recreate the precise institutions that prevailed in the early postwar period. It is probably not even possible, given the structural changes in the economy that have taken place. But the Levy-Temin analysis is an argument for remembering the importance of institutions and social norms in determining how market forces play out and the ability of laws and the visions that policymakers express to shape those institutions and social norms. Reducing barriers to labor organizing, preserving the real value of the minimum wage, and the other workforce security concerns of this committee would surely be a part of the kinds of institutions and social norms that would contribute to an economy with less glaring and sharply widening inequality.

Before moving to a discussion of the implications of trends in inequality for policy, I would like to note that I have been discussing trends in income inequality. As these data show, there is a great deal of inequality in the distribution of income in the United States. But that inequality pales in comparison to the inequality in the distribution of wealth. Our main source of data about wealth inequality comes from the Federal Reserve's Survey of Consumer Finances. Those data show that roughly a third of household wealth is held by the top 1 percent of households, another third is held by the next affluent 9 percent, and the remaining third of wealth

is held by the remaining 90 percent of households. As extreme as the income inequality shown in Table 2 is, inequality in the distribution of wealth is considerably greater.

Implications for Policy

The United States faces a number of tough challenges ahead. The new ones caused by the current financial crisis are front and center right now, but the others have not gone away, including an unsustainable long-term deficit, the need for health care reform, fundamental tax reform, and the need to address climate change. The problem of widening income inequality is exceedingly unlikely to go away on its own. But how we address these other critical challenges also will have important implications for whether policymakers make inequality worse or better through their policy actions. In this section of the testimony, I will discuss some broad policy implications and offer some specific recommendations.

Addressing our long-term budget imbalance is important to achieving strong sustainable growth over the long term. But the distributional implications are vastly different if we address the challenge by slashing promised benefits in programs like Social Security, Medicare, and Medicaid to preserve the tax cuts we have enacted and add new regressive tax cuts on top, or if we instead pursue a more balanced approach that puts everything on the table. Similar distributional differences attach to alternative ways of approaching health care reform and fundamental tax reform.

Climate change legislation poses a similar challenge. Reducing greenhouse gas emissions, through either a cap-and-trade system or a carbon tax, works by raising the price of energy and energy-related products. Because low- and moderate-income households spend a disproportionate amount of their income on these products, they will experience the largest relative hits to their purchasing power from such legislation.

At the same time, however, either a cap-and-trade system in which most of the emissions allowances are auctioned off or a carbon tax has the potential to raise substantial revenues. If a portion of those revenues are used for well-designed climate rebates to offset the impacts of higher energy prices on low- and moderate-income households, we can achieve the benefits of reduced greenhouse gas emissions while protecting the purchasing power of vulnerable households and avoiding regressive effects. In contrast, if we give away a large percentage of the allowances to existing industrial emitters or we use the proceeds to cut income tax rates, we would provide tax relief benefits to high-income households that are larger than the increase in their energy costs while leaving low- and moderate-income households worse off. Inequality would effectively be widened further.

I believe that if we are to take the problem of increasing inequality seriously, we need to keep these distributional considerations in mind as we address the big challenges that lie ahead. At the same time, strong economic growth and rising productivity are a necessary condition for achieving widespread prosperity. Sound investments in education, worker training, infrastructure, and basic research are necessary to complement private investment in generating that growth and productivity.

Having a strong economy is a necessary condition for achieving widespread prosperity. But as we have seen for more than 30 years, the outcomes determined by market forces alone seem to be aggravating inequality, especially during periods when the political environment is tilted toward skepticism about or outright hostility toward policies that provide an effective safety net for those struggling to keep their heads above water and policies aimed at ensuring that the gains from economic growth are shared more equally, as they were in the 1946–1976 period.

One important place we need to start to achieve that goal is a focused effort to reduce poverty. The poverty rate rose for four straight years from 2000 to 2004, peaking at 12.7 percent in 2004. In 2007, the rate was still stubbornly high at 12.5 percent, and over 37 million people were poor (and the poverty rate is rising further now as the economy slumps and unemployment climbs). Poverty is higher in the United States than in many other developed countries, and it is costly to the economy to have so many adults with limited skills and earnings and to perpetuate that situation through the damaging effects of persistent child poverty. We can do better. An effort that deserves attention here is the Half in Ten campaign, which is calling on policymakers to adopt the goal of cutting poverty in half over the next ten years.

Let me conclude with some concrete steps to address the problem of widening inequality. I'll start with the Tax Code, which includes provisions worth hundreds of billions of dollars a year to encourage a wide variety of activities from saving for retirement to acquiring more education. From the standpoint of equal treatment of people with different incomes, there is a fundamental flaw in most of these incentives: they are provided in the form of deductions, exemptions, and exclusions rather

than in the form of refundable tax credits. That means that the size of the tax break is higher for taxpayers in higher income brackets For many of the activities that the tax incentive is meant to promote, there is no obvious reason why lower-income taxpayers or people who do not file income taxes should get smaller incentives (or no tax incentives at all).

But it is worse that that: the central structure of these tax breaks also makes them economically inefficient. Because a large number of taxpayers will not have incomes high enough to benefit fully from current non-refundable incentives, society will get less of the activity it is trying to encourage; people with smaller income-tax liabilities will have a smaller incentive, and people with no income-tax liability will have no additional incentive to engage in the activity. Moreover, high-income taxpayers are likely to save for retirement and to invest in their children's education with or without the tax breaks; the tax breaks do not appear to have a large effect on their behavior. As a result, the current tax deduction structure used for these tax breaks is inefficient. Providing more modest tax breaks to high-income taxpayers and using the savings to provide refundable credits to lower-income taxpayers would increase the amount of desirable economic activity that the tax break is meant to encourage, at no additional cost.

In a 2006 Brookings Institution policy brief, three prominent tax policy analysts—Lily Batchelder, a professor of law and public policy at NYU, Fred Goldberg, who was IRS Commissioner and Assistant Secretary of the Treasury for Tax Policy under the first President Bush, and Peter Orszag, now the director of the Congressional Budget Office, recommended that the default for tax incentives designed to promote socially valued activities should be a refundable tax credit (i.e., a tax credit available to qualifying households even if they do not earn enough to owe income tax) rather than a deduction. The authors point out that such a credit would not only contribute to reducing inequality in after-tax income, but for the reasons discussed above, also would produce more powerful economic incentives.

If a system of refundable credits were in place, it also would have the virtue of providing a form of stabilization to the economy when the economic picture darkened, since people who lost their jobs or experienced a sharp drop in income during an economic downturn would continue to receive the full value of tax credits for which they qualified, rather than losing the value of the credits or seeing them reduced as is the case now. We could begin next year to take steps toward such a reform of the Tax Code by making the higher-education and savers' tax credits refundable and making improvements in the EITC. Moving to refundable tax credits for promoting socially worthwhile activities would be an important step toward enhancing progressivity in the Tax Code in a way that would improve economic efficiency and performance at the same time.

Other steps we could take that would contribute to reducing poverty and expanding educational opportunities include: increased investment in pre-school education and decent-quality child care for low- and moderate-income families. Such steps would both enable more low-income mothers to work (or enable those already working to work more) and increase the educational attainment and skills of the children.

In the area of health care, the lion's share of those without health insurance are low—or moderate-income. So legislation to achieve universal health insurance coverage *and* begin to put mechanisms in place to slow health care cost growth are important—both to improve the health and alleviate the squeeze on the uninsured *and* to ease the pressure on wages and salaries more broadly that rising health care costs impose.

Finally, with all signs pointing to a deteriorating economy and the possibility of a recession substantially more severe than what we have become accustomed to in the past two decades, the holes that have opened in the safety net over the past 20–30 years will become more apparent. For example, our unemployment insurance system has not kept up with changes in the labor market, and as a result many of the female, low-income, and part-time workers who now make up a significant portion of the labor force do not qualify for UI benefits when they are laid off. UI modernization legislation like that which the House has already passed is long overdue, and is particularly badly needed now.

Clearly, the Committee on Ways and Means will play a central role in determining how we address a number of the challenges that lie before us. The decisions the Committee makes will play an important role in determining how policy can contribute to promoting more broadly shared prosperity than we have seen recently. At the same time, if the Levy-Temin analysis is correct and trends in income inequality reflect an interaction between underlying market forces and institutions and social norms that can either moderate or aggravate the effects of those market

forces, the task will be easier if those institutions and social norms also reflect a greater commitment to promoting broadly shared prosperity.

Chairman RANGEL. The Chair recognizes Christine Owens, National Employment Law Project Executive Director.

STATEMENT OF CHRISTINE OWENS, EXECUTIVE DIRECTOR, NATIONAL EMPLOYMENT LAW PROJECT

Ms. OWENS. Thank you, Chairman Rangel, Ranking Member McCrery, and other Members of the Committee. We appreciate the opportunity to talk with you today about what Congress can do between now and the end of the year to respond to the growing unemployment crisis, to promote economic recovery, to help jobless workers, and to ease extraordinary burdens on the States.

Our written testimony describes in detail the sharp increases in job loss, joblessness, and long-term unemployment over this year, and, indeed, in just the last few months since Congress passed the Emergency Unemployment Compensation Program.

The hard cold data that we have in our written statement are hard cold facts for families like Tina and Tom Buzzo of Detroit, Michigan. Thomas and his brother lost their jobs at a construction company in March 2007, when the company failed. Then they lost their replacement jobs a few months later when the new company they went to also faltered. Since he was laid off last October, Thomas has searched for and applied for numerous jobs, but remains unemployed. He has run out of State unemployment benefits, and he recently ran out of his Federal extended benefits. The family scrapes by on Tina's earnings as an administrative assistant at a Detroit automotive company, but of course they are worried about that job, too. They try to stay current on their mortgage and electricity payments to maintain an appropriate home for their two and a half-year-old son and they make minimum payments on everything else. They have borrowed from their families, eaten away their savings, and recently decided that, if necessary, to save their home, they will have their car repossessed.

As bad as it is for them, it is worse for Thomas's brother. After he lost his job, his mortgage was foreclosed, so he lost his home. He and his family have moved north to Cadillac, Michigan to live with relatives, and he still cannot find a job.

Their story is the story of millions of working Americans today. People want to work, they need to work, but they cannot find jobs in an economy that is bleeding jobs. They are running out of State unemployment benefits and are exhausting their Federal benefits, too.

Since the beginning of this month, 800,000 long-term jobless workers have exhausted their Federal benefits, and more than 1 million will do so by the end of the year. This grave unemployment crisis requires quick action to help jobless workers, aid struggling States, and spur economic recovery.

Because unemployed workers spend their benefits quickly to meet basic family needs, their unemployment assistance is pumped back into and circulates throughout the economy, providing stimulus that vastly exceeds the cost of the benefits. Therefore, as a

first order of business after the election, the Senate must follow the House to extend the Federal extended benefit program to provide 20 weeks of extended benefits for jobless workers in all States, and 33 weeks for workers in States with unemployment above 6 percent. Last month, 18 States met that standard.

To provide greater certainty and stability in a really uncertain economy, Congress should also go ahead now and extend the program through the end of next year, rather than waiting until next spring when it is slated to expire.

In addition, Congress should enact the Unemployment Insurance Modernization Act which this body has already passed. This measure rewards States for closing gaps that leave far too many workers uncovered. Because many States have not updated decades old coverage rules, only 36 percent of jobless workers receive benefits today, far fewer than in the 1950s. Those who fall through the cracks are largely women, low wage workers, and part-time workers. The GAO has found that low wage workers are twice as likely to become unemployed as higher wage earners, but only one-third is likely to receive unemployment benefits.

Built from successful models pioneered in the States, and based on recommendations by the bipartisan Advisory Council on Unemployment Compensation, the Unemployment Modernization Act provides significant financial assistance to all States to help them defray program administrative costs and additional incentive grants to reward States that choose to implement specific reforms that close coverage gaps. If implemented by all States, these reforms would extend coverage to 500,000 more workers each year.

Passing the UIMA would pump 1.7 billion into the economy right away through the combination of administrative funding for all the States and incentive grants for those States that have already adopted key reforms. Other States would become eligible as soon as they adopted reforms.

These grants will pay for benefits for several years, give States flexibility to address other program needs, expand coverage, mitigate hardship for workers, and better position the UI system to play the role it is intended to play, which is helping workers and the economy when it needs help most.

Thank you.

[The prepared statement of Ms. Owens follows:]

Testimony of Christine L. Owens
Executive Director
National Employment Law Project

Before the House Committee on Ways and Means

Hearing On:

"Economic Recovery, Job Creation and Investment in America"

October 29, 2008

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Testimony of Christine L. Owens, Executive Director
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Before the House Committee on Ways and Means
October 29, 2008

Chairman Rangel, Ranking Member McCrery and members of the Committee, I appreciate the opportunity to testify today on the nation's intensifying unemployment crisis and the steps necessary to help bring about an economic recovery. Given the likelihood this crisis will worsen considerably in the months ahead, it is urgent that Congress and the President act before the end of the year to provide much-needed assistance for jobless workers and further stimulus to the economy.

The National Employment Law Project (NELP) has a long-standing commitment to securing policies that serve the working families hit hardest by economic downturns and the fallout from globalization. Earlier this year, as in previous recent recessions, NELP worked in support of the federal extension of jobless benefits for long-term unemployed workers. In states across the nation, NELP has been a key player in successful efforts to update state unemployment insurance programs, to ensure that more workers are eligible to receive benefits during periods of joblessness. And NELP operates an intensive project in the Midwest, working with state officials and others to help laid-off manufacturing workers better access trade act benefits and related programs.

Our testimony today focuses on the critical role of the unemployment insurance program as the nation struggles to prevent a more serious recession. As intended when the program was created during the great depression, unemployment insurance remains the first line of defense to help boost those communities hardest hit by economic downturns and prevent devastating economic hardship for millions of Americans. For families impacted by a sudden job loss, unemployment benefits can make the difference between getting by and facing major financial distress. And our economy counts on the unemployment program to replace billions of dollars of spending power lost when payrolls are cut. But the critical role of the unemployment program in helping the economy stabilize and recover is compromised because of limitations in the basic state program and federal extended benefits – problems that Congress can fix.

Our testimony proceeds as follows:

- First, we document the worsening economic picture for workers, which includes escalating job losses, the sustained high incidence of long-term unemployment, a significant increase in state UI benefit exhaustions, and the unacceptably large number of EUC beneficiaries exhausting their extended benefits without finding work.

- Second, to ameliorate the unemployment crisis and boost the economy, Congress must act right away to expand the limited 13-week extension of

jobless benefits enacted in June. The House has already overwhelmingly approved an expansion, and now the Senate must join suit and pass legislation expanding the EUC program to provide an additional seven weeks of EUC benefits, or 20 weeks altogether, for eligible unemployed workers in every state. Beyond that, long-term jobless workers in high unemployment states, with jobless rates exceeding six percent, should receive an additional 13 weeks of EUC benefits, or 33 weeks altogether, if they are unable to find work.

- Finally, we strongly urge Congress to enact the Unemployment Insurance Modernization Act (UIMA), a revenue-neutral measure that would infuse as much as $7.5 billion in federal funds to help states meet the unprecedented demand on their agencies charged with administering the UI program and modernize their programs, so that 500,000 workers a year who now fall through the cracks of the UI program will qualify for unemployment benefits. The UIMA will go a long way to help boost the economy by immediately providing roughly $1.7 billion to state unemployment funds and state agencies, allowing far more workers to qualify, thus maximizing the beneficial stimulus effect of the UI program.

THE DEEPENING ECONOMIC CRISIS: MORE UNEMPLOYMENT, FEWER JOBS, AND LIMITED FEDERAL JOBLESS BENEFITS

This has been a bad year for America's workers. Beginning in January, the nation's employers have cut jobs every month, shedding 760,000 positions altogether so far this year and nearly one million in the private sector. The ranks of the unemployed have grown even more sharply, rising by nearly two million workers between January and September. And now, the consensus appears to be that we are heading to unemployment rates exceeding 8.0% to 8.5%, not unlike the severe recession of the 1980s.[1]

Rapid economic deterioration early in the year prompted Congress to pass the Emergency Unemployment Compensation (EUC) program, which the President signed on June 28th. The EUC program provides up to 13 weeks of federally-funded extended jobless benefits to workers beyond the maximum 26 weeks of unemployment insurance (UI) provided by the states. Coverage under the law reaches back to workers who ran out of their state benefits as of May 2007 and remain unemployed, and extends through to the end of March 2009.

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[1] Testimony of Jared Bernstein, Senior Economist, Economic Policy Institute, before the House Committee on Education and Labor, Hearing on "Building an Economic Recovery Package: Creating and Preserving Jobs in America," October 24, 2008 (referencing Goldman Sachs forecast that unemployment will rise to 8% by the end of 2009 and average 7.6% throughout the year); Uchitelle, Louis, "Spending Stalls and Businesses Slash U.S. Jobs," **The New York Times,** October 26, 2008 (citing Global Insight economic projections of unemployment rates of 8.0% to 8.5% by the end of next year) (http://www.nytimes.com/2008/10/26/business/26layoffs.html?hp);

Long-term jobless workers whose state benefits expire during this window became eligible to receive their EUC benefits starting as early as July 13TH, which means many began running out of their limited 13 weeks of assistance on October 5th, just before the congressional recess. As a result, we estimate that almost 800,000 workers have already exhausted their limited federal assistance and more than one million will do so before the end of the year.

These workers are exhausting their limited EUC benefits in an economy that is much worse now than when the EUC program passed—and all the projections are for further deterioration. Failure to respond quickly to this crisis will only make matters worse for jobless workers, their communities and states.

Significant Declines in National Economic Indicators

Nationally, all the leading indicators show a declining job market since June 28th when the EUC program was enacted:

- **Substantial jump in unemployment nationally:** At the time Congress passed the EUC program in June, the unemployment rate was 5.5 percent and 8.5 million workers were counted as officially unemployed and actively seeking work.[2] According to the Labor Department's report on the nation's employment situation in September, released earlier this month, the official unemployment rate has jumped to 6.1 percent and 9.5 million jobless Americans are actively looking for work—more than a 10-percent increase in both measures over the intervening four-month period. Even more dramatic, the ranks of the unemployed have swelled by more than two million over the last year, and the unemployment rate has risen 30 percent (from 4.7 percent in September 2007 to 6.1 percent last month).

- **Major increase in long-term unemployment and durations of joblessness:** At the same time, the number of workers unemployed for more than six months while still actively looking for work increased by more than 450,000 from May to September, to more than two million workers. The long-term unemployed were 21.1 percent of all jobless workers in September, a sharp rise from their 18.3 percent share in May.

- **Rising unemployment insurance claims**: For the week ending October 18, 2008, the Labor Department reported 480,250 new claims (4-week average) for unemployment benefits. Weekly claims for the three weeks ending October 4, 2008-October 18, 2008 have exceeded 480,000, the highest levels since the last recession ended in November 2001. Claims have exceeded 450,000 for six consecutive weeks, matching the sharp increase in unemployment after September 11th. Just one year ago, weekly UI claims were 327,500, and roughly 390,000 as of June 28th. The

[2] The Labor Department's May 2008 Employment Situation report, released on June 6, 2008, provided the data upon which Congress and the President relied in enacting the EUC program.

total number of workers collecting state unemployment benefits stands at 3.68 million (4-week average), the highest number since June 2003.

- **Accelerating job loss**: America's employers have shed jobs every month this year, but the losses have accelerated in recent months. Between the end of 2007 and the end of June, when the EUC program was passed, employers had cut their payrolls by 461,000 jobs. The pace quickened between July and September, inclusive, with employers shedding 299,000 jobs over the three-month period, almost two-thirds the number cut during the first six months of the year. This acceleration of job cuts is mirrored in several additional indicia of labor market distress:

  First, the number and share of workers citing job loss as the reason for their unemployment is up sharply. Since April, the number of job losers (that is, persons losing jobs or completing temporary assignments) has grown every month, and at 5.2 million in September, is at its highest level since the end of 1992. Last month, job losers were 54.3% of unemployed workers compared with 50.7% in May and only 49.6% one year ago.

  Second, mass layoffs have risen to post-disaster levels. The Labor Department recently reported employers initiated 2,269 mass layoffs (layoffs involving at least 50 workers) in September, the highest number since the terrorists' attacks in September 2001. Individuals' claims for benefits resulting from these layoffs totaled 235,681, the highest level since Hurricane Katrina devastated the Gulf Coast in September 2005. Coupled with the steep rise in unemployment claims, the layoff announcements indicate that the job market is even worse than the employment figures being reported by BLS (which are likely be revised downward) and indicates that the unemployment rate is likely to rise in October and the months ahead.

  Third, the ratio of unemployed job seekers to job openings is growing: Comparing the Labor Department's monthly unemployment data with its monthly reports on Job Openings, Layoffs and Turnover reveals the number of jobless workers per job opening has grown significantly. In August 2007, there were 58 job openings for every 100 unemployed workers, translating into a ratio of 1.7 jobless workers per opening. In June of this year, the ratio stood at 2.4 job seekers per job opening, with only 42 job openings for every 100 unemployed job seekers. By August (most recent data), there were only 35 job openings for every 100 unemployed job seekers, a ratio of roughly 2.9 job seekers for every opening. As unemployment rises along with further job cuts, this ratio will continue to expand.

Devastating Unemployment and Job Loss in the States

As distressing as the national figures are, they understate the even more serious situation facing the states. According to Moody's Economy.com, more than half the states are already in recession and 14 others are expected to be in recession in the next several months.[3] Over the past year, all but three states have experienced unemployment increases, and in most instances, those increases have been substantial. Far surpassing rates just four months ago when the EUC program was passed, large numbers of states are now suffering from extreme levels of unemployment and job loss.

- **Unemployment exceeding 7.0% in 11 states:** In September, 11 states—California, the District of Columbia, Kentucky, Michigan, Mississippi, Nevada, North Carolina, Ohio, Rhode Island, South Carolina and Tennessee—reported a monthly unemployment rate of 7.0% or higher. This compares with only eight states in August, and only two—Michigan and Rhode Island—that had reported unemployment rates exceeding 7.0% when Congress passed the EUC program in June.

- **Number of states with unemployment at or above 6.0 percent more than twice as high as when the EUC law passed:** When the data were reported in June, only seven state unemployment rates exceeded 6% (Alaska, California, District of Columbia, Michigan, Mississippi, Rhode Island and South Carolina). When the most recent data was reported earlier this month, the number of states with unemployment averaging above 6.0% had more than doubled, to 18 states (also including Florida, Georgia, Illinois, Indiana, Kentucky, Missouri, Nevada, North Carolina, Ohio, Oregon, and Tennessee).[4]

- **States struggling with massive job losses:** Corresponding to the rise in unemployment, many states are struggling with massive job losses, with employers in several states shrinking their payrolls by as much as two percent since the beginning of the year. Among the states with the greatest job losses since January are California (49,300 jobs), Florida (148,900 jobs, 2% of payrolls), Georgia (87,600 jobs, 2% of payrolls), Illinois (38,100 jobs), Indiana (20,000 jobs), Michigan (61,300 jobs), North Carolina (28,900 jobs), Ohio (29,900 jobs), Rhode Island (10,800 jobs, 2% of payrolls), and South Carolina (20,400 jobs).

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[3] ABC News, *Majority of States Now in Recession*, citing Mark Zandi, chief economy and co-founder of Moody's Economy.com, October 21, 2008 (http://abcnews.go.com/print?id=6075580)

[4] Trigger Notice No. 2008-24, effective June 29, 2008; and Trigger Notice No. 2008-40, effective October 19, 2008.

Surge in Workers Exhausting Their Jobless Benefits

Perhaps the most devastating measure of hardship is the growing number of workers now exhausting their state and federal jobless benefits.

- **UI benefit exhaustions up sharply in the states:** In the past year, more than three million workers have run out of their limited state jobless benefits, the most since June 2005. In September, more than 300,000 jobless workers in the U.S. ran out of their state jobless benefits, an increase of 58 percent in the past year. As reflected in Table 1, 31states reported benefit exhaustion levels in September 2008 that were at least 50% greater than in September 2007, and in 22 states, exhaustions in September 2008 were at least 65% higher than one year earlier.

- **EUC recipients running out of extended benefits and still unable to find work:** Because the EUC program provides only 13 weeks of extended benefits even for workers in high unemployment states, unemployed workers who started collecting EUC benefits in July are now exhausting those benefits. The first group of these workers exhausted their EUC benefits on October 5th, shortly after the Congressional recess began. As shown in Table 2, NELP estimates that 775,000 jobless workers exhausted their 13 weeks of EUC benefits in early October. By the end of the year, the total will exceed 1.1 million.

A STRONG UI PROGRAM IS CRITICALLY IMPORTANT TO THE NATION'S ECONOMY

The nation's job and labor markets have deteriorated sharply in recent months, and economists predict monthly job cuts will average 200,000 well into next year.[5] In addition, the overwhelming majority of states are projecting budget shortfalls this year or next, which will require cuts in services, benefits and/or employment, or tax hikes to fill the gaps. Either measure will further depress local economies.

This grave economic crisis requires quick congressional action to assist jobless workers, aid the states, and spur recovery. Strengthening and expanding UI benefits is a targeted and highly effective means to achieve these objectives.

The Important Role of the UI Program for Workers and the Economy

The nation's UI program plays a critical role in the lives of millions of workers who collect benefits and in their communities. Despite its limitations—chiefly, that far too many jobless workers do not collect benefits—the program

[5] Evan, Kelly et al., "Broader, Deeper Job Cuts Risk Steepening Slump," ***The Wall Street Journal***, October 24, 2008 (http://online.wsj.com/article/SB122480464946164827.html)

still serves its core function as the "first line of defense" to help prevent financial hardship for unemployed families while also stabilizing the economy during recessions, thus preventing more unemployment.

Consider the experience of the last recession, which in many respects was milder than prior downturns. From 2000-2003, the UI program paid more than $50 billion in additional state benefits and more than $20 billion in federal extended benefits to 7.25 million workers. If doubled to account for the documented multiplier effect when UI benefits circulate in the economy, state and federal UI benefits generated about $140 billion in economic stimulus.[6] Of course, the stronger a state's UI benefits, the greater the stabilizing impact on local businesses.

In addition, UI benefits played a significant role in alleviating the financial hardship caused by the recession. In 2003, the average worker who collected both 26 weeks of state benefits and the 13-week federal extension received over $10,000 in UI benefits. According to a national poll of unemployed workers conducted in 2003, 78% of those surveyed said that their unemployment benefits were "very important" to help them meet their family's "basic needs."[7] The Congressional Budget Office concluded that during the last recession, UI benefits "played a substantial role in maintaining the family income of recipients who experienced a long-term spell of unemployment."[8]

Although too often overlooked, unemployment benefits also maintain U.S. labor standards and promote economic opportunity. Indeed, one of the few federal eligibility mandates under the UI program requires that a worker not be denied state UI for refusing a job offer that does not satisfy the "prevailing conditions" of work in the community.[9] Like the federal minimum wage law, this federal UI mandate sets the labor standards floor governing the prevailing "wages, hours and other conditions of work" (including fringe benefits and health insurance) of relevant jobs in the community. Thus, the UI program helps sustain meaningful wages and benefits, especially in those communities experiencing large numbers of layoffs.

The federal law also exempts workers from having to be available for work while they participate in state-approved training, thereby encouraging workers to upgrade their skills. As a result, workers who collect unemployment benefits are

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[6] Chimerine, et al. *Unemployment Insurance as an Economic Stabilizer: Evidence of Effectiveness Over Three Decades*, U.S. Department of Labor, Unemployment Insurance Occasional Paper 99-8 (1999).
[7] Peter D. Hart Research Associates, "Unemployed in America: The Job Market, the Realities of Unemployment, and the Impact of Unemployment Benefits," conducted April 17-28, 2003 (commissioned by the National Employment Law Project).
[8] Congressional Budget Office, *Family Incomes of Unemployment Insurance Recipients* (March 2004).
[9] 26 U.S.C. Section 3304(a)(5)(B)

also more likely to find a better-paying job (by a factor of $240 a month according to one study)[10] and employment with health care coverage.[11]

The Unemployment Insurance Economic Recovery Agenda

To stabilize the economy, increase consumption, boost growth and aid the unemployed unable to find work, Congress and the President should move quickly after the presidential election and take the following steps to expand jobless benefits.

Expand EUC benefits by increasing the weeks of coverage and amount of assistance

In response to the surge in unemployment and the need for further stimulus to address the continued economic decline, shortly before the congressional recess the House of Representatives voted overwhelmingly in favor of legislation (H.R. 6867) co-sponsored by Congressmen Charles Rangel and Jim McDermott to expand the EUC program to provide additional weeks of benefits. As a result of an objection by Senator Wayne Allard (R. CO) to Majority Leader Reid's unanimous consent motion, the Senate declined to move the measure before the recess, though many Senators support the measure. Meanwhile, both presidential candidates have indicated their support for an expansion of the federal EUC program.[12]

If enacted, the Rangel-McDermott bill will provide 20 weeks of federal benefits for eligible jobless workers in all states (up from the current 13 weeks), and up to 33 weeks of total EUC for workers in those states with unemployment rates exceeding 6 percent. As described above, additional jobless benefits help workers most in need, while also providing a boost to local and national economies.

Abundant precedent exists to expand the EUC program under the present circumstances. The March 2002 extension of jobless benefits provided 13 weeks of extra benefits for high unemployment states, on top of the 13 weeks of benefits provided all states. Over the two-year life of the program, 13 states qualified for extra federal benefits with unemployment rates exceeding 6.5%.

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[10] Kiefer, Neumann, "An Empirical Job Search Model with a Test Constant Reservation Wage Hypothesis," *Journal of Political Economy*, Vol. 87, No. 1, 89-107.
[11] Boushey, Wenger, "Finding the Better Fit: Receiving Unemployment Increases Likelihood of Re-Employment with Health Insurance" (Economic Policy Institute, April 14, 2005).
[12] Bloomberg.com, "McCain Hesitates as Bernanke Revives Stimulus Debate (Update 2)." http://www.bloomberg.com/apps/news?pid=20601087&sid=aLM.1RyNYPEw&refer=home (October 28, 2008) (citing McCain spokesman Douglas Holtz-Eakin for McCain's support of extension) ; http://obama.senate.gov/press/080917-obama_joins_rea/

Today, just four months into the EUC program, 13 states already have unemployment rates exceeding 6.5%.

In November 1991, when another extension of jobless benefits was enacted, 15.4% of the unemployed were long-term jobless, totaling 1.34 million workers. By February 1992, the unemployment rate had jumped 0.4 percentage points (to 7.4%), and long-term unemployment had increased to 18.1% of the unemployed, accounting for 1.7 million workers. As a result, Congress intervened in February to provide a basic 26 weeks of extended benefits for all states, and up to 33 weeks for high unemployment states. Today, while the unemployment rate is lower than in 1991, the surge in unemployment has been more significant and the current level and incidence of long-term joblessness exceeds the levels that existed when the federal program was expanded in 1992.

In expanding the EUC program, Congress should also take steps to help workers deal with the surging costs of food, gas and other basic necessities. We support the proposal of both the presidential candidates to suspend the tax on unemployment benefits, which would help 65% of those who collect an unemployment check.[13] Given the level of the crisis and the need to boost consumer spending in communities hardest hit by unemployment, Congress should also explore strategies for increasing the level of unemployment benefits at the same time it moves forward with measures (described below) to expand UI coverage to more workers. The average unemployment check is now just $297 a week, which replaces only 35% of the average weekly wage in the U.S.

Congress should also act this year to extend the EUC program through the end of 2009, rather than waiting till March when the program is slated to expire. Projected increases in unemployment and job loss well into next year make it almost inevitable that renewing the EUC program will become necessary next spring. Acting now instead of waiting till then will provide greater certainty, predictability and economic stability for jobless workers and their communities, hence greater benefit to the economy overall. If necessary, Congress can always act to expand benefits again before the program expires at the end of 2009.

Modernize the unemployment insurance program

Unemployment benefits play an indisputable and invaluable role in assisting jobless workers who are the first line causalities in downturns, in stabilizing local economies, and in spurring recovery. But the effectiveness of the UI program as a comprehensive approach for boosting the economy is undermined by its significant gaps in coverage. As documented by numerous authorities, including the 1991 Advisory Council on Unemployment Compensation,[14] the UI program has failed to evolve to meet the demands of a

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[13] Congressional Research Service, *Taxation of Unemployment Benefits* (October 14, 2008)
[14] Advisory Council on Unemployment Compensation, *Collected Findings and Recommendations: 1994-1996* (1996).

changing economy and a changing workforce. As a result, only 36% of the unemployed receive jobless benefits today, reflecting a significant decline since the 1950s. Two major groups of workers are most likely to fall through the cracks in the system—those who fail to qualify because of outdated eligibility rules (chiefly, women, part-time and low wage workers) and those who qualify for UI benefits but end up receiving far too limited assistance as they struggle to find work over longer periods of time. According to a recent study by the United States Government Accountability Office, low-wage workers are twice as likely to become unemployed as higher wage earners, but one-third as likely to receive unemployment benefits.[15]

In addition to expanding the EUC program, then, Congress should pass the Unemployment Insurance Modernization Act (UIMA), a crucial measure that goes a long way to help states update their unemployment programs. Building on modernization reforms more than half the states have already undertaken to cover more women, low wage and part-time workers, the UIMA would greatly enhance the potential for UI benefits to promote economic recovery and assist more jobless workers and their communities.

The UIMA has already passed the House of Representatives (H.R. 3920, Title IV) and a similar measure enjoys strong bipartisan support in the Senate (S. 1981). Moving ahead soon to enact the UIMA as part of an economic recovery package will help close serious gaps in the unemployment insurance program that deny benefits to thousands of hard-working families, especially low-wage and part-time workers, while also providing much-needed financial aid to all the states.

Of special significance to state agencies now struggling to handle the surge in unemployment claims, the bill provides a total of roughly $500 million for grants to help all states improve services to unemployed workers (Table 3). In far too many states, services have been dramatically curtailed due to major cuts in federal funding, leaving unemployment offices closing around the country and limiting staff available to provide all the help workers need to navigate the state reemployment services.

In addition, the bill would provide $7 billion in incentive funds to the states that modernize their unemployment programs, helping an estimated 500,000 workers collect unemployment benefits nationwide. The UIMA takes the recommendations of the Federal UI Commission and all model reforms adopted by the states, and provides the funding necessary for more states to expand their UI programs.

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[15] U.S. Government Accountability Office, *Unemployment Insurance: Receipt of Benefits Has Declined, With Continued Disparities for Low-Wage and Part-Time Workers* (September 18, 2007).

Of the $7 billion in total available funding for states that adopt the reforms within the five years permitted by the law, 20 states already automatically qualify for funding totaling over $1 billion under the House bill. These states have already adopted into law a key feature of the incentive program, called the Alternative Base Period (ABP). Utilizing the ABP, these states provide benefits to low-wage workers who qualify based on their most recent three to six months of earnings, a period not considered in all the other states because of outdated eligibility criteria. Hard-hit states facing especially high unemployment claims and more demands on their UI trust funds, including Michigan, Ohio, Rhode Island, Georgia, Illinois, and North Carolina, are among those that would immediately benefit from the UIMA because they have enacted the ABP.

In addition, the remaining states are in a position to tap their incentive funds in a timely fashion as state legislative sessions begin in January, and they immediately take up measures to help stimulate their local economies and support families hard hit by the recession. As noted, a huge number of states are already in recession or likely to fall into recession soon. These and other states will be actively engaged in efforts to support their struggling economies, and the UIMA is ideally positioned to help by providing sufficient funding to cover several years of newly-expanded benefits to workers who are now falling through the cracks of the UI program.

Also significant, the UIMA would provide immediate financial assistance to hard-hit states without imposing added costs on the federal government. The administrative funding and incentive grants under the UIMA are paid for from the unemployment insurance trust funds by extending an unemployment surtax that has been in place for 30 years. As such, the measure is entirely revenue-neutral.

The severity of the economic crisis requires commensurate action to expand unemployment benefits. That includes not just a strong extension of unemployment benefits, but also reform that begins to reverse years of decline of the UI program and failure to update the system to reflect the changing labor market. The UIMA, which would make the resources available for states to enact serious reform, is ideally positioned to expand UI benefits. As such, it plays a key role in providing what is widely recognized as a highly effective, if not the most effective, mechanism for stimulating growth and promoting recovery. The UIMA also strikes the appropriate balance for the federal government. It provides federal funds to reward and encourage states that expand coverage, helping them offset the costs of doing so, which is especially important during a downturn. At the same time, it avoids spending valuable federal resources on states that have failed to craft their UI programs in a manner that enhances assistance to jobless workers and stimulus for the economy.

In short, passing the UIMA will provide an immediate contribution to the economy during this recession—and facilitate lasting change that will create a stronger safety net that can endure for decades.

Conclusion

The economy has deteriorated far more significantly than anyone contemplated when Congress passed the EUC program at the end of June. For hundreds of thousands of workers, the 13 weeks of extended federal benefits provided by the EUC program has been a lifetime of support that has helped them maintain their homes, feed their families, pay medical and educational expenses, and continue to look for jobs in an unforgiving economy. Because the Senate recessed without acting on the EUC expansion passed by the House, 800,000 workers have now exhausted their EUC benefits and are receiving no further assistance from the federal or state governments; more than one million will do so by the end of the year unless Congress expands the program quickly.

When Congress re-convenes after the November 4th presidential election, expanding benefits for jobless workers who have exhausted their EUC benefits without finding work must be the first order of business. Beyond that, Congress should extend the program through the end of 2009, consider strategies for increasing benefit levels, and pass the Unemployment Insurance Modernization Act, providing immediate assistance to the states to help offset their administrative costs and additional grants for those states that are expanding coverage under their UI programs to more workers. These measures will help the workers and the states hit hardest by the economic tsunami and provide targeted and timely stimulus to the economy overall.

National Employment Law Project - Table 1
September 2008 State Unemployment Figures

State	State Unemployment Rate		Workers Exhausting State Unemployment Benefits		Projected Workers Exhausting Federal Benefits
	September-08	One Year Percentage Point Increase	September-08	One Year Increase	October-December 2008
Alabama	5.3	1.8	3,508	62%	11,120
Alaska	6.8	0.5	1,033	35%	5,752
Arizona	5.9	2.1	5,957	74%	15,623
Arkansas	4.9	-0.8	2,362	-1%	10,892
California	7.7	2.1	48,403	65%	200,929
Colorado	5.2	1.2	3,222	47%	12,204
Connecticut	6.1	1.5	3,700	11%	15,816
Delaware	4.8	1.5	976	56%	3,669
Dist. of Columbia	7	1.3	757	10%	3,249
Florida	6.6	2.4	23,210	108%	66,712
Georgia	6.5	2.0	10,714	91%	32,340
Hawaii	4.5	1.7	901	128%	2,405
Idaho	5	2.3	1,293	147%	5,888
Illinois	6.9	1.7	13,800	51%	52,955
Indiana	6.2	1.7	8,090	51%	32,408
Iowa	4.2	0.4	1,657	23%	8,759
Kansas	4.8	0.8	2,562	98%	7,728
Kentucky	7.1	1.7	2,811	61%	9,748
Louisiana	5.2	1.3	4,088	139%	8,745
Maine	5.6	0.7	965	75%	4,311
Maryland	4.6	1.0	4,253	99%	14,401
Massachusetts	5.3	0.9	9,078	68%	32,474
Michigan	8.7	1.4	13,326	35%	57,994
Minnesota	5.9	1.3	3,449	9%	19,761
Mississippi	7.8	1.5	1,898	42%	6,851
Missouri	6.4	1.1	4,579	56%	18,309
Montana	4.6	1.4	578	90%	2,944
Nebraska	3.5	0.4	1,219	44%	5,497
Nevada	7.3	2.3	4,710	143%	13,954
New Hampshire	4.1	0.7	670	125%	2,019
New Jersey	5.8	1.6	14,953	49%	56,097
New Mexico	4	0.6	753	-21%	5,269
New York	5.8	1.3	16,545	46%	70,426
North Carolina	7	2.3	11,800	54%	42,772
North Dakota	3.6	0.3	187	47%	1,574
Ohio	7.2	1.5	9,223	64%	34,399
Oklahoma	3.8	-0.5	1,377	-3%	6,111
Oregon	6.4	1.1	5,252	93%	18,208
Pennsylvania	5.7	1.3	13,107	38%	56,465
Rhode Island	8.8	3.7	1,897	84%	7,181
South Carolina	7.3	1.4	5,285	77%	18,147
South Dakota	3.2	0.3	71	37%	331
Tennessee	7.2	2.3	5,926	63%	20,628
Texas	5.1	0.8	11,877	40%	44,298
Utah	3.5	0.7	1,271	166%	3,672
Vermont	5.2	1.3	400	71%	1,756
Virginia	4.3	1.2	4,300	63%	15,923
Washington	5.8	1.2	4,024	67%	14,985
West Virginia	4.5	-0.2	978	37%	4,077
Wisconsin	5	0.1	6,504	26%	28,400
Wyoming	3.3	0.4	245	64%	1,208

Sources: US Department of Labor and NELP estimates based on Department of Labor Data.

National Employment Law Project - Table 2

Estimated Number of Workers Exhausting the 13-Week Emergency Unemployment Compensation (EUC) Program

	October 2008	November-December 2008	Total 2008
Alabama	8,142	2,978	11,120
Alaska	4,015	1,737	5,752
Arizona	10,646	4,977	15,623
Arkansas	8,246	2,646	10,892
California	130,709	70,221	200,929
Colorado	8,045	4,159	12,204
Connecticut	11,091	4,725	15,816
DC	2,830	1,039	3,869
Delaware	2,259	990	3,249
Florida	45,883	20,829	66,712
Georgia	23,067	9,273	32,340
Hawaii	1,638	767	2,405
Idaho	3,878	2,010	5,888
Illinois	35,968	16,968	52,955
Indiana	21,262	11,146	32,408
Iowa	6,123	2,636	8,759
Kansas	5,029	2,699	7,728
Kentucky	7,050	2,697	9,748
Louisiana	5,936	2,809	8,745
Maine	2,834	1,477	4,311
Maryland	9,917	4,485	14,401
Massachusetts	21,432	11,041	32,474
Michigan	42,628	15,366	57,994
Minnesota	13,759	6,002	19,761
Mississippi	4,926	1,925	6,851
Missouri	12,105	6,203	18,309
Montana	1,986	959	2,944
Nebraska	3,652	1,845	5,497
Nevada	9,356	4,597	13,954
New Hampshire	1,350	669	2,019
New Jersey	39,263	16,834	56,097
New Mexico	3,648	1,621	5,269
New York	45,908	24,517	70,426
North Carolina	29,841	12,931	42,772
North Dakota	1,110	464	1,574
Ohio	22,478	11,911	34,389
Oklahoma	4,211	1,900	6,111
Oregon	12,191	6,017	18,208
Pennsylvania	38,986	17,478	56,465
Rhode Island	4,749	2,432	7,181
South Carolina	12,814	5,334	18,147
South Dakota	224	107	331
Tennessee	14,897	5,731	20,628
Texas	31,411	12,887	44,298
Utah	2,616	1,055	3,672
Vermont	1,213	542	1,756
Virginia	10,905	5,018	15,923
Washington	9,970	5,015	14,985
West Virginia	2,718	1,359	4,077
Wisconsin	19,171	9,229	28,400
Wyoming	813	395	1,208
US Total	774,721	362,652	1,137,373

Source: Estimates prepared by the National Employment Law Project based on U.S. Department of Labor data. The state estimates account for the number of workers receiving EUC based on the average take-up rate for the federal extension that was in place during the last recession (i.e., 35 percent for those were were unemployed over the prior year and exhausted their regular state benefits). This state number was then multiplied by the average rate that workers exhausted the last federal extension of unemployment benefits (i.e., 70 percent) to arrive at the estimated number exhausting the current EUC program.

National Employment Law Project - Table 3
UI Modernization Act
Estimated Allotments to the States of Hypothetical $500 million Administrative Funds Distribution Using Method Required by Reed Act. ($Thousands)

State	Does the state have an Alternative Base Period?	Estimated Allotment			Administrative Allocation (rounded to nearest thousand)
		One-third of $7 billion distribution	Two-thirds of $7 billion distribution	$7 billion distribution	
Alabama		$32,866	$65,731	$98,782	$7,066
Alaska		$4,966	$9,932	$14,898	$1,071
Arizona		$46,130	$92,259	$138,389	$10,370
Arkansas		$19,014	$38,027	$57,041	$4,043
California		$281,221	$562,441	$843,662	$60,256
Colorado		$40,772	$81,544	$122,316	$8,790
Connecticut	Y	$27,998	$55,996	$83,994	$5,965
Delaware		$7,710	$15,420	$23,130	$1,633
District of Columbi	Y	$7,024	$14,048	$21,072	$1,734
Florida		$145,413	$290,825	$436,238	$31,591
Georgia	Y	$72,102	$144,204	$216,306	$15,477
Hawaii	Y	$9,866	$19,732	$29,598	$2,135
Idaho		$10,030	$20,059	$30,089	$2,236
Illinois	Y	$105,490	$210,981	$316,471	$22,453
Indiana		$49,429	$96,858	$146,287	$10,356
Iowa		$24,110	$48,220	$72,330	$5,146
Kansas		$22,771	$45,542	$68,313	$5,824
Kentucky		$29,893	$59,786	$89,679	$6,346
Louisiana		$30,546	$61,092	$91,638	$6,574
Maine	Y	$9,442	$18,883	$28,325	$1,975
Maryland		$43,385	$86,771	$130,156	$9,238
Massachusetts	Y	$54,264	$108,529	$162,793	$11,541
Michigan	Y	$77,786	$155,573	$233,359	$16,060
Minnesota		$47,012	$94,023	$141,035	$9,961
Mississippi		$18,132	$36,263	$54,395	$3,936
Missouri		$43,581	$87,163	$130,744	$9,693
Montana		$5,913	$11,826	$17,739	$1,292
Nebraska		$14,146	$28,292	$42,438	$2,986
Nevada		$23,751	$47,502	$71,253	$5,228
New Hampshire	Y	$11,173	$22,346	$33,519	$2,310
New Jersey	Y	$71,253	$142,505	$213,758	$15,116
New Mexico	Y	$12,120	$24,241	$36,361	$2,671
New York	Y	$134,534	$269,067	$403,601	$28,451
North Carolina	Y	$68,410	$136,821	$205,231	$14,761
North Dakota		$4,704	$9,409	$14,113	$1,018
Ohio	Y	$93,860	$187,720	$281,580	$19,685
Oklahoma	Y	$23,849	$47,698	$71,547	$5,235
Oregon		$28,455	$56,911	$85,366	$6,172
Pennsylvania		$97,192	$194,385	$291,577	$19,842
Puerto Rico		$14,505	$29,011	$43,516	$2,966
Rhode Island	Y	$8,135	$16,269	$24,404	$1,720
South Carolina		$31,069	$62,138	$93,207	$6,621
South Dakota		$5,587	$11,173	$16,760	$1,212
Tennessee		$46,718	$93,435	$140,153	$9,600
Texas		$176,710	$353,421	$530,131	$38,646
Utah		$18,850	$37,701	$56,551	$4,197
Vermont	Y	$4,737	$9,474	$14,211	$997
Virginia	Y	$65,111	$130,221	$195,332	$13,737
Virgin Islands		$653	$1,307	$1,960	$141
Washington	Y	$48,384	$96,768	$145,152	$10,557
West Virginia		$10,748	$21,497	$32,245	$2,303
Wisconsin	Y	$47,828	$95,657	$143,485	$10,122
Wyoming		$4,018	$8,037	$12,055	$917
Total	20	$2,333,333	$4,666,667	$7,000,000	$500,000
Total Reaching States Immediately		$809,390		$431,926	$500,000

Addendum to testimony of Christine L. Owens

National Employment Law Project

In an effort to ensure that unemployed workers have complete and accurate information about their entitlement to unemployment insurance and how to receive it, NELP hosts the website www.unemployedworkers.org. As part of this website, unemployed workers can write to us and tell us their stories. We have close to 7000 members, and hundreds from virtually every state have written in with their personal stories. While each have their own individual details, the similarities are striking:

- People sending out hundreds of resumes and getting virtually no interviews
- Workers in more rural areas unable to even attend some interviews that are more than 30 miles away because they cannot afford the price of gas to get there
- Open jobs suddenly closing because the employer can no longer afford to fill the position
- Workers depleting and cashing in savings and retirement accounts just to make ends meet
- Cars being repossessed, evictions from rental properties, and foreclosures of homes
- People going without health insurance and health care because paying for their own benefits through COBRA is simply too expensive
- Workers losing all hope and self-esteem as they continually apply for jobs with no positive results, and face the impending reality of being unable to support themselves and their families

Below are just a few excerpts from the hundreds of emails we have received. These are real stories, from real people, struggling to survive in today's economy and desperate for their elected officials to do the right thing by them by extending unemployment benefits and working on an economic recovery plan that prioritizes their needs

"I have been unemployed since November of 2007. I have literally applied for over 250 jobs, yet I still have not been able to be interviewed yet get a full time position. As a result of my financial woes and constant struggle to take care of three sons and make the rent, I now find myself facing the possibility of being homeless. Unfortunately I have not been in a position to make my rent by the 5th of the month (at the latest) since being unemployed. As a result of this I have been advised by the management company that they will not be renewing my lease. To add to my woes my car was repossessed last night and my extension of unemployment benefits is due to end as of next month. I don't know what I will do to take care of my children. I sure pray that Congress will again enact an additional extension of benefits." **Gwendolyn, Timonium, MD**

"I have been unemployed since November 17, 2007. I am the single mother of three children, who live with me. My daughter and her husband will soon be supporting me and my other children until I can get back on my feet [but] my daughter is a housewife and my son is working at a job for less than $25,000 a year. I've sent out

numerous resumes applying for positions I'm qualified for and overqualified for in Philadelphia and Wilmington, NC because of a fear of my unemployment running out (3 payments left) and no other options being available to me. I hope my story helps to move on the hearts of Congress to grant this extension. This will see me through the winter months and prayerfully I will be employed again by next spring." **Dentrel, Philadelphia, PA**

"With the economy as it is, it has been virtually impossible to find a similar job, even for less pay. People are not traveling to big cities in this global economy slow down. I am willing and able to work, however jobs are lost daily and are not being replaced. It's much harder to find work at my age. I have been a taxpayer for the better part of my life and I find myself in a situation not of my making. I'm watching my 401k vanishing before my eyes every day. I was told by my parents, if I worked hard I would be able to have the America Dream. Well, it's anything but a dream in my later years of my life, it's becoming a nightmare. No health insurance is another strain, another chronic stress factor. I do not think it is too much to ask that being a good citizen, as I have been, that we who have worked hard all our lives, be extended a safety net, so that we too can get our lives back on track." **Carol, Kew Gardens, NY**

Chairman RANGEL. The Chair recognizes Dr. Lambrew.

STATEMENT OF JEANNE LAMBREW, PH.D., ASSOCIATE PROFESSOR, LBJ SCHOOL OF PUBLIC AFFAIRS, UNIVERSITY OF TEXAS AT AUSTIN, SENIOR FELLOW, CENTER FOR AMERICAN PROGRESS, ACTION FUND, AUSTIN, TEXAS

Mr. LAMBREW. Thank you, Chairman Rangel and Representative McCrery, and Members of the Committee. I appreciate the opportunity to be here to discuss the health policy dimensions of creating jobs by investing in America.

In my testimony, I explain why the short run economic crisis has helped policy causes and effects, why the most serious long-run economic challenge is our broken health care system, and what might be done to address it.

To begin, the health care system is an integral part of our Nation's economy. It accounts for 14 million jobs, improves the lives of millions, and provides to some the world's best quality care. Yet, we have by far the most expensive system. Americans spend more on health care than on housing or food. GM spends more on health care than steel. This cost problem contributes to our access problem.

About 46 million Americans are uninsured. Millions more are underinsured, paying a large fraction of their income on health care. Last month alone, nearly half of Americans surveyed reported having a family member who skipped pills, postponed care, or cut back on care due to costs.

This health care cost problem is worsening. The United States spent about $2.1 trillion on health care in 2006, twice what was spent in 1996, and half as much as projected for 2017. Premiums for employer-based insurance have doubled since 2000 and the number of underinsured families rose by 60 percent since 2004 and 2007 alone.

These high-end rising health costs are one of many factors contributing to the economic crisis. Individuals struggling to afford

health care have turned to the financial markets for help. In 2007, 57 million Americans reported problems paying medical bills. Many of these Americans used home equity loans to pay for these large medical bills; others simply could not afford to pay both mortgages and medical debt. A recent study found that nearly half of all people in foreclosure named medical problems as a cause.

Other Americans who struggle to afford health care have turned to credit card systems instead. We know this is hurting their credit card ratings; thus, their access to affordable credit, housing, and insurance.

As well as being a cause of the economic crisis, health problems have been affected by it. As unemployment rises, health costs and access problems rise, too. A 1 percentage point increase in the unemployment rate could raise the number of uninsured by 1.1 million. Unemployed people typically cannot afford private insurance. Some may be eligible for Medicaid or the States' Children's Health Insurance Programs, yet States are facing budget shortfalls and enrollment is uncertain.

These short-term problems, while significant, are dwarfed by our long-term challenges. Health costs are a major threat to our future economy. If trends persist, CBO estimates that the fraction of our economy dedicated to health spending will be 25 percent by the year 2020. This affects the Federal budget as well. Rapid projected spending growth in the public programs account for the entire long run fiscal deficit. Jobs are at stake. The old line industries are striving to maintain coverage and competitiveness locally and globally. New industries are struggling to offer coverage in the first place, and the future of our employer-based health insurance system is unclear.

But the good news is that the health components of the economic crisis can be addressed. In the short run, this Committee could reconsider some of the policies proposed during the last economic slowdown. This includes providing financial assistance for COBRA continuation coverage. Preventing the loss of insurance with the loss of a job could stop the downward spiral that occurs during recessions. Sustaining Medicaid and S–CHIP is critical and possible. Temporarily raising the Federal share these programs cost, plus enacting the bipartisan S–CHIP reauthorization bill, will protect health coverage for millions of vulnerable Americans. Given the immediacy of this threat, I urge you to pass these policies during the lame duck session if possible.

To address the long run challenges, this Committee and the new Congress should consider health reform as part of comprehensive economic reform. The linkage is clear: Job growth, savings, and public investments and other priorities will continue to be stifled if the health system problems continue unchecked. The return on this investment, the long run slowing of our health care cost growth rate, would arguably be one of the most significant economic achievements in decades.

A number of practical plans have been proposed to provide affordable quality and efficient health care for all Americans. But rather than engaging on these specifics, I will end with one suggestion; it is this: We have to address the coverage and cost problems simultaneously. Coverage will continue to erode even with expan-

sions if the cost of coverage rises unabated. The same is true in reverse. The unsustainable cost curve cannot be lowered without ensuring coverage for all Americans. Not only do we pay higher administrative costs due to our gap ridden system, but we pay hidden taxes from shifting costs from the uninsured to the insured populations. Moreover, gaps in coverage limit the potential of policies like improved prevention and chronic disease management in reducing our cost trends.

So, no doubt enacting health reform in the context of economic reform will be hard, but it will not be as hard as letting the inaction and status quo diminish our Nation's long run economic and health prospects.

Thank you.

[The prepared statement of Ms. Lambrew follows:]

Statement of Jeanne Lambrew, Ph.D., Associate Professor, LBJ School of Public Affairs, University of Texas at Austin, Senior Fellow, Center for American Progress, Action Fund, Austin, Texas

Chairman Rangel, Ranking Member McCrery, and Members of the Committee, I thank you for inviting me to discuss the health policy dimensions of "Creating Jobs by Investing in America." As I will explain, the short-run economic crisis has health policy causes and effects—and arguably the most serious long-run economic challenge is our broken health care system. I'll conclude with suggestions on policies to address both sets of problems.

The health care system is an integral part of the nation's economy. It accounts for 14 million jobs, improves the quality of life for millions, and provides—to some people in some places—the world's best quality care.[1]

Yet, we have by far the most expensive health system in the world. The United States spends nearly $500 billion more than peer nations, adjusting for wealth.[2] The next most expensive system spends about half as much per person on health care. To put this in context, Americans spend more on health care than housing or food. We spend over five times more on health care than gas.[3] The average annual premium of an employer-based health insurance plan in 2008 ($12,680) is the equivalent of 60 percent of the poverty threshold for a family of four, and 93 percent of the annual earnings of a minimum-wage worker—not counting cost sharing. Anecdotes suggest that businesses pay more for health care than other costs of doing business: more than steel for General Motors and more than coffee beans for Starbucks.

This cost problem contributes to our access problem. About 46 million Americans are uninsured, including 8 million children. Looking over a two-year period, this number swells to 82 million or one-third of all non-elderly Americans who experience a gap in coverage.[4] Millions more are underinsured, paying a large fraction of their income on health care. Last month, nearly half of Americans surveyed reported having a family member skipping pills, or postponing or cutting back on medical care due to cost.[5] This can have serious—if not permanent—health effects. Uninsured people who were injured or developed a chronic illness were less likely to receive initial and follow-up care, impeding recovery and accelerating the worsening of the condition.[6] Roughly, 22,000 people die each year due to lack of cov-

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[1] E. McGlynn et al., "The Quality of Care Delivered to Adults in the United States," *New England Journal of Medicine* 2003; 348 (26): 2634–2645.

[2] McKinsey Global Institute, *Accounting for the Cost of Health Care in the United States* (Washington, DC: McKinsey Global Institute, January 2007).

[3] Council of Economic Advisors, *Economic Report of the President, 2008 Report*. (Washington, DC: White House, 2008). Table B–16, Personal Consumption Expenditures.

[4] J.A. Rhoades and S.B. Cohen, *The Long-Term Uninsured in America, 2002–2004*, (U.S. DHHS, AHRQ, Statistical Brief #183, August 2007).

[5] Kaiser Health Tracking Poll: Election 2008, October 2008, available at: http://www.kff.org/kaiserpolls/h08_posr102108pkg.cfm

[6] J. Hadley, "Insurance Coverage, Medical Care Use, and Short-Term Health Changes Following an Unintended Injury or the Onset of a Chronic Condition," *JAMA* 297(10): 1073–1084, March 14, 2007.

erage.[7] This is higher than the number of people who died of homicide in 2006 (17,034).[8]

This health care cost problem is worsening. The United States spent about $2.1 trillion on health care in 2006: twice what it spent in 1996 and half as much as is projected for 2017.[9] Since 2000, employer-based health insurance premiums doubled, with the average increase triple that of wage growth.[10] The average employer premium contributions relative to payroll rose by 34 percent between 1996 and 2004.[11] One study found that the number of "under-insured" families rose by 60 percent between 2004 and 2007 alone.[12]

High and rising health costs are one of many factors contributing to the current economic crisis.

Individuals struggling to afford health care have turned to the financial markets for help. In 2007, 57 million Americans reported problems paying medical bills, a 14 million increase since 2004.[13] Many of these Americans used home equity loans to pay these large medical bills; others simply could not pay both mortgages and medical debt. A recent study found that nearly half (49 percent) of people in foreclosure named medical problems as a cause, ranging from the cost of injuries or illnesses (32 percent), unmanageable medical bills (23 percent), lost work due to a medical problem (27 percent), and/or caring for a sick family member (14 percent).[14]

Other Americans who struggle to afford health care have turned to credit cards instead. A study found that nearly 30 percent of low-income people with credit card debt named medical bills as a contributing cause. Their debt was significantly higher (nearly $12,000) than those who were not medically indebted (nearly $8,000).[15] This type of medical debt can reduce individuals' credit ratings and thus limit access to affordable credit, housing, and insurance. It also may be creating analogous problems to subprime mortgages. Last year, *Business Week* reported the emergence of credit cards designed solely to pay for health costs. Interest rates for some of these accounts can be as high as 27 percent, and a number of major as well as smaller banks are entering the market.[16]

As well as being a cause, health problems have been affected by the current economic crisis.

As unemployment rises, health cost and access problems rise, too. A percentage-point increase in unemployment could raise the number of uninsured by 1.1 million. Unemployed people typically cannot afford private insurance, including COBRA continuation coverage. Some may be eligible for Medicaid: The same analysis estimates that a percentage-point increase in unemployment will raise Medicaid and State Children's Health Insurance Program enrollment by 1 million. This in turn would raise total Medicaid and SCHIP spending by $3.4 billion, with the state share being $1.4 billion.[17] Already, states project Medicaid enrollment to surge by 3.6 percent

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[7] S. Dorn. *Uninsured and Dying Because of It: Updating the Institute of Medicine Analysis on the Impact of Uninsurance on Mortality.* (Washington, DC: The Urban Institute, January 2008).

[8] Federal Bureau of Investigations, *Crime in the United States: 2006* (Washington, DC: U.S. Department of Justice, September 2007), available at: http://www.fbi.gov/ucr/cius2006/offenses/violent_crime/murder_homicide.html (accessed January 21, 2008).

[9] Office of the Actuary, Centers for Medicare and Medicaid Services, *National Health Expenditure Data for 2006*. U.S. Department of Health and Human Services, available at: http://www.cms.hhs.gov/NationalHealthExpendData/

[10] Kaiser Family Foundation & Health Research and Educational Trust, *Employer Health Benefits 2008 Annual Survey*, (Menlo Park, CA: Kaiser Family Foundation, 2008).

[11] California Health Care Foundation. (2007). *Employer Health Insurance Costs in the United States*. Oakland, CA: California Health Care Foundation.

[12] C. Schoen et al., "How Many Are Underinsured?" *Health Affairs* 27(4): w298–w309, 2008.

[13] P.J. Cunningham, "Trade-Offs Get Tougher: Problems in Paying Medical Bills Increase for U.S. Families, 2003–2006," Tracking Report 21, Center for Health System Change, September 2008.

[14] C.T. Robertson, R. Egelhof, and M. Hoke, "Get Sick, Get Out: The Medical Causes of Home Foreclosures," *Health Matrix*, 18 (2008): 65–104, available at: http://works.bepress.com/christopher_robertson/2

[15] C. Zeldin and M. Rukavina, *Borrowing to Stay Healthy: How Credit Card Debt is Related to Medical Expenses*, (New York: Demos, 2007).

[16] B. Grow and R. Berner, "Fresh Pain for the Uninsured: As doctors and hospitals turn to GE, Citi, and smaller rivals to finance patient care, the sick pay much more," *Business Week*, December 3, 2007.

[17] S. Dorn, B. Garrett, J. Holahan, and A. Williams, *Medicaid, SCHIP, and an Economic Downturn: Policy Challenges and Policy Response*, (Washington, DC: Kaiser Commission on Medicaid and the Uninsured, April 2008).

in 2009, over twice the rate of population growth and a significant change from the decline in enrollment that occurred in 2007.[18]

The weak economy could also speed the erosion of employer-based insurance. The number of non-elderly Americans covered by employer-based health insurance fell to 61 percent from 66 percent between 2000 and 2007. The percent of both firms offering insurance and workers enrolling in it fell.[19] This trend will likely worsen. Premiums rose faster in 2008 than in 2007, and will likely spike in 2009 as insurers' profits from investments plummet. This will further strain businesses struggling to make payroll while maintaining benefits.

The dual health and economic problems also affect seniors. Already, the typical elderly couple has to save nearly $300,000 to pay for health costs not covered by Medicare alone.[20] Those seniors whose savings are invested in the market have suffered significant losses in the recent period, diminishing their ability to pay for their health care.

These short-term problems, while significant, are dwarfed by our long-term challenges.

Health costs are considered a major threat to our future economy. If rapid health cost growth persists, the Congressional Budget Office estimates that the fraction of the economy dedicated to health spending will be 25 percent in 2025, and 49 percent in 2082.[21] It also estimates that roughly $700 billion of health spending cannot be shown to improve health outcomes.[22] Our gap-ridden health coverage system also hurt the economy. The Institute of Medicine estimated that the lost productivity of uninsured Americans costs our economy from $65 to $130 billion.[23]

The health problems affect our budget as well as our economic outlook. Medicare, Medicaid, and other health program spending comprise about one-fourth of the Federal budget. Their rapid projected growth accounts for the entire long-run Federal fiscal deficit.[24] At the state and local levels, policymakers are increasingly put between the "rock" of health care costs and the "hard place" of other urgent priorities such as education.

There is also a jobs and competitiveness issue at stake. The "old-line" industries are striving to maintain both coverage and competitiveness—locally and globally. New industries and businesses are struggling to offer coverage in the first place. While manufacturers are one-third more likely to offer health benefits than service industry employers, service-providing industries are projected to generate approximately 15.7 million new jobs between 2006 and 2016.[25] Both workers and their employers are concerned about the future of employer-sponsored health insurance. Currently, no viable alternative exists.

While the facts speak for themselves, it is instructive to listen to what some economic leaders say. Congressional Budget Office Director Peter Orszag stated, "There do not appear to be other examples that credible analysts can identify that offer a potential efficiency gain of that magnitude for the U.S. economy."[26] Federal Reserve Board Chairman Ben Bernanke stated, "Improving the performance of our health-care system is without a doubt one of the most important challenges that our nation faces."[27] The former Comptroller General David Walker testified, "Rapidly rising health care costs are not simply a Federal budget problem; they are our nation's

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[18] V. Smith et al., *Headed for a Crunch: An Update on Medicaid Spending, Coverage, and Policy Heading Into an Economic Downturn*, (Washington, DC: Kaiser Commission on Medicaid and the Uninsured, October 2008).

[19] Kaiser Family Foundation, *The Uninsured: A Primer, Key Facts about Americans without Health Insurance*, (Menlo Park, CA: Kaiser Family Foundation, 2007).

[20] Employee Benefit Research Institute, *Savings Needed to Fund Health Insurance and Health Care Expenses in Retirement*, (Washington, DC: EBRI Issue Brief #295, July 2006).

[21] P.R. Orszag, "Testimony: Growth in Health Care Costs," United States Senate Committee on the Budget, January 31, 2008.

[22] P.R. Orszag, "Testimony: Increasing the Value of Federal Health Spending on Health Care," United States House of Representatives, Committee on the Budget, July 16, 2008.

[23] Institute of Medicine, *Hidden Costs, Value Lost: Uninsurance in America*. (Washington, DC: National Academies Press, 2003).

[24] H. Aaron, "Budget Crisis, Entitlement Crisis, Health Care Financing Problem—Which Is It?" *Health Affairs*, 26(6): 1622–33, November/December 2007.

[25] Bureau of Labor Statistics, "Tomorrow's Jobs", in *Occupational Outlook Handbook (OOH), 2008–09 Edition*. (Washington, DC: U.S. Department of Commerce, 2007).

[26] P.R. Orszag, "Testimony: Increasing the Value of Federal Health Spending on Health Care," United States House of Representatives, Committee on the Budget, July 16, 2008.

[27] B.S. Bernacke, "Challenges for Health-Care Reform," Senate Finance Committee Health Reform Summit, June 16, 2008, available at: http://www.federalreserve.gov/newsevents/speech/bernanke20080616a.htm

number one fiscal challenge."[28] And Former Treasury Secretary Larry Summers wrote, "I have been emphasizing healthcare as a moral imperative and an imperative for our competitiveness. It is now the principal fiscal issue facing the Federal Government, too."[29]

Yet, the health component of the economic crisis can be addressed through public policy.

In the short run, this committee could reconsider some of the policies proposed during the last economic slowdown.[30] This includes providing tax credits or grants to make COBRA continuation coverage affordable for those who are uninsured and unemployed. Preventing people from losing their insurance when they lose their jobs could stop the downward spiral in health and economic well-being that typically occurs during recessions. And, while out of your jurisdiction, sustaining Medicaid and SCHIP is critical. Temporarily raising the Federal share of these program costs, plus enacting the bipartisan SCHIP reauthorization bill that was vetoed by the president last year, will protect health coverage for millions of vulnerable Americans. Given the immediacy of the threat, I urge you to pass these policies during the lame-duck session.

In 2009, this committee and the new Congress should consider health reform as part of comprehensive economic reform. It is necessary, as just described. Job growth, savings, and public investments in other priorities such as education will continue to be stifled if health system problems continue unchecked. It is also an opportunity to put the nation on a path to prosperity. The return on the investment—slowing the long-run rate of health care cost growth through system improvements and seamless coverage—would arguably be the most significant economic achievement in decades.

A wide range of visions and detailed plans have been developed to fix the broken health system. There is a general consensus on the need to improve quality, efficiency, and access through tools such as better managing chronic disease, promoting prevention, investing in and using comparative effectiveness research, and providing assistance to those with low-income or high-risk. There is less agreement on where, when, and how aggressively to insure more Americans, as can be seen in the presidential candidates' plans. But rather than discussing these ideas in depth, I will end by making two points on approaches to reform.

The first is the importance of addressing the coverage and cost problems simultaneously. Coverage will continue to erode, even with expansions, if the cost of coverage continues its rapid increase. This is evident in the recent experience with children's health: Some of the gains in kids' coverage have been lost due to the unrelenting cost increases that have eroded employer coverage as well as states' support for Medicaid and SCHIP. The same is true in reverse: The unsustainable cost curve cannot be lowered without ensuring coverage for all Americans. A major reason why we spend more than peer nations is our system's complexity.[31] Not only do we pay seven times more per capita on administrative costs as a result, but we pay "hidden taxes" from cost shifting. Some fraction of uncollected bills for care for the uninsured gets added to the bills for the insured. Moreover, gaps in coverage limit the potential of policies to bend the growth curve in health costs. There is widespread, bipartisan agreement that improved prevention, chronic disease management, health information technology, and similar policies could reduce the nation's health costs. However, the full potential of these policies to realize savings may be constrained or even reversed if one-third of the population cycles in and out of insurance over the course of two years.[32]

Second, solutions should be bold but pragmatic. Important changes to the health system are needed to improve its performance. Realigning payments toward quality and coverage toward prevention, for example, will be necessary but difficult. Increasing participation in health insurance will take resources and regulation. At the same time, changes that are risky or uncertain should be avoided. Specifically, the employer-based health insurance system has its flaws, but remains the primary and trusted source of coverage for most Americans. Public programs like Medicaid and

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[28] D.M. Walker, "Testimony: Action is Needed to Avoid the Possibility of a Serious Economic Disruption in the Fuutre," United States Senate Committee on the Budget, January 29, 2008.

[29] L.H. Summers, "The Economic Agenda: Challenges facing the next president," *Harvard Magazine*, September–October 2008.

[30] For a description of the problems and potential solutions considered at the time, see J.M. Lambrew, *How the Slowing U.S. Economy Threatens Employer-Based Health Insurance*, (New York: The Commonwealth Fund, November 2001).

[31] McKinsey Global Institute, *Accounting for the Cost of Health Care in the United States* (Washington, DC: McKinsey Global Institute, January 2007).

[32] C. Schoen et al., *Bending the Curve: Options for Achieving Savings and Improving Value in U.S. Health Spending* (New York: The Commonwealth Fund, December 18, 2007).

SCHIP are mainstays in the safety net that cannot be easily replaced. And Medicare should be improved but not undermined through arbitrary caps or deep cuts.

In closing, the current crisis has forced a critical review of the fundamental problems in the economy as well as comprehensive solutions. No doubt, enacting health reform in the context of economic reform will be hard. But it is not as hard as turning a blind eye while our nation's health and economic prospects fade due to problems that may be prevented by policy.

Chairman RANGEL. Thank you, Doctor.

The Chair recognizes a neighbor that does business in the Harlem community, Ms. Martella Turner-Joseph, Vice President of the Joseph & Turner Consulting Actuaries. Thank you for taking your time to share your views with us.

STATEMENT OF MARTELLA A. TURNER-JOSEPH, VICE PRESIDENT, JOSEPH & TURNER CONSULTING ACTUARIES, LLC, NEW YORK, NEW YORK

Ms. TURNER-JOSEPH. Thank you very much, Chairman Rangel, and thank you very much, Ranking Member McCrery and Members of the Committee, for providing me this opportunity to speak before you today on the impact of certain provisions of the new pension funding rules on small business in light of the current financial crisis.

My name is Martella Joseph, and I am an enrolled actuary. My husband and I, Eugene Joseph, are co-founders and partners of Joseph & Turner Consulting Actuaries, located in New York City. We provide consulting services for retirement plans, covering thousands of participants.

Much of the discussion on the impact of the financial market crisis has focused on the 401(k) plan participants accounts, since they bear the burden of the investment losses. However, retirees receiving monthly payments from defined benefits plans will experience no change in their monthly payment due to the decline in market. This is because plan participants do not share in the investment experience under a defined benefit plan; the employer who sponsors the defined benefit plan absorbs the investment loss through increased contributions.

Many plan sponsors will see an increase in the minimum required contributions solely because of the new funding rules under the Pension Protection Act of 2006. The investment losses will substantially increase the minimum required contribution because, generally, investment losses must be paid for over 7 years. Meeting these contribution requirements will be a challenge for business in this economic downturn.

The Pension Protection Act made significant changes to the rules governing contributions to defined benefit plans. Prior to the Pension Protection Act, one of the tools available to smooth contribution was the smoothing of asset values. Plans could smooth assets over a 5-year period. The Pension Protection Act has reduced that to 2 years. The Pension Protection Act also reduced the corridors for the smoothing of assets from a 20 percent range within the market value to the 10 percent range. In addition to the shortening of the period and the shrinking of the corridor, there is a concept of averaging versus smoothing. Treasury has interpreted the term

"averaging" in the Pension Protection Act to mean only an arithmetic average of the market value, severely limiting the benefit of a method clearly intended to help prevent major fluctuation in asset values and contribution requirements. I applaud the Committee for including a provision in H.R. 6382, the PPA Technical Correction bill, which makes it clear that smoothed asset values, not a simple arithmetic average of assets, was intended by PPA.

There are two additional points to consider in evaluating the critical importance of making smoothing available to all defined benefit plans. With the market dropping about 40 percent off its high, the corridor may govern how much smoothing of market value is available to plans. The Pension Protection Act's reduction of the corridor from 20 percent to 10 percent may require recognition of unrealized losses double those that would have been included in contributions calculations prior to PPA, even with the smoothing provision that is included in H.R. 6382.

One solution is an increase in the corridor for a 2- or 3-year window would help to compensate for the market's downturn. In addition, most small plan sponsors historically use fair value of assets. However, the combination of the changes under the Pension Protection Act and the market downturn makes asset smoothing very attractive to small plans. Therefore, it would also be helpful to allow small plans to use smoothing for a 2- or 3-year window without an application to the Internal Revenue Service for a change in funding method.

The Pension Protection Act introduced the concept of benefit restrictions for plans funded below 80 percent. Plans less than 80 percent funded cannot pay lump sums and cannot recognize amendments that would increase benefits to participants. Plans funded at least 60 percent must freeze accrual of new benefits. The lack of smoothing and the reduced corridor in which smoothing can operate makes it more likely plans will have to impose the PPA benefit restrictions, or employers will have to contribute even more cash to avoid restrictions. Asset smoothing, if enacted, will also permit smoothed application of these restrictions.

There are two other provisions of H.R. 6382 that are also important to small employers. One is the provision permitting defined benefit plans to base their maximum lump sum under section 415(b)(2) on a fixed 5.5 percent interest rate and not a variable rate. Most small plans pay lump sums out, and therefore this provision will help to stabilize benefits promised to participants, plan liabilities, and plan contributions. In addition, with the increase of cash balance plans, this provision can also be very helpful to large plans as well.

Another provision is providing Treasury with the authority to write end-of-year valuation rules for application of benefit restrictions, as I mentioned above.

I want to thank Chairman Rangel and Ranking Member McCrery for their letter to Treasury on this matter, and we hope that Treasury will act on it.

Employers of all size that sponsor pension plans need tools to deal with the current economic environment. Large employers with pension plans have seen the value of their assets drop, created enormous funding obligations for 2009 that are in turn worsening

the credit and liquidity crisis, and having a negative impact on jobs. Without additional tools to address these unforeseeable investment losses and the resulting increase in funding obligations, millions of participants could face benefit restrictions, plan freezes, and job losses.

I would like to thank this panel for giving me the opportunity to express these views, and I will be happy to answer any questions you may have.

[The prepared statement of Ms. Turner-Joseph follows:]

Statement of Martella A. Turner-Joseph, Vice President, Joseph & Turner Consulting Actuaries, LLC, New York, New York

Chairman Rangel and Ranking Member McCrery, thank you for this opportunity to speak before you today on the impact of certain provisions of the new pension funding rules on small businesses in light of the current financial crisis. My name is Martella Joseph and I am an enrolled actuary. My husband Eugene Joseph and I are co-founders and partners of Joseph & Turner Consulting Actuaries, LLC located on the Upper West Side of Manhattan in New York City. Joseph & Turner Consulting Actuaries, LLC provides actuarial, consulting, and plan administrative services for retirement plans covering thousands of participants.

Much of the media discussions on the impact of the financial market crisis on retirement have focused on the accounts of 401(k) plan participants since they bear the burden of investment losses. For many younger workers, these losses will be recovered over time; older workers may have to delay retirement, and retirees may have to reduce their retirement income at a time when they can least afford it. However, retirees receiving monthly payments from a defined benefit pension plan will experience no change in their monthly payments due to the declining market. This is because plan participants don't share in the investment experiences under defined benefit plans. The employer who sponsors the defined benefit plan absorbs investment losses through increased contributions. Covering investment losses would be a challenge for business in any environment. It is clearly more of a challenge in an economic downturn.

The Pension Protection Act of 2006 (PPA) made significant changes to the rules governing contributions to qualified defined benefit plans. Generally, the minimum required contribution is the cost for benefits earned during the plan year, and if a plan suffers an investment loss, the loss will be paid off over 7 years. The main goal of PPA is to ensure that pension plans are funded well enough to pay promised benefits. Under PPA plan sponsors' ability to smooth contribution requirements was limited substantially. On the other hand, the limit on deductible contributions was substantially increased. The argument for making minimum funding requirements more sensitive to changes in assets and liabilities was that plans should take advantage of increased contribution requirements to "fund up", to create a cushion to carry the plan through difficult economic times. One problem we are facing is that the difficult economic times have come along before even the healthiest employer has had time to build up the cushion permitted by PPA. In my experience, most small employers are willing, in some cases eager, to put in more than the minimum required contribution, and to build up a reserve against hard times. But these hard times have come too quickly on the heels of the new funding regime to build a cushion.

One of the tools available to smooth contributions prior to PPA was the smoothing of asset values used to determined contribution requirements. Prior to PPA, a plan could smooth assets over a five-year period. PPA reduced the period to 24 months plus one day—three annual asset values instead of five. PPA also reduced the amount of variance from the current fair value of assets that could be recognized in the results of the smoothing. Prior to PPA, smoothed assets had to be within 20% of the current fair value. Under PPA, the corridor has been reduced to 10%. In addition to the shortening of the period, and the shrinking of the corridor, there is the concept of "averaging" versus smoothing.

Treasury has interpreted the term "averaging" in PPA to mean only an arithmetic average of the market values, as adjusted for contributions and distributions, severely limiting the benefit of a method clearly intended to help prevent major fluctuations in asset values and contribution requirements. I applaud the Committee for including a provision in HR 6382, the PPA technical corrections bill, which makes it clear that smoothed asset values, not a simple arithmetic average of values, was intended by PPA.

There are two additional points to consider in evaluating the critical importance of making asset smoothing available for all defined benefit plans:

- With the market dropping about 40% off its high, the corridor may govern how much smoothing of asset values is available to plans. PPA's reduction of the corridor from 20% to 10% may require recognition of unrealized losses double those that would have been included in contribution calculations pre-PPA, even with the smoothing provision included in H.R. 6382. An increase in the corridor for a two or three year window would help to compensate for the market downturn. In addition, most small plan sponsors historically use fair value of assets. However, the combination of PPA and the market downturn make asset smoothing very attractive for small plans. Therefore, it would also be helpful to allow small plans to use smoothing for a two or three year window without an application for a change in funding method.
- The advantages of a defined benefit plan are stable benefit promises, and the lack of smoothing not only creates volatile contributions, but unpredictable benefits. PPA introduced the concept of benefit restrictions for plans funded below 80%. Plans less than 80% funded cannot pay participants full lump sum benefits, and cannot recognize amendments that would increase benefits to participants. Plans funded at less than 60% must freeze accrual of new benefits. The lack of smoothing, and the reduced corridor in which smoothing can operate, make it more likely plans will have to impose the PPA benefit restrictions—or employers will have to contribute even more cash to avoid restrictions. Asset smoothing, if enacted, will also permit smoothed application of these restrictions.

There are two other provisions in H.R. 6382 that are also important to small employers:

- A provision providing Treasury with authority to write end-of-year valuation rules for application of the benefit restrictions I just mentioned. I want to thank Chairman Rangel and Ranking Member McCrery for your letter to Treasury on this matter. The falling market makes it even clearer that the funded status for a year must be based on the most recent valuation date, not a future date.
- A provision permitting defined benefit plans to base maximum lump sum payments under IRC Section 415(b)(2) on a fixed 5.5% interest rate, not a variable rate. Most small plans pay out lump sums, and therefore, this provision will help to stabilize benefit promise to participants, plan liabilities and plan contributions. In addition, with increased numbers of cash balance plans, this provision would be helpful to large plans as well.

I have been talking about small employers, but employers of all sizes that sponsor pension plans need tools to deal with the current economic environment. Large employers with pension plans have seen the value of their plan assets fall precipitously, creating enormous funding obligations for 2009 that are, in turn, worsening the credit and liquidity crisis and having a negative impact on jobs. Without additional tools to address the unforeseeable investment losses, and the resulting explosion of funding obligations pension plan sponsors now confront, millions of employee pension plan participants could face benefit restrictions and plan freezes and the job losses and business contractions threatening many U.S. employers and workers will only be made worse.

Companies must plan for funding requirements that were unanticipated just weeks ago at a time when lenders are even less willing to extend credit. Companies are therefore unable to dedicate needed resources next year to job-creating business purposes. This burden is placing even more pressure on companies to freeze or terminate their pension plans in order to mitigate the future impact, which further diminishes long-term retirement security. In other words, liquidity, available credit, job creation, and retirement security are all inextricably related.

Large employers need many of the same modifications as small employers to deal with this crisis, including smoothing of unexpected losses and temporary easing of restrictions on the use of smoothing. Funding methods, such as asset smoothing or which type of yield curve to use, generally cannot be changed without IRS approval. Given the economic turmoil of the past several months, all employers also need the ability to change funding methods for 2009 and 2010 without prior IRS approval. Another problem that could be anticipated, and mitigated, is the structure of the PPA phase-in of the funding target.

Before PPA, the funding target for large pension plans was 90% of the liability for accrued benefits. Under PPA, the 90% figure was phased up to 100%. However, in 2008, 2009, and 2010, for plans that were well funded pre-PPA, the phase-in lev-

els are 92%, 94%, and 96%, respectively. For example, if a plan is 92% funded in 2008, there is no shortfall to fund. If the plan is 91% funded, its funding obligation is based on the full 9% shortfall, not a 1% shortfall. With a huge number of plans falling below 94% funded next year, many plans will find a dramatic increase in cost because of this trigger. The inflated costs could be avoided if the transition relief were available to plans below the phase-in level, as well as above. For example, the plan funded at 91% in 2008 would have to fund to 92%, not 100%. The blow could be softened further by holding the phase-in at 92% for one additional year.

In summary, the financial crisis has resulted in severe challenges facing plan sponsors, large and small, for profit and not-for-profit alike. You could provide employers with essential tools, and eliminate unnecessary restrictions on promises made and paid to participants, by addressing these critical matters before the end of the year.

Thank you for this opportunity to testify on the important and timely issue of pension funding. I will be happy to answer any questions you may have.

Chairman RANGEL. Thank you so much, Ms. Joseph. I look forward to following through with you on these issues in the district as well.

The Chair would like to recognize Dr. Viard, Resident Scholar, American Enterprise Institute.

STATEMENT OF ALAN VIARD, PH.D., RESIDENT SCHOLAR, AMERICAN ENTERPRISE INSTITUTE

Mr. VAIRD. Thank you, Chairman Rangel, Ranking Member McCrery, the distinguished Members of the Committee. It is an honor to appear before you today to discuss these important topics.

The United States economy is experiencing significant difficulties. Although the National Bureau of Economic Research has not yet officially declared a recession, it is highly likely to eventually declare that the economy did enter a recession either late last year or early this year. In view of the hard times that Americans are experiencing, it is certainly appropriate for this Committee to consider measures to address the economic distress. It is equally imperative, however, that any action by the Committee be done with full awareness of the consequences and the available alternatives.

I want to emphasize a point in my testimony that has already been alluded to a number of times today: The belief shared by myself and by many economists that changes in infrastructure spending are generally not an effective method for providing short-run fiscal stimulus to the economy. The timing lags make it difficult to deliver the stimulus at the time that it is needed, raising the risk that changes in infrastructure spending will make the economy more volatile instead of more stable.

This does not mean, of course, that infrastructure spending is undesirable. On the contrary, it means that we should make serious and sober decisions about infrastructure spending based upon a comparison on the cost of construction and the benefits from its use. Any infrastructure project that meets the needs of the American people in a cost effective way should be pursued for that reason. But we should not be swayed by the largely or completely illusory hopes of job gains or economic stabilization.

There has been some discussion here today about ways to select particular infrastructure projects in ways that will lessen the problem of the timing lags. I am certainly pleased to hear that type of concern being addressed.

Even if a package is well designed in that regard, however, it will still confront all of the problems that arise with any use of discretionary short-run fiscal stimulus. It is always difficult to determine when to adopt such stimulus, how quickly it should be implemented, and to get it done in time. Monetary easing and the automatic fiscal stabilizers already built into our economy are generally better suited to serving the goals of economic stabilization. The Federal Reserve has already done a great deal of monetary easing, and I have just been informed that they have lowered the Federal funds rate another 50 basis points today. The automatic fiscal stabilizers are already responding to the weakness in the economy.

I will also emphasize that, aside from stimulus concerns, there are other actions Congress can take in the wake of a recession not designed necessarily to stimulate the economy, but simply to alleviate the economic distress that Americans are experiencing and helping to ease the suffering that is involved. Tax and spending programs can be recalibrated to take into account the different needs that arise during these types of economic times.

As Congress addresses the short-run difficulties, it is important to not lose sight of long-run issues as well. The promotion of long-run growth remains an imperative separate and distinct from the provision of short-run fiscal stimulus. In that regard, it is particularly important to adopt tax and spending policies that promote private business investment, particularly by alleviating the tax penalties that business investment currently faces.

In the remaining minutes that I have, Mr. Chairman, let me just sketch a few of the points that are set forth in more detail in my written testimony.

We often hear references to infrastructure spending or other types of public or private spending as creating a certain number of jobs, or certain number of jobs per billion dollars spent. It is important to realize the limitation of these types of computation and, in some respects, how misleading they can be. Neither infrastructure spending nor any other type of spending creates jobs on any permanent basis. A decision to spend more money on infrastructure in the long run represents a decision to spend less money on other goods and services. Of course, more workers are then employed constructing infrastructure, but fewer workers are employed in other sectors of the economy. In the long run, the types of policies that we are discussing here will shift jobs rather than create them.

This, of course, applies to any type of spending that we might want to consider. One hears arguments sometimes that spending on renewable energy will create green jobs. You hear arguments, usually from people of a different point on the political spectrum, that defense spending will create jobs and will stimulate the economy. You sometimes hear arguments that business investment will create jobs through the process of constructing the investment goods. All of these arguments are vulnerable to this same critique. Once again, it does not mean that any of these categories of spending are harmful or unnecessary, but simply that the job creation is illusory.

In the short run, the picture is different. It is possible that you can create jobs in the short run, though they have to be paid back later. Obviously, if the timing of this can be used properly, then it

is effective and appropriate. Yes, we would like to create additional output today when the economy so desperately needs it and create job opportunities that many Americans are longing for, even if we do have to pay that back when times are better. But that simply stresses the importance of the timing.

I have statements in my testimony, not my own views, but the views of the Congressional Budget Office, the views of Alan Blinder, the views of Doug Elmendorf and Jason Furman of the Brookings Institution, Jason Furman actually now with Senator Barack Obama's presidential campaign, pointing out the consensus that the lags in infrastructure planning and construction make it ill suited for fiscal stimulus.

Instead, we should look more toward the monetary easing that is taking place, 425 basis points as of today, and also the automatic fiscal stabilizers. In the meantime, Congress could take steps to alleviate the distress felt by victims of the recession, and can also seek to promote long-run growth through tax and budget policies that are favorable to private business investment.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Viard follows:]

Statement of Alan Viard, Ph.D., Resident Scholar, American Enterprise Institute

Alan D. Viard is a Resident Scholar at the American Enterprise Institute. The views expressed in this testimony are solely his own and do not necessarily reflect the views of the American Enterprise Institute or any other institution or person.

Chairman Rangel, Ranking Member McCrery, Members of the Committee; it is an honor to appear before you today to discuss economic recovery, job creation, and investment in America.

The U.S. economy is experiencing significant difficulties. Although the National Bureau of Economic Research has not yet made an official determination, it is highly likely to eventually declare that the economy entered a recession in late 2007 or early 2008. It is appropriate that this committee consider measures to address the economic distress. Nevertheless, it is imperative that any action be taken in full awareness of its consequences.

Changes in infrastructure spending are not an effective method of creating jobs or providing short-run fiscal stimulus to the economy. As many economists have noted, timing lags make it difficult to deliver the stimulus at the time that it is needed. As a result, changes in infrastructure spending that are intended to stabilize the economy may instead make it more volatile.

Infrastructure spending should be approved if, and only if, such spending would otherwise be economically desirable, based on a comparison of the costs of construction and the benefits from its use. Decisions on infrastructure spending should not be swayed by the illusory hope of job gains or economic stabilization.

While other types of discretionary short-run fiscal stimulus have fewer timing problems than changes in infrastructure spending, most of them are still problematic. Monetary easing and automatic fiscal stabilizers are better suited to serve the goal of economic stabilization. Apart from stimulus concerns, however, Congress can take action to alleviate economic distress by making appropriate adjustments to tax and spending programs.

Even as Congress addresses the current economic difficulties, it is also important to continue to promote long-run growth. Tax and spending policies that promote private business investment are imperative.

1. Infrastructure *construction* cannot produce a sustained increase in the levels of jobs or output.

If more money is spent on infrastructure, more workers will be employed in that sector. In the long run, however, an increase in infrastructure spending requires a reduction in public or private spending for other goods and services. As a result, fewer workers are employed in other sectors of the economy. Attempting to spend more on everything simply bids up prices or interest rates without increasing total employment.

These remarks apply to the gains from the *construction* of infrastructure. The *use* of well-designed infrastructure can increase the levels of jobs and output, for example when a good road system helps people get to work, and can also improve living standards in other ways. Those arguments for additional infrastructure spending must be evaluated on their own merits.

Of course, this critique applies to all forms of public and private spending, not only to infrastructure spending. For example, it applies to arguments that spending on renewable energy will create "green jobs," that defense spending will create jobs and boost the economy, and that business investment will create jobs though the construction of the investment goods. This critique does not apply to arguments that spending on renewable energy will provide cost-effective energy resources, that a stronger defense will make Americans more secure, and that additional investment will boost future workers' productivity by expanding the capital stock. Those arguments must be evaluated on their own merits.

2. *In theory*, a policy of increasing infrastructure spending during recessions (a "countercyclical infrastructure policy") could reduce the severity of recessions and the strength of booms, thereby stabilizing the economy.

The short-run analysis is somewhat different. In the short run, an increase in public and private spending may boost output. Provided that the Federal Reserve does not counteract a desired increase in spending with interest-rate hikes, firms will experience a higher demand for their products. In the short run, firms may choose to expand output and hire more workers rather than to raise their prices. This is a short-run effect that fades away as prices and interest rates adjust.

A decision to increase infrastructure spending could therefore cause a temporary boost in output. There is nothing special about infrastructure in this regard; an increase in any other category of public or private spending would do the same.

A sustained increase in any category of public or private spending would generate a temporary increase in output and employment. It is inconceivable that spending would be boosted for all of eternity merely to obtain a short-run boost to output. If there were no other reason for the spending boost, it would surely prove to be temporary.

What are the effects of a temporary boost to some category of public or private spending? Output rises when the spending increase occurs, but falls when spending returns to normal. Fiscal stimulus measures that boost public or private spending do not "buy" us extra output—they merely "borrow" it from the future.

It is not useful to boost output at one random date and lower it at a later random date. But, it can be useful to boost output when the economy is in a recession and lower it when the economy is booming. Boosting output in today's dire conditions can be useful even though we must eventually "give back" the gains at some later date.

In theory, then, it may be useful to boost infrastructure spending, or some other type of public or private spending, during recessions to provide short-run stimulus.

3. *In practice*, due to timing lags, a countercyclical infrastructure policy would do little to smooth the economy and might well make the economy more volatile.

Because short-run stimulus merely shifts output and jobs from one time to another, proper timing is essential. If the stimulus arrives after the economy has started to recover, it makes the economy more rather than less volatile.

Federal Reserve chairman Ben S. Bernanke noted the importance of timing in his testimony before the House Budget Committee last week, "To best achieve its goals, any fiscal package should be structured so that its peak effects on aggregate demand are felt when they are most needed, namely, during the period in which economic activity would otherwise be expected to be weak." [1]

As many economists have noted, this condition is precisely the one that infrastructure spending cannot meet. The time lags built into the spending process are too lengthy to allow the necessary fine-tuning.

In a January 2008 report on stimulus options, the Congressional Budget Office noted: [2]

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[1] "Economic Outlook," Testimony Before the Committee on the Budget, U.S. House of Representatives, October 20, 2008 (http://www.federalreserve.gov/newsevents/testimony/bernanke20081020a.htm).

[2] "Options for Responding to Short-Term Economic Weakness," January 2008, pp.8, 19, 22 (http://www.cbo.gov/ftpdocs/89xx/doc8916/01-15-Econ_Stimulus.pdf).

> *[B]ecause many infrastructure projects may take years to complete, spending on those projects cannot easily be timed to provide stimulus during recessions, when are typically relatively short lived* . . . Federal, state, and local governments are responsible for large swaths of the economy's capital stock, which includes ports, bridges, and roads. Those responsibilities also include various forms of reconstruction, such as in areas badly damaged by natural disasters. Proposals also exist for large-scale Government investment in new technologies, such as new-generation power plants, facilities that produce alternative fuels, and automobiles that use alternative fuels. Conceptually, spending on these kinds of projects seems to offer an appealing way to counteract an economic downturn . . . *Practically speaking, however, public works projects involve long start-up lags. Large-scale construction projects of any type require years of planning and preparation. Even those that are 'on the shelf' generally cannot be undertaken quickly enough to provide timely stimulus to the economy.* For major infrastructure projects supported by the Federal Government, such as highway construction and activities of the Army Corps of Engineers, initial outlays usually total less than 25 percent of the funding provided in a given year. For large projects, the initial rate of spending can be significantly lower than 25 percent. *Some of the candidates for public works, such as grant-funded initiatives to develop alternative energy sources, are totally impractical for countercyclical policy*, regardless of whatever other merits they may have. In general, *many if most of these projects could end up making the economic situation worse because they would stimulate the economy at the time that expansion was already well underway*. (emphasis added)

In a table summarizing stimulus options, CBO therefore lists "Investing in Public Works Projects" as having "small" cost-effectiveness and a "long" lag from enactment to stimulus.

A similar view is expressed in a January 2008 article by Douglas W. Elmendorf and Jason Furman of the Brookings Institution (Furman is now a senior economic adviser to Senator Barack Obama's presidential campaign):[3]

> [A]dditional physical and technological infrastructure investments . . . are difficult to design in a manner that would generate significant short-term stimulus. In the past, infrastructure projects that were initiated as the economy started to weaken did not involve substantial amounts of spending until after the economy had recovered. However this approach might be more useful if policies could be designed to prevent cutoffs in ongoing infrastructure spending (such as road repair) that would exacerbate an economic downturn.

Similar concerns have also been expressed by Alan S. Blinder of Princeton University, who served on President Clinton's Council of Economic Advisers from January 1993 to June 1994 and served as Vice Chairman of the Federal Reserve Board of Governors from June 1994 to January 1996. In a 2004 paper, Blinder wrote:[4]

> The major objections to using public expenditures as a countercyclical weapon seem to be more practical than theoretical. But I think they are powerful nonetheless . . . there are normally quite lengthy lags in the political process before new spending projects are authorized by Congress. Then, since authorizing committees and appropriating committees are different, still more time elapses between legal *authorization* and the actual *appropriation* of funds . . . And even if the lags in the authorizing and appropriating processes could be completely eliminated, the slow natural spend-out rates of most public infrastructure projects remains a serious handicap. For example, out of each $1 appropriated for highway expenditures, less than one-third is likely to be spent within a year. Accelerating the pace of spending on public works for stabilization purposes would be inefficient and wasteful. (emphasis in original)

In short, there is a virtual consensus that variations in infrastructure investment are not an effective way to provide short-run stimulus and smooth the economy.

Grants to fund state and local governments' infrastructure projects are likely to pose timing problems even more severe than those posed by Federal projects. Even if the grants are disbursed quickly, the disbursement does not provide any stimulus. Stimulus arises only when state and local governments increase their infrastructure

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[3] "If, When, How: A Primer on Fiscal Stimulus," *Tax Notes*, January 28, 2008, pp. 545–559, at p. 556.

[4] "The Case Against the Case Against Discretionary Fiscal Policy," Princeton University, Department of Economics, Center for Economic Policy Studies Working Paper 100, June 2004, pp. 27–28 (http://www.princeton.edu/ceps/workingpapers/100blinder.pdf).

spending, creating an additional lag that is largely outside the Federal Government's control.

Once again, this does not mean that additional infrastructure spending is undesirable. Instead, that determination must be made based on a comparison of the benefits of using the infrastructure and the costs of constructing it. If additional infrastructure is worthwhile, it should be constructed. Such determinations are most likely to be accurate, however, when they are made without the haste associated with an attempt to respond to economic weakness. Infrastructure spending should be properly allocated, with particular care taken to avoid short-changing maintenance. Moreover, even if some infrastructure projects merit additional funding, others should be scrutinized to determine whether their funding is excessive.

4. The economy can best be stabilized through monetary policy and automatic fiscal stabilizers.

Other types of fiscal stabilizers may work somewhat better than infrastructure spending, but they are still problematic. Rebate checks may spur some consumer spending, but past studies suggest that the fraction spent is relatively small. A larger fraction of transfer payments to low-income households may be spent, although the small size of the payments typically precludes a large impact on the economy. Furthermore, some of this spending is on imported goods and does not therefore add to demand for U.S. firms. Temporary incentives for business investment can have some impact, but firms are often unable to make large changes in the timing of their investment.

All of these policies also still encounter the difficulty of ensuring timely implementation. The high degree of uncertainty surrounding the future path of the economy makes the appropriate timing of these measures unclear and raises the risk that they will take effect after the economy recovers.

As a result, economic stabilization is generally best achieved through monetary policy and automatic fiscal stabilizers. As Elmendorf and Furman note:[5]

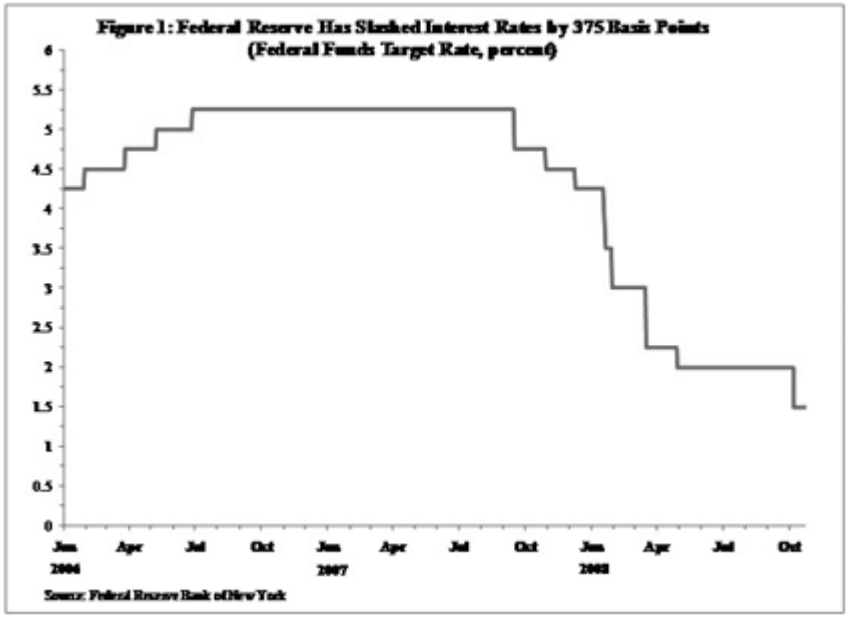
> Economists believe that monetary policy should play the lead role in stabilizing the economy because of the Federal Reserve's ability to act quickly and effectively to adjust interest rates, using its technical expertise and political insulation to balance competing priorities . . . monetary policy should generally be the first line of defense against an economic slowdown.

To be sure, Elmendorf and Furman go on to note, as have other economists, that monetary policy may not always be sufficient, even when combined with automatic fiscal stabilizers, and that additional fiscal stimulus may be "essential" or "helpful."

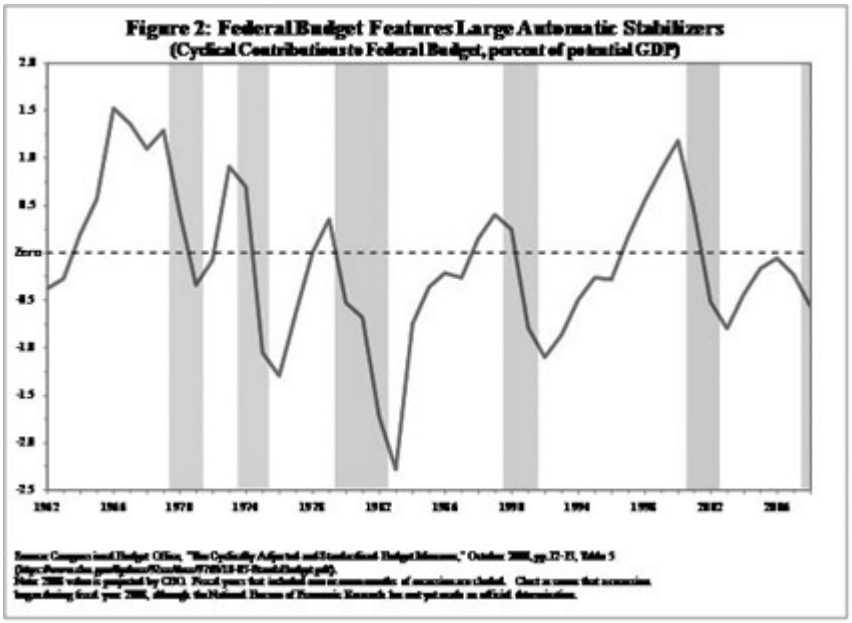
One concern is that firms and households may not adjust their spending immediately when interest rates fall. Another concern is that the Federal Reserve may be limited in the interest-rate changes that it can make, due to a desire for interest-rate stability or its inability to reduce interest rates below zero.

Nevertheless, it is worth noting that monetary policy has responded aggressively to the current slowdown, as shown in **Figure 1**. From September 18, 2007 to the present, the Federal Reserve has lowered the Federal funds target rate by 375 basis points, from 5.25 percent to 1.50 percent. These reductions began 13 months ago and half of the reductions have occurred within the last 9 months. Although it may take time for the impact of this monetary easing to be felt, it is likely to have a quicker impact than infrastructure spending increases that have not yet occurred.

[5] Elmendorf and Furman, *supra* note 3, p. 545.



Automatic fiscal stabilizers are also significant. When the economy weakens, tax receipts automatically fall and outlays on social insurance and anti-poverty programs automatically rise. **Figure 2** shows CBO's computation of the cyclical component of the Federal budget deficit or surplus, the change in budget balance that resulted automatically from business cycle conditions. Positive entries mean that business cycle conditions are reducing the Federal budget deficit (or increasing the surplus); negative entries mean that business cycle conditions are expanding the deficit (or reducing the surplus). As can be seen, recessions (shown by the shaded areas) have been associated with significant cyclical increases in deficits, often swings of 1 to 2 percent of GDP. The chart further shows that automatic stabilizers have already started to respond to the current economic weakness.



In summary, monetary easing and automatic fiscal stabilizers are generally the most effective ways to alleviate the economy and such measures are already well under way at this time.

5. Other policy responses can more effectively alleviate the impact of the economic downturn.

Even if Congress does not adopt discretionary fiscal stimulus, it can and should take measures to alleviate the impact of the downturn. Policies that are appropriate to ensure that resources are efficiently allocated and equitably distributed during economic booms may need to be modified during times of economic weakness. For example, transfer payments may need to be revised to ensure that they are adequate and unemployed workers should be given more time to find a job before losing unemployment benefits; many of the necessary adjustments are made automatically under current law.

Tax policy should also be configured to reflect the different economic conditions. In particular, it may be appropriate to change the treatment of loss deductibility and retirement-account withdrawals.

Current law restricts business firms' ability to deduct net operating losses (NOLs) and individuals' ability to deduct capital losses against ordinary income. Such restrictions are motivated by the concern that reported losses may not be "real"; business losses may reflect deductions that do not reflect real expenses and capital losses may reflect selective sales of assets that have declined in value. Because reported losses are more likely to be real during a downturn, efficiency and equity call for a relaxation of these restrictions.

Current law also penalizes withdrawals from tax-sheltered accounts. These penalties reflect a balance between allowing people to obtain their money when they need it and the desire to promote retirement saving. Because the average taxpayer's need to withdraw the money is likely to be greater during a downturn, the balance should be struck in favor of more lenient rules.

Note that these policies can be justified without regard to stimulus concerns. If they happen to also provide some degree of stimulus, as they might, that is an extra benefit.

6. Long-run growth can be promoted by tax and budget policies that increase private business investment.

The Government exists to serve both the short-run and long-run needs of the American people. Meeting the short-run needs of the American people involves monetary easing, automatic fiscal stabilizers, and recalibration of tax and spending pro-

grams to reflect the weakened state of the economy. At the same time, Congress must not lose sight of the need for long-run growth.

The current tax treatment of business investment impedes long-run growth. Corporate investment returns are typically subjected to corporate income tax and also to individual tax (at a 15 percent rate) on dividends and capital gains. As a result, savers cannot capture the full returns from their decision to postpone consumption. Reducing or eliminating the taxation of investment would allow an expansion of the capital stock, which would boost output and wages. Conversely, increased taxation of investment will further retard long-run growth.

To ensure a favorable impact on long-run growth, tax cuts on investment income should not be deficit-financed. Such tax relief can be financed by slowing the growth of entitlement spending. Another desirable approach is a revenue-neutral fundamental tax reform in which the income tax system is replaced by a progressive consumption tax, such as the Bradford X-tax.

Conclusion

Our economy currently faces very difficult times, but short-term fiscal stimulus is probably inappropriate. Even if short-term stimulus is warranted, timing lags make infrastructure spending an unsuitable policy instrument for this purpose. Congress can promote long-run growth by lowering taxes on investment.

Mr. MCDERMOTT [presiding]. Thank you.

Mr. Stark will inquire.

Mr. STARK. Thank you, Mr. Chairman. I would like to thank the panel for their patience and their indulgence.

I wanted to talk particularly to Dr. Lambrew. You brought up the link between the economic crisis and health care. Is it too much of an oversimplification to suggest that when we have had probably 5 years of flat income growth in terms of salaries and real wages and 5 years of double digit health care cost increases, that it is a pretty simple graph to suggest that perhaps more than any other basic, rent, food, that health care is falling behind or gaining more rapidly, depending on how you look at it; and that the nature of a serious health problem is something that should only be postponed at often very serious risk? Again, a heart attack, you just don't wait; you go to the emergency room. Or if your kid is screaming from an earache. You can wait to buy a new car or a new pair of sneakers, or you can buy Hamburger Helper instead of fillet; but when you are sick, you are sick, and you go to get that pain relief as you can, which I suspect also exacerbates the need to deal with providing health care in a downturn.

Now, just as Dr. Viard would say, it takes too long to get a construction project going. I am not sure I agree with him but it takes a whole lot longer to reform the medical delivery system in this country.

So, the questions that I am getting to are in the very short term what do we do to deal with an increasing medical crisis, if you will? I suspect that goes mostly to those who are unemployed or at the very lowest end of the income scale or just above Medicaid, although the States are having problems with that. But one of the things that I suggested, and I think you perhaps brought up, is COBRA as a design. It has the benefit of not costing the taxpayers anything, so you can do away with the deficit increase. Unfortunately, it costs the beneficiaries a lot. It probably does not cost the employer anything.

A couple of the things that I have thought about that we could do, and I don't know if we could do it quickly enough, is to force

COBRA extension on the insurance companies when a company goes bankrupt. In other words, if a company fires somebody or they are discharged or they are disabled, COBRA kicks in; but if the company goes bankrupt they lose the chance to pick up COBRA. It would seem to me that it is not too much of an intrusion on the profits of private health care companies to say if the company goes bankrupt the workers have the right to extend COBRA benefits if they can pay for them.

That comes to step 2. The question is, how do you subsidize COBRA? Is it worthwhile as opposed to or along with unemployment benefits infrastructure funding to start? As the Governor said earlier this morning, if you have a shovel ready program, you can generally get that under construction in 90 days if you get the money. But what would you suggest as a way to take a program like COBRA? How do we feed the funds into it to make it work for the broadest number of people who suddenly become unemployed?

Mr. LAMBREW. I thank you for that question, and I do thank you for your leadership on these issues for years, because without it I think we would be in worse shape.

I do want to begin by saying that we do need to stabilize the system. We are going to experience a spike in the uninsured. I think there is no doubt about that. But we also should not forget that we have to fix it, because the stabilization itself will not do enough.

I will go back to the fact that part of the economic crisis today is due to unrelenting health care cost increases that are not just affecting foreclosures, not just affecting credit card debt, but eroding savings, hurting our seniors who can no longer keep their Social Security benefits in real growth because the health care costs are eroding that. So, we have to fix the problem as well as stabilize it.

When it comes to stabilizing it, there certainly have been ideas on the table to make COBRA more affordable, because if you think about it, you basically pay 102 percent of whatever the premiums are that you paid previously.

Mr. STARK. Costs, not premiums.

Mr. LAMBREW. Exactly. So, for the average family premium in 2000 is about $12,600. So, that is a significant, probably unaffordable, amount for most unemployed families. In 2001, this Committee proposed this idea of providing a 75 percent tax credit to families, to make it advanceable and refundable and get the resources to those families to make it affordable.

For those families who don't have access to COBRA, the solution is harder, because a lot of times when you lose access, if you don't have access to COBRA it is because your firm has gone bankrupt, or you are in a small firm and your ability to find alternative solutions probably needs to be addressed in the long-run health plan. Lots of the health plans have new pools where people can access either a public program or private health insurance to get that coverage.

But I will say, going back to the low income population, back in 2001 you had this proposal as well. We can instantly create a Medicaid option for temporary coverage for the temporarily unemployed: A year-long option, provide States with the same enhanced matching rate that we do in S–CHIP, and immediately quickly get

the lowest income and most vulnerable people that Bob Greenstein spoke about before into a system that exists, no infrastructure needed to create, is ready to go, it can be done just like that.

Mr. STARK. What do we do with the States whose Medicaid system is going broke?

Mr. LAMBREW. That is what I was just going to say; this is why that fiscal relief is so critical. You heard a little bit this morning about it. But—Bobby, you can talk about your new study that shows about $100 billion in State budget deficits projected in the next year. Couple that with States separately projecting that enrollment in Medicaid will go up by 3.6 percent, that is almost triple our population growth. We have got to have this three-pronged approach: Help those people losing employer-based coverage, keep it through COBRA, create a new option in Medicaid and in reauthorizing the S–CHIP program, which, P.S., is very important for that middle income set of families who have children who are going to lose that coverage as well.

But then the third thing is ensure that we give States those resources to stabilize their programs so they don't turn around and start causing more uninsured by scaling back their programs.

Mr. STARK. Thank you.

Mr. MCDERMOTT. Mr. McCrery will inquire.

Mr. MCCRERY. Thank you for your testimony, all of you. We appreciate your patience today and bearing with us through a long day.

Dr. Viard, you a couple times came back to the proposition that while we are wrestling with the short-term effects of the economic downturn and trying to come up with temporary ways to soften the impact of that, we should also keep our eye on the long-term viability of our economy and do things that are designed to make sure the long-term health of our economy is maintained. In the context of that, you talked about making the climate attractive to private investment.

Even though this is a global economic crisis and we are seeing our competitors around the world from an economic business standpoint have problems just as deep as those we are experiencing here in the United States, is it your view that when this economic crisis is over and the world is starting to grow again, from an economic standpoint, that there is tax competition in the world?

Mr. VAIRD. Thank you, Mr. Ranking Member. This is a very important question. As I said in my testimony, I do believe that it is important to continue to look at long-run issues even as we also address the short-run issues. We have to pay attention to both.

Tax competition is one of the striking features of today's globalized environment. It is most visibly seen I think in the area of corporate taxation, simply because corporations have the opportunity to avoid taxation by relocating their business operations. Dozens of governments around the world, both right wing and left wing governments, have cut their corporate tax rates over the last couple decades in response to this type of competition. There are some who are distressed by that trend who would like to see the United States and other countries collude or cooperate with each other to try to maintain high corporate tax rates. I think that

would be a serious mistake, even if such cooperation was feasible, which I doubt.

The corporate tax is really a flawed tax. It is a tax on savings and investment and, therefore, an impediment to long-run growth. It has a number of additional distortions built into it that even other taxes on saving and investment do not have. It has a penalty on operating as a corporation instead of as a noncorporate firm. It has a penalty on issuing equity instead of paying debt. It is a very flawed distortionary tax that many economists, both liberals and conservatives, have spoken against over the years. I think that the tax competition that we are seeing really is an opportunity for the United States to actually adopt a better tax system that it ought to have gone on its own; but if the prod of global competition is what prompts the action, then so be it. I do think that we should try to move away from corporate taxation; that, more generally, we should try to move away from the taxation of savings and investment and instead move toward systems more along the lines of progressive consumption taxation.

Mr. MCCRERY. Would you agree that, by and large, in decades passed, say certainly from World War II forward, until fairly recently, tax competition really hasn't been a major concern of the United States?

Mr. VAIRD. I think that is correct. Probably the degree of such competition has been less. It has been in the more, most recent years that we have seen greater mobility in investment and greater awareness of the mobility of investment.

Mr. MCCRERY. Not only that, but certainly our economy post World War II, compared to most of our competitors, was so large that their tax system versus our tax system was a very, very minor, if at all, consideration in where money would go and where investment would be made. Wouldn't you agree?

Mr. VAIRD. I do agree with that. As an economist, I can provide a perspective I guess from the economics profession. If you look at older studies that were done of a whole range of economic issues in past decades, it was very common to simply use a closed economy analysis to assume the United States or the economy you are citing was the only one in the world and to ignore any end tracks into other countries. Today, you see a much greater attention to international interactions in the study of economics, and rightly so.

Mr. MCCRERY. The reason for that is that the Europeans have gotten their act together economically, more so than they have ever had before. They are more unified; they act more as a true competitor of ours. Asia certainly has increased its economic activity and investment. So, more than we have had at any time, certainly since World War II, we have competitors that are approaching our size and the kind of impact on the world's economy that the United States has?

Mr. VAIRD. Yes. I agree with that.

Mr. MCCRERY. So, you take all that together, and then you examine the relative tax systems with respect to savings and investment. This Committee has sole jurisdiction over this matter, which I agree with you, Dr. Viard, is critically important to the the future stability of our economy and competitiveness of our economy and job creation and job maintenance here in the United States, be-

cause capital will go other places. There are now other places that are approaching the attractiveness of our market for that capital. If we don't treat from a tax standpoint that capital as nicely as other jurisdictions around the world, we are going to continue to see that capital go other places and jobs go other places.

So, I appreciate your bringing our attention in the midst of what we are talking about, which is very important, but also bringing our attention back to some of these questions of tax policy, some of which I think could be addressed in the context of this temporary crisis. Thank you.

Mr. MCDERMOTT. Mr. Levin will inquire.

Mr. LEVIN. I think it has been useful to talk a bit about tax policy. Let me move on. We have had some excellent testimony about the changes in income distribution in this country that are really dramatic changes.

Since there was some discussion about a stimulus package, I thought I would ask a few questions about that, and see if we could have a little bit of discussion among you, not just between some of you and some of us. It is so easy for us to get polarized, and this institution has been frightfully polarized these past few years.

So, Dr. Viard, I want to talk to you about this sentence of yours, and then have others talk about your conclusions. You say on page 3: Because short-term stimulus merely shifts output and jobs from one time to another—which, by the way, I think is oversimplified—I assume there can be investments in the short term that have impact in the long term, and it is not just a shift from 1 year to another. I think that is an oversimplified statement. But that isn't the main point I wanted to make.

Proper timing is essential. If the stimulus arrives after the economy has started to recover, it makes the economy more, rather than less, volatile.

I think there is basic agreement that our economy has not yet started to recover. Right?

Mr. VAIRD. Yes.

Mr. LEVIN. I think all of you agree. So, therefore, the issue is timing. I don't think, though you talk mainly about monetary policy—which is what we would expect you to talk about, I guess, in this polarized world we have been living in—you seem to not be totally closed-minded about short-term investments, which you then proceed to attack or question.

You know, I remember in the 1960s the accelerated public works program and what it did for the economy where I came from. It was all construction, and it happened fairly quickly. I can remember the libraries that were built in places that never had them or had just storefronts, and lots of other things. So, why don't you—some of you have addressed this; some of you are talking mostly about other issues. Perhaps, Dr. Bernstein and Bob Greenstein, you can talk about it and others.

I so agree on the unemployment comp; I would hope we don't need to discuss it. It passed, what was it, 368 to 28.

So, why don't some of you talk about this short-term stimulus. You are very down on infrastructure. Are all of you down on infrastructure?

Mr. BERNSTEIN. No. I am up on infrastructure.

Mr. LEVIN. So, Alan has challenged you.

Mr. BERNSTEIN. Alan is my friend. We often debate such things. His analysis, I would argue, is based on something quite different than what I am talking about and what I think others were talking about on the earlier panel. Alan is referencing what I talked about in my testimony as more conventional infrastructure investment, the type that takes place, for example, in a transportation bill.

Let me make two critiques briefly about Alan's points on this.

First of all, I would argue that monetary policy, which Alan stressed, has been seemingly ineffective, unfortunately, in affecting conditions that we face. Interest rates have been reduced by the Federal Reserve from above 5 percent to something like 1 percent as of this afternoon, and there is actually quite a bit of pushing on a string going down there. There is not enough demand to get investors to take advantage of that lower borrowing rate.

Alan also stressed automatic stabilizers. We heard from both Bob Greenstein and Christine Owens about shortcomings in that regard. Tax cuts were actually quite ineffective in the first round of stimulus, largely because households are so over leveraged that those cuts go right into saving and credit relief. Not a terrible thing to do, but certainly not stimulus. The same thing with business investments, very ineffective in the first round of stimulus, the accelerated depreciation.

If you look at the multiplier effect from even traditional infrastructure investment, you find that they are greater than business investment by orders of magnitude. But that isn't even what we are talking about here. What we are talking about here is something new in—you correctly point out that it may have been going on 40 or 50 years ago. But in the context of at least the current stimulus, it is something new and different than what I think Alan is talking about. These are projects that, as someone said, are shovel ready.

Now, Alan and I do lots of work with spreadsheets and calculators, not too much with bulldozers and shovels. That is why it was interesting to me to hear a civil engineer on an earlier panel underscore the reality—underscore the viability of projects like this to be up and running quickly. That is particularly the case when you have projects that are undergoing at State levels, that are currently starved for capital and have had to suspend work. That is precisely the kind of projects we are talking about now.

I believe that you craft a package where eligibility requirements are contingent upon shovel readiness. Eligibility for a program mean that funds have to go out within something like 90 days and start creating activity and employment shortly thereafter.

So, we—I think Alan would agree. We simply don't have the data points, as it were, to observe the kind of projects that we are talking about in this context.

Mr. LEVIN. My time is up. Maybe somebody who comes after me, let's try to stick to the 5-minute rule; maybe they will give you a chance to respond, because it is one of the issues that we are now talking about and needs to be resolved without just kind of falling into expected positions. I hope unemployment comp is settled. We

have other issues, including health issues, that need to be resolved, and some pension issues.

So, I will give back to the Chair in hopes that somebody else will give Dr. Viard a chance to respond to the comments.

Mr. MCDERMOTT. The gentleman from Georgia, Mr. Linder, will inquire.

Mr. LINDER. Thank you, Mr. Chairman. I will give Dr. Viard a chance to respond after he answers a couple of my questions.

Do we know how much of the first stimulus package went into retiring debt versus consumption?

Mr. VAIRD. It is hard to make a precise determination of that. But a variety of empirical studies have found that only a modest portion, less than half, went into consumption.

Mr. LINDER. You said that some nations are colluding to keep tax rates high, corporate tax rates. Isn't that the mission of the OECD?

Mr. VAIRD. I am not sure if the OECD views its mission quite that way. But there have certainly been proposals for cooperation as it is called, or collusion as you and I would probably call it, to maintain high corporate tax rates.

Former Treasury Secretary Larry Summers gave a speech in December of last year, December of 2007, where he advocated that type of international cooperation. I don't think it would probably be feasible for it to occur; but I think it would be harmful if it did.

Mr. LINDER. Would you care to respond to the other comments that were made?

Mr. VAIRD. There is a distinction that I drew throughout my testimony that I really want to reiterate. Short-run fiscal stimulus does shift outputs in job only from one time to another, but investment of course can indeed create jobs and output permanently. I note that a number of times in the testimony. That is true whether it be private business investment or it be public investment and infrastructure. Certainly it is quite true that I am down on infrastructure with respect to a tool of short-run fiscal stimulus. I am not down on infrastructure, per se, as an investment that America needs to make. I think every project has to be evaluated on its own merits. That is most easily done, of course, if we are not distracted by considerations of short-run stimulus.

I think that is true for many types of policies. There are many tax policies, such as the ones that I have advocated that are not particularly effective at providing short-run fiscal stimulus but are good for long-run growth, and I think that is where most of our focus needs to be.

Jared has talked about ways to do an infrastructure stimulus package that would be different from packages that have been considered in the past and studied by CBO and packages that have been attempted in the past. Obviously, I think that if you are sitting here where you have the luxury of saying, let's assume that everything works perfectly, let's assume that we can really define this thing properly, then of course you could decide at least a limited package of infrastructure related spending that would be somewhat more effective as a fiscal stimulus than the almost completely ineffective packages that have been considered in the past. Obviously, it would still have to confront all of the difficulties that

any discretionary fiscal stimulus encounters in terms of how quickly can it be enacted, how quickly can we actually apply the criteria that Jared has talked about to identify which projects are shovel ready and which are not; how effectively one would be able to apply those criteria. Then, in the real world of administrative delays, how quickly will that work actually begin and how quickly will it proceed?

Mr. LINDER. You probably all would agree that a study on improving diversity in the national parks, as passed in the Senate version, would probably not add to the stimulus of this economy.

Mr. VAIRD. I wasn't able to hear the question.

Mr. LINDER. You probably all would agree that a study on improving diversity in national parks is not very stimulative to the economy.

Mr. VAIRD. It wouldn't seem to be.

Mr. LINDER. Ms. Turner-Joseph, you made some interesting comments on your observation of the provisions in the Pension Reform Act of 2006. How do you envision a stimulus package and an impact on your observations about that act? Ms. TURNER-JOSEPH. The Pension Protection Act itself was designed to make sure that the pension plans are properly funded to meet their responsibilities to pay benefits when participants retire. To that I am totally in agreement with——

Mr. LINDER. Do you think a stimulus package should put money into pension funds?

Ms. TURNER-JOSEPH. No. What I was about to say is that right now what we have is a situation where the employers of defined benefit plans are at a crossroads where they are suffering because of the fact that the new rules are requiring higher contributions from them than under pre-PPA. In addition to that you have the downturn in the market that is going to definitely add to their contributions and may even put some employers in a position where they are freezing benefits and have to restrict or even terminating their plans. What employers are looking for is some kind of relief, and I am not implying qualified plans. What I am implying is that there can be some relief for qualified plans in the area of asset smoothing, in the area of phasing in of the funded target. Those can be looked at and probably loosened a little to give employers a chance to, quote, unquote, fiscally catch their breath because right now the amount of moneys that is going to be pulling on employers to pay pension benefits, they have to weigh do I pay pension benefits or do I handle other expenses things that are more important in running my business? That is what I think needs to be focused on, a chance to give employers to catch their breath with the new rules that are now being imposed on them and the downturn in the market

Mr. LINDER. Thank you. Thank you, Mr. Chairman.

Mr. MCDERMOTT. One of the things that troubled me in the $700 billion bailout, which was supposed to be aimed at the mortgage problems of the housing market, was that we never had any hearings to actually figure out what was going on or what we were putting that money out there to buy. So, I had a call from a guy in my district—having Microsoft around your district, there are an awful lot of people who have written programs to do various things,

one of which was a guy who called me and told me that he had created a program by which you could reconstruct those diced and sliced mortgage-backed securities and you could actually figure out where they all went.

Now, what I am interested in and maybe, Mr. BERNSTEIN., you are the one or maybe if anyone else has an answer for this, how do we find out what we are authorizing Treasury to buy? How do we get some transparency in something that was created to be opaque in the first place so that people wouldn't know what kind of junk they were buying? How do we reconstruct or deconstruct that house of cards that has now fallen down on us and what do we need to do in the way of regulation or whatever to make that happen?

Mr. BERNSTEIN. Well, I think where you ended up is where I would start out. I mean I think this is a matter of regulation and oversight and imposing rules in financial markets where they don't currently exist. Now, obviously there is always a balance you strike when you concoct such rules. You don't want to stifle innovation or the ability of market players to apply appropriate hedges and things like that. Clearly we have failed far—gone much too far on the other side of that continuum to the point where our assumption that these markets will self-regulate has led to a level of deregulation and lax oversight that got us to where we are today, which I view as a very, very serious indictment of the regulatory structure.

Derivative markets in particular, which feed very much into your question, are almost wholly deregulated—almost wholly unregulated and lack transparency such that folks who trade into those markets don't know very much about the financial exposure of the institutions from which they are buying and selling.

When the CFTC, the Commodity Futures Trading Commission, raised that precise concern back in the late 1990s, early 2000, former Chairman Greenspan and others—and it wasn't just a Republican-Democrat thing. I think this was a bipartisan mistake—said don't worry, those markets will regulate themselves. We don't need that type of transparency.

Similarly, one of the factors that got us into this mess were so-called structured investment vehicles, off-balance sheet accounts that banks were allowed to have that investors knew nothing about. They couldn't tell the exposure of a particular investment institution to things like mortgage-backed securities because these were off their balance sheets. They got no reports.

So, the simple answer to your question is more regulation, more oversight, and common sense kinds of things such that when a mortgage is—a subprime mortgage is bundled into a security with other higher quality debt, that is reported so investors know what they are buying. I am not just talking about investors. There is a case of a German bank manager who said—once this thing started crumbling down, literally said, "I had no idea I was exposed to subprime mortgages." There was never any accounting that said in this package that you are buying of MBSs there is subprime slime in there. So, reporting requirements, transparency.

Mr. MCDERMOTT. Is it all in the Banking Committee's regulation, or are there things in the Tax Code that need to be dealt with, prohibiting tax, whatever?

Mr. BERNSTEIN. Alan may have a view on that. I think it has got to be—my inclination is that it is mostly the former, not the latter.

Mr. VAIRD. I don't think there are many tax implications, not that I am aware of.

Mr. MCDERMOTT. Ms. Owens, I want to ask a question about reform of the UI system. Why should—what is wrong with the system or who would benefit if we made some of the reforms we have talked about in terms of part-time workers and workers who have to leave their job and so forth?

Ms. OWENS. Well, the beneficiaries would be the people who actually are most likely to need the UI system. They would be low-wage workers. As I noted, the General Accounting Office has found that low-wage workers are twice as likely as high-wage earners to become unemployed but——

Mr. MCDERMOTT. Why is that?

Ms. OWENS. Well, there is a lot more volatility in the low-wage labor market generally than for high-wage earners. Then when they are unemployed, they are only—a third is likely to collect benefits. A major reason for that is not because they haven't been working enough months but because most States still use a sort of conventional earnings period for determining whether a worker meets the minimum earnings threshold to be eligible for unemployment, and that period excludes the preceding two quarters, so that if someone had been working for a year but the first 6 months the earnings were not enough to meet the minimum earnings threshold because those two preceding—most immediate preceding quarters are excluded, that person is not eligible to collect unemployment benefits.

So, you can see how using that kind of a period for determining earnings would have a disparate effect on low-wage workers. The States that have changed this have adopted something called the alternative base period which about 20 States have adopted. They actually consider recent earnings and a lot more low-wage workers are therefore eligible.

One of the things I didn't say, but if Congress were to move ahead—the House has passed the UI Modernization Act. If the Senate were to do so as well, the 20 States that have already adopted alternative based periods would become eligible immediately for incentive rewards for having done so, and that is new money to them because they are already paying out benefits. So, they could use that money to apply to the benefits, to increase benefits, to make some other reforms or to make other improvements in their systems.

Mr. MCDERMOTT. Explain the business about working part time. If I get laid off and I go and take a part-time job, I am putting money into the benefit pool or my employer is putting money in the pool, and then I lose my part-time job. Do I get benefits?

Ms. OWENS. Not in most States. Again it has to do with the earnings threshold as well as the fact that a lot of States just don't consider part time to be—the States require that you be available and look for work full time. So, they don't consider full-time employment to have qualified you for benefits or if like many working mothers all you can afford to do is work part time because you

have child care responsibilities, you are not eligible for unemployment benefits even though, as you say, you have been paying in as a part-time employee as have low-wage workers. In fact they—in a sense low-wage workers' contributions are higher because the taxable wage base is set so low and it is taxed on the first couple of quarters of earnings. So, most of what low-wage workers earn gets taxed as a part of the system. For higher-wage earnings, it is the same taxable wage base and it is a very low wage base.

Mr. MCDERMOTT. Thank you. Mr. Pomeroy will be inquiring.

Mr. POMEROY. Thank you, Mr. Chairman. I found this to be a very interesting day and I came in specifically of a concern that is maybe not well understood about pensions. So, I found the testimony of Ms. Turner-Joseph to be particularly interesting and I would like to ask—I would like to highlight portions of your testimony that I think make it very clear what the issue is. You state on the bottom of page 3, "Without additional tools to address the unforseeable investment losses and the resulting explosion of funding obligations pension plan sponsors now confront, millions of employee pension plan participants could face benefit restrictions and plan freezes and the job losses and business contractions threatening many U.S. employers and workers will only be made worse."

Now, you are an actuary; so I know this is going to be difficult, but in plain speak can you tell us why this is happening?

Ms. TURNER-JOSEPH. Thank you for giving me the opportunity to do it in plain speak. It is a little easier.

First, we have to understand that qualified plans are—or I should say sponsors who decide to provide qualified plans to their employees, it is a voluntary thing. When an employer decides to put in a plan to benefit not only himself but his employees, we should make sure that the rules are not so stifling that it puts an employer in a position where they have to make a decision: Am I going to keep my plan or am I going to terminate it, freeze benefits, just to keep my business——

Mr. POMEROY. Right. When you talk about the cyclical nature, ironically when the market is up, the value of plan assets—the funding of the pension plan is up because of the equities held. So, in good times you don't have to fund. In good times they could afford to fund. Now, in bad times when they can't afford to fund, it is the worst. The market crashes, the evaluation is projected as being insufficient, and that is the worst time for the employer to face a serious funding shortfall; right?

Ms. TURNER-JOSEPH. I will tell you that I am looking at this chart and I notice that in the late '90s that is when you notice from the chart that the funded status is the highest. That is the period, by the way, that a lot of plan sponsors were clamoring for regulations and rules that would allow them to aggressively fund their plans because that was a time when the market was doing well, folks had money, and they wanted to—I had clients that said isn't there anything else you can do? I would really like to put some more money in the plan. They amend the plan. They increase benefits. But you had these rules, these artificial full-funding limitations that say okay, your plan liability is "X" amount of dollars but we have this artificial number here that is saying you can't put anything else in.

Mr. POMEROY. I think the Pension Protection Act got part of that problem right. In good times they can now fund more.

Ms. TURNER-JOSEPH. Unfortunately, the Pension Protection Act is about 6 years too late. We would have loved to see this in the late '90s.

Mr. POMEROY. The part—when I say they got part of it right, they got part of it wrong. They do allow the funding in the good times but they actually made things worse in the bad times.

Ms. TURNER-JOSEPH. Absolutely. It is ironic that the Pension Protection Act comes along and it has rules in there to aggressively enforce funding, and just when we are about to get started on it, the first year that the Pension Protection Act is effective is for 2008. The 2008 valuation is the first year that contributions are going to be calculated under these new rules. Guess what happens. Our market crashed. You know, so you have things going in different directions. Unfortunately, the Pension Protection Act has not even gotten a chance to get started to beef up pension plans and get those higher contributions so that in a time when we have a down market you have a cushion. There is no cushion now.

Mr. POMEROY. Now, this chart which shows—and this is done by the Center for Retirement Research up at Boston College, and it is done from the universe of 1,800 plans. So, this is a pretty good snapshot and it shows that by virtue of these depressed asset valuations you have got plans on average funded at about 73 percent. Does that mean that these—we are likely to have a rash of plan insolvencies?

Ms. TURNER-JOSEPH. I would start first by looking at 2007. If you notice from the chart it is implying that in 2007 we had plans funded at approximately 98 percent. That is a great number. Now you are going to come down to 2008, and the year is not done yet. Especially for calendar year plans, we are not even sure what the true impact is because the assets that is going to be available for funding plans in 2009, which is the upcoming year, may even be worse than the 73 percent.

Mr. POMEROY. You are absolutely right. None of us want insolvent pension plans. None of us want a burden falling on the pension, or PBGC, and suddenly now taxpayers have to bail out pension plans like we bailed out everything. But the reality is the liabilities owed at either the 98 percent in '96 or the 73 percent in '08, those liabilities are owed over many, many years; correct?

Ms. TURNER-JOSEPH. Absolutely. Absolutely.

Mr. POMEROY. So, as the market recovers, the funding is going to recover also in large part, or to the extent that we place funding requirements we could make the—we could amortize over several years the catch-up funding; so you would have market recovery and you would have the catch-up funding and you would have basically these plans becoming whole again, no disruption in benefits, but you wouldn't crush employers with the kind of funding burden that is going to fall on them if we do nothing.

Ms. TURNER-JOSEPH. I absolutely agree. Might I add another thing? If your plan is not frozen, what is going to happen to your liability? Your liability is going to increase each year because your plan participants are earning benefits each year; some plans, their liabilities go up as much as 10 percent only because of benefits

earned. Now you, have the asset losses in 2008 that will apply in 2009; so you have your increase in liability and the return on assets that you were expecting didn't come through. What you really have now is a loss. The shortfall that is just the difference between your liability and your assets—is a big one. Under PPA if you have a gap between your liability and your assets, you are expected to amortize that generally over 7 years.

Mr. POMEROY. My final question to you, and I appreciate the Committee's indulgence on time. I really believe this is a terribly important issue that needs to be considered right now. We can provide funding relief for next year which will prevent employers from having to come up with vast sums to fund these pension plans as a result of the market crash. It will prevent jobs from being lost as employers need to make cuts to try to get the pension funding that they owe under the law, and we could do that in a measured way without placing risk on plan solvency. Is that your view?

Ms. TURNER-JOSEPH. I absolutely agree with that. I have some suggestions here and a couple I have in my written statement. One of them is the asset smoothing, which of course part is already in the PPA technical corrections bill. But I think that has to go a little bit further. We have to widen the corridors just a little bit, and it can be done through a window. It doesn't have—I mean we are not——

Mr. POMEROY. Even taking it to pre-PPA——

Ms. TURNER-JOSEPH. Absolutely. And 20 percent would be helpful, but if we can go beyond 20 percent and do 30 percent that would be even more helpful. Give a window, give a 2- or 3-year window because we are hoping that in 3 years assets will have rebound and we don't need the window where your corridor is extended anymore. That is one thing that can be done.

There is one thing that I didn't touch on in my comment if I may say that real quick, and that is actuarial assumptions that are used to generate contributions. Plan sponsors are being asked to make assumptions before they have regulatory guidance, I think to allow plan sponsors to use assumptions now to determine contributions without having to apply for approval from the IRS to change assumptions after regulations guidance have been provided, and that includes small plans.

Mr. POMEROY. Thank you very much. Mr. Chairman, if you consider whether we are going to do anything in a lame duck session or not, even if we do something as focused as unemployment, for example, some funding relief to pensions which would not cost the Treasury a nickel would be hugely helpful throughout the marketplace, and you are going to have business and labor testifying on that going forward.

Thank you, Mr. Chairman.

Ms. TURNER-JOSEPH. If I could make one quick point, we would love to see something before year end because come year we are looking at calculating numbers for 2009, during that first quarters of 2009, and if we have no relief a lot of plans are going to be terribly underfunded——

Mr. POMEROY. This is hugely time sensitive; right?

Ms. TURNER-JOSEPH. Yes, it is.

Mr. POMEROY. Thank you, Mr. Chairman.

Mr. MCDERMOTT. We would all love to work with Mr. Bush to make it happen.

Ms. Berkley, you have to catch a plane. Do you have time?

Ms. BERKLEY. Mr. Chairman, thank you very much and Mr. Kind, thank you for giving up your time for a few minutes. I want to ask Dr. Lambrew something, and this was a situation that happened about a year ago before I knew the extent of the mortgage foreclosure crisis in my congressional district, which of course is the worst in the country.

My husband is a nephrologist and he sent one of his kidney patients who had passed away—he sent his wife to my office and this was her story. She and her husband had been employed, owned a home. It was a typical middle class existence. She worked at the university, got a good paycheck. He worked someplace else, got a good paycheck. He developed kidney disease. Throughout the course of his treatments and as he slowly lost his battle with the kidney disease, he lost his job. His wife lost her job. They both lost their insurance and ultimately lost their home, and this woman lost her husband. She came to my office because she was in a state of panic, but she also was talking to me about how can this be in the United States of America? We did everything right. We were both college graduates. We had good paying jobs. We were living the American dream and we lost everything because my husband was sick. It wasn't that they were uninsured. They were insured. They lost that as well.

She came to me asking for relief, and I had nothing to offer her. I mean I could commiserate with her and I was upset and angry and chagrined, but that didn't—none of my reactions helped this woman in the least nor would my reaction have helped thousands and thousands of other people that find themselves in this position.

What would you recommend that we can do to ensure that people don't go belly up broke and bankrupt and lose everything they have because of a prolonged illness when they have done everything right?

Mr. LAMBREW. I think that the answer is quite clear. We cannot simply continue to put patches on this system. I mean we could try to create something akin to the unemployment system for health insurance and that may solve some of these problems, but that is one set of many different problems. Amongst the people with medical debt, 61 percent have health insurance. This is not just an uninsured problem. The problem is pervasive. I will just repeat the statistic I said earlier. Fifty percent of people report some family member who is skipping a medicine, delaying care, not getting care because of health care costs. That is just endemic. I think the way to solve this is comprehensive reform. I will say this——

Ms. BERKLEY. How do you see that comprehensive reform?

Mr. LAMBREW. I think we have many good ideas on the table. I think we build on what works today, our public works system, our private employer-based system to fill in those gaps, create an alternative that gives people a choice of a public-type option like Medicare or some other type of public program or private insurance choices like you have as a Federal employee. We think through some sort of a sliding scale premium assistance to ensure that low-income people have the means as well as the access to buy health

insurance, and then we seriously look at cost because once we get people in the system, we have to begin to identify those tools to begin to address chronic illness, focus on prevention, squeeze out the inefficiencies in the system because I am convinced that we need to simultaneously get people in but then look at our long-run trend because the system needs to be sustainable as well as fair and efficient in the short run.

It is possible. We have bipartisan plans out there. The business community is behind it. I think we really do have the opportunity in this next Congress to address this crisis.

Ms. BERKLEY. It seems to me the way we deliver health care services in this country is, you will excuse the expression, bass ackward. We spend most of our health care dollars in the last 6 months of life rather than putting it in the—front loading the system where we have research and development and try to prevent these diseases and early detection and prevention if we can. This requires an entire paradigm change.

How do we shift these resources while we still care for those at the back end of life who—to me it seems if we can figure this out we can ultimately save billions of taxpayer dollars while we keep people healthier and living longer in this country, but how do we do that?

Mr. LAMBREW. You are asking somebody who has spent a lot of time on this. I have several papers and a book chapter coming out later this month about an idea called the "Wellness Trust," which basically says we are wrong in thinking about prevention as an insurable event; that if you really want to keep people healthy, you need to invest now in something that won't accrue for years and maybe it will only accrue to Medicare. We need to think of a different type of system and make prevention and wellness more like, you know, our public safety systems, international security, than an insurable event.

John Podesta and I wrote a paper a couple of years ago about the Wellness Trust, where you carve prevention out of health insurance, consolidate our public health spending into a trust fund and you use that trust fund independent of insurance to try to focus on proven prevention, and that is the key.

We have to focus on what works because there is a lot of services and vendors out there who sell things called wellness and prevention that are not effective, which is why the Congressional Budget Office usually doesn't give us savings on this. If we focus on what works, targeted, making it ubiquitous and directly pay for it through a mandatory trust fund, we think you could get at this long-run problem, but it is requiring it to be something different than what we have today. Not insurance and not funded through our public health programs that are already overstressed trying to deal with bio preparedness and other different issues.

Ms. BERKLEY. Thank you.

Mr. MCDERMOTT. Mr. Kind.

Mr. KIND. Thank you, Mr. Chairman. The hour is late, the panel has been great, and the hearing has been very interesting. Mr. Greenstein, we could start with you given your focus and your testimony on income disparity in the country and the impact on low-income families, but for all of you, if we do move forward on a sec-

ond stimulus we are going to have a limited amount of resources to work with here, and you have got to help us prioritize a little bit. One of the things that is happening right now, one of the greatest stimulus effects that are taking place today is a dramatic decline in energy costs. We have gone from 4 bucks a gallon in Wisconsin just a couple short months ago to around $2.45, and that is I think going to be very beneficial to low-income families who are disproportionately affected with an increase in energy costs especially at the pump.

But has anyone done any calculation—have you at the organization done a calculation as far as what stimulus we are going to get from the dramatic decline of energy costs that we are seeing right now and how beneficial that will be for the economy overall or the impact on low-income families?

Mr. BERNSTEIN. I just have a quick answer and then back to Bob. There is a rule of thumb on that that says for every penny that gas prices fall, it amounts to about a billion dollars in terms of increased revenue to consumers. So, we are looking at something like a hundred plus billion dollars stimulus based on that. Interestingly and importantly, it hasn't offset the downturn in any obvious way yet, and I would add to that that the consumer confidence, which usually responds to gas prices—when gas prices go down, consumer confidence goes up—hasn't been functioning that way. It has been going the other way.

Mr. KIND. Right. Let me ask both of you maybe real quick as far as priorities, where should our focus really be? Should we be more concerned and focused on anything we do with the impact on low-income families? Should we be more consumer focused given that two-thirds of economic activity in this country is consumer driven anyway? Should we be focused on helping small businesses expand and create jobs which are going to have a huge impact on low-income families and people working in small businesses? Or do we need to look at longer term investment decisions for future growth opportunities?

Mr. GREENSTEIN. Well, both the short term and the long term are important but I would distinguish among them. There is a quick need certainly, you know, if you can do some things in November, good. If not, then I would urge you to try to figure out in November and December what the package is and begin moving on it when you come back in early January and have it on the new President's desk.

Mr. KIND. Like unemployment, food stamps and things like that?

Mr. GREENSTEIN. Then the question as to what to do; so we are in a steep downward slide now. As I noted, a lot of economists believe unemployment will rise to 8 percent or more. We are talking about a potentially quite deep downturn. So, we really—the number one priority is in and of itself not which income group it affects but what gives you the biggest bang for the buck in terms of injecting aggregate demand into the economy. That is where the jobs are—the jobs don't come from a program called "jobs." They come from what is most effective in injecting aggregate demand into the economy. As it turns out, a number of the things that are most effective do focus on low and moderate income families for the

simple reason that the more cash constrained you are, the more you are going to spend close to a dollar of every additional dollar you get. The higher you go on the income scale, the more it is going to be saved.

So, my three—I think that there is a need for a large enough package that it can cover and should cover a number of items. So, my three top priorities—but I certainly don't think they are the only things that should be in the package. My three top priorities are unemployment insurance, not only the additional weeks of benefits but the reform that Chris talked about because under the current system some of the lowest income workers and disproportionately female workers who were laid off don't qualify at all, and I think it is worth exploring whether there is a way that can be done quickly and can be administered to kind of do some kind of bump on the weekly unemployment benefit, which is not a generous benefit.

In the same category as the unemployment insurance, I would put the often discussed temporary increase in food stamp benefits. That is pretty close to 100 percent being spent.

My third item—and I am not rating these one, two, and three, I am putting them together in a package. My third and the biggest of the three in cost is State fiscal relief. Our latest analysis indicates that for the State fiscal year that starts July 1, 2009, we are looking at cumulative State deficits of $100 billion. State revenues are really falling. That is in addition to some billions of dollars of deficits for the current fiscal year that States thought they had closed that are now reopening. As States—States are now exhausting their rainy day funds and these things——

Mr. KIND. Let me just conclude by asking when do we start really getting worried about the long-term structural deficits that are being created around here and the impact that is going to have on future growth?

Mr. GREENSTEIN. I think we should be worried about that as well. The ideal—I don't want the perfect to be the enemy of the good. In an ideal world you would have a very robust stimulus package and you would then have measures that paid for at least some of it starting maybe in the third year or the fifth year well after the economy is strong. However, in the real world I worry that if you try to do that, either there would be so much controversy over the offsets that we wouldn't pass the stimulus package in a timely manner, and as long as the stimulus package consists of temporary measures that are not ongoing, then—we already have a long-term fiscal problem we ultimately really have to address but a stimulus package isn't going to materially worsen it if it is temporary measures. I think that we do need to put first things first. We have got to deal with the financial crisis. We have got to deal with the economic—with the need for a stimulus package. As we move to other policy measures in the next few years, I think we need to start thinking about some way as the economy improves to get back to those other issues.

Real quickly one thing—and in stimulus certainly. One thing we might want to think about. It is not urgent. You don't have to do it in the next 6 months, but maybe in the second year, the next 2-year Congress, it might be worth thinking about Social Security.

There may be a better potential to actually get an agreement than there has been in a while for a number of reasons I won't take the time to go into now, that would be—in the current situation where many Americans looking at their 401(k)s are saying, my God, what is happening to my retirement security, wouldn't it be a good thing to be able to say, you know what? We the Congress and the next President have restored Social Security solvency for the long term. It is bedrock. We have guaranteed it will there for you when you retire. I think that is worth thinking about it in the second year——

Mr. KIND. I would agree. I want to thank you all for your testimony here today.

Thank you, Mr. Chairman.

Mr. MCDERMOTT. Mr. Van Hollen will inquire.

Mr. VAN HOLLEN. Thank you, Mr. Chairman.

I thank all of you for your testimony here today. I think we would all agree that as we try to find ways to get our economy moving again as part of an economic recovery package, to the extent we can also accomplish other national objectives at the same time, that is a good thing, and it is that tradeoff between trying to get things infused in the economy and getting a quick return and then at the same time trying to make long-term investments. I think we would all agree one area that has been talked about is of course infrastructure, roads, bridges, rail, schools, those kinds of things. Another area—which obviously have long-term benefits.

Another area is of course our energy policy and trying to reduce our dependence on foreign oil, to try to move off of fossil fuels. I think we have all learned we export approximately $700 billion a year for the purchase of foreign oil. To the extent we can redirect those resources here and at the same time address our energy needs and grow more green jobs, we are all better off.

Mr. Bernstein, in your testimony you list a number of ideas, some of them from the Center for American Progress, and my question is first to you and then to everybody on the panel who wants to answer, is a lot of the projects you have put forth here require additional appropriations. My question is this is the Committee on Ways and Means and we—in the last Congress just before we left, as you know, we did increase a lot of the tax incentives for wind power, for solar power, for other kinds of renewable energy and energy efficiency. As part of an economic recovery/stimulus package, are these more effective, the kind of things you have got listed here, or are there also ways you can use—provide tax incentives that have the advantage of stimulating more investment in renewable energy and energy efficiency but also get you that benefit that we were talking about in terms of an economic recovery?

Mr. BERNSTEIN. My answer is yes. The provisional on the point that much of this is fairly new stuff, but the evidence we have seen is that tax policy that incentivizes retrofits, weatherizations, solar panel implementation both for houses and businesses is something that firms take advantage of. There are benefits obviously in terms of stimulus. Every one of those creates employment. By the way, employment, in part, in construction industries, which is an area of course where we have seen massive job losses as well as investment—by the way, there is another wrinkle here that folks are

starting to raise that suggests that it is important that the parts that go into these kinds of retrofits and weatherizations are made domestically. That is I think an interesting—another dimension to this that would help prevent stimulus dollars from leaking out of our economy to another economy.

So, in answer to the question I think both the kinds of direct spending and tax—more tax-oriented intervention would be very helpful stimulus in this regard.

Mr. VAN HOLLEN. Anyone else?

Mr. VAIRD. Yes. If I could address, again I think it is very important to distinguish between different types of policy interventions that could be done. But one of the passages from the January 2008 Congressional Budget Office report states some of the candidates for public works such as grant-funded initiatives to develop alternative energy sources are totally impractical for countercyclical policy. I am not sure that critique applies in full to everything that Jared was just talking about. But I guess again I would reiterate my caution against doing anything largely for stimulus reasons when we don't know how the timing will operate.

I think any of these initiatives in the area of renewable energy should be done only if they can be justified in terms of the actual output and benefit that they are going to provide for consumers and for the economy from the use of this energy, not from the short-run stimulus concerns. The timing is just too uncertain.

Mr. VAN HOLLEN. I think we would all agree that these are all important incentives for other national policy goals and national goals. But you are right. If you are talking about putting together a package of a certain amount of dollars, you obviously want it to go to the most efficient use. I do believe that focusing on some of these green jobs and some of these areas can accomplish that, but as we go through it I want to make sure that we pick those that also accomplish the goal of trying to get the economy moving in the fastest period of time.

Mr. GREENSTEIN. I was just going to say you always want to be careful to make the distinction between things that are good policy and you should do and things that are really effective stimulus policy. So, there will be some policies that are really important and they ought to be done, but they may not be right. If you have an "X" billion you set as the size of your stimulus package and then you want to fill that size with the things that are going to be the most effective as short-term stimulus, and there will be some things that are good policy that don't fit that criterion and they ought to be moved in other vehicles. But I just think it is important to sort of have this two-part focus.

Mr. VAN HOLLEN. I agree and that is what we are trying to get at. There are two questions here. To what extent do these kind of investments in green energy make sense as part of a stimulus? The second part is if some of them make sense, which are more efficient at accomplishing that economic recovery goal compared to others, whether it is tax credits or direct investments or whatever it may be?

Mr. BERNSTEIN. Let me make one further point I just remembered. Last week there was testimony given by Professor Robert Pollin from I think the University of Massachusetts where he

looked at direct job creation through investments in infrastructure that you might call green versus more traditional versus—he had one which he—one column which was oil and gas because that is often raised as an idea as well. I will make sure I get that to you. He had a very, I thought, elucidating table which showed that in fact just bang for buck as measured as jobs per dollar invested that the green investments actually did have an edge.

[Not available at the time of printing:]

Mr. VAN HOLLEN. Thank you. I would like to get ahold of that. Thank you Mr. Chairman.

Mr. MCDERMOTT. Listen, we want to thank the panel. I don't know what time you got here or what time you were told it would start. But you have been very generous with your time and your energy. We appreciate it.

The Congress really needs what you bring to us; that is, some differing opinions on the issues that we are trying to decide, and we are very grateful to you for spending your time here today. Thank you very much.

The meeting is adjourned.

[Whereupon, at 3:54 p.m., the hearing was adjourned.]

[Submissions for the Record follow:]

United States House of Representatives
Committee on Ways and Means
Hearing on Economic Recovery, Job Creation and Investment in America
Written Statement of
Levi Pesata, President of the Jicarilla Apache Nation
Dulce, New Mexico
November 12, 2008

INTRODUCTION

On behalf of the Jicarilla Apache Nation in New Mexico, I would like to thank you for convening this hearing to gather testimony on economic recovery and more specifically about how targeted funding for infrastructure projects across the country can drive job creation. The Jicarilla Apache Nation ("Nation") is a federally recognized Indian Tribe, and our Reservation, which consists of approximately 1 million acres, is located in Northern New Mexico. We have over 4,000 members and 85 percent of the population lives on our Reservation in the town of Dulce, which serves as our tribal headquarters. We understand Congress' desire to quickly provide state and local governments with an infusion of funds for infrastructure projects, and we respectfully request that you work to ensure that Native American Tribal governments are also considered as potential recipients of funding through the proposed second economic stimulus. Like state and local governments, Tribal governments provide essential governmental services to our citizens and neighbors and are similarly in dire need of basic infrastructure development.

For our part, during the last nine years we have been working to address the failing public drinking water and wastewater systems, which were constructed, owned, operated and managed by the federal government, on our Reservation. We worked with Congress to authorize a project to repair and replace the dilapidated and failing federal infrastructure and since that time we have committed significant additional funds and resources to the project.

We worked tirelessly to implement the statutory directive placed on the Secretary of the Interior to comply with the law and construct our project. Unfortunately, although Congress authorized our water system infrastructure project and President Bush signed it into law in December of 2002 (P.L. 107-331), the Bush Administration has repeatedly failed to include any funding for our project in the Administration's annual budget to Congress. We also understand our project is the only one that acknowledges and mandates corrective action for the federal government's liability in establishing and creating a deficient and unsafe public drinking water system serving an Indian reservation population.

Through the leadership and commitment of our New Mexico Congressional delegation we have received almost $2 million appropriations funding for the effort, however a much larger infusion of funds is needed. The current situation requires action now as it has forced the Nation to put other construction projects on hold due to lack of infrastructure. In addition to fully meeting our statutory project share (approx. $15 million), we have invested millions of more additional dollars into repairing and replacing the system, but we have reached our debt capacity. The Nation is prepared to immediately utilize funding to continue our work on the water system so

that we can ensure a safe and reliable water supply for our people. In addition, we expect that funding for this infrastructure project will provide between 30-50 jobs immediately in our community which is significant in the extreme rural and depressed region where we reside. The long-term effect of investing in this project will provide greater employment opportunities to the approximately 2,300 tribal members ready for work, as more construction and development opportunities will move forward once the water infrastructure is in-place.

BACKGROUND

The dilapidated condition of the current public water system and waste water infrastructure on the Jicarilla Apache Reservation stems from generations of neglect by the Bureau of Indian Affairs ("BIA"), an agency of the U.S. Department of the Interior, which, as creator, owner and operator of the system, did not properly design, plan for, manage, repair and upgrade portions of the system over the last 90 years. The system diverts water from the Navajo River – a pristine water source, and its initial structures served the original BIA facilities on the Reservation in the early part of the 1900's. As the community of Dulce became the center of activity, members began moving there from other areas of the Reservation. In response to the growth, the BIA expanded the water line to allow members to access the water from common areas. As the area grew with housing and other facilities, water lines were extended, on an ad hoc basis, with no planning or recording. By the 1990's the community's system had every type of water piping, including clay, asbestos lined, other metals, as even some wood piping has been unearthed.

In October 1998, the system completely collapsed at the river and left the Nation without water for a week. The home of one of our elders burned down, with no water to put out the fire. The National Guard brought in bottled water and portable restrooms. The Nation funded emergency efforts to restore water delivery and received no funding from the BIA. In 2006, the wastewater system failed and caused a backup in the Jicarilla Apache Public Library forcing it to close for a long period of time. Other buildings and homes were similarly condemned due to these dire conditions.

The Federal Government's neglect and failure to manage and maintain its public water system serving our people has caused many dire health threats and circumstances and economic hardship including: degraded water quality in the lines, obsolete and non-compliant sewage lagoon ponds which were operating without properly permits because the ponds did not meet the federal standards, pollution from unlined sewage ponds spilling into the community and into a nearby arroyo which fed back into the Navajo River towards downstream users and stymied economic and housing development opportunities. The most disturbing circumstance, however, is that a large number of tribal members are experiencing serious intestinal and other internal diseases and more community members have been diagnosed and are dying from stomach and other forms of cancer, many documented cases of those living on and served by the main and oldest stem of the water system .

STATUTORY PROJECT AUTHORIZATION

A combination of the water outage, delayed housing and economic develop opportunities and the dire health related circumstances led the Nation's leaders to Washington D.C. to request

assistance repairing the federal government's broken system. Our first step was to approach the owner and operator of the system, the BIA headquarters in the U.S. Department of the Interior in Washington. They told us they had no funds to address the problem. The Nation sought help from other federal agencies, who were sympathetic but generally unable to assist because the BIA owned and operated the system at the time. They also informed that the enormity of the problems with the system required a significant investment of resources that they would not be able to accommodate.

Working with our Congressional delegation from New Mexico and others sympathetic to our case, we developed and pursued a legislative route to authorize a project specifically to repair the system. In 2000, Congress passed a law which directed the Department of the Interior, through the Bureau of Reclamation ("BOR"), to conduct a feasibility study on upgrading the system. *See* **Public Law 106-243**. The Nation worked directly with BOR on conducting the study which was completed in September of 2002.

The study concluded that $45 million would be needed to replace the existing water delivery and wastewater infrastructure. The report acknowledged the Nation's efforts in contributing $15 million to improve portions of the system including: replacement of the diversion structures and pipeline at the river and up to the water treatment plant; building a new water treatment plant and expanding its capacity; repairing and replacing old water towers; and replacement of infrastructure on the expansion Mundo Ranch property.

Following the completed report, our New Mexico Congressional delegation introduced legislation to direct the Secretary of the Interior to repair and replace the infrastructure based on the recommendations in the feasibility report; the legislation also authorized the Department to expend funding to undertake this project.

On December 13, 2002, President Bush signed into law the Jicarilla Apache Reservation Rural Water System Act, **Public Law 107-331, Title VIII**, which directs the Secretary of the Interior to proceed with a project to replace the defunct infrastructure, as outlined and recommended in the feasibility report, and which authorizes the appropriation of funds ($45 million) for our project. There are no sunset provisions in the law and its construction mandate is specifically not subject to the availability of appropriations.

INADEQUATE FEDERAL FUNDING
& FAILURE TO IMPLEMENT THE LAW

Since Congress authorized our project and mandated the Secretary of the Interior to commence construction of the project nearly six years ago, the Nation has worked tirelessly to secure funding for the development of our project through the Bureau of Reclamation's account in the Energy and Water Development Appropriations bill and through the annual budget process. In spite of our diligence, neither Congress nor the Administration provided any funding for our project in the Fiscal Years ("FY") 2003, 2004 and 2005 appropriations cycles. Finally, in FY 2006, Congress provided $250,000 for our project in the Energy and Water Development Appropriations bill. In total, since Congress authorized our project which was signed into law nearly six years ago, the Nation has received less than $2 million for our project. Currently,

Congress has included $3 million in the House FY 2009 Energy and Water appropriations bill and $1 million in the Senate FY 2009 Energy and Water appropriations bill, though it remains unclear the fate of the remaining un-enacted appropriations bills. While we are very grateful for these funds in a tough fiscal environment, there is an overwhelming need for Congress to provide a greater infusion of funds for this project.

The Administration has failed to include funding for our fully authorized project in their annual budget request to Congress. We have regularly met with the Office of Management and Budget, the Assistant Secretary for Water and Science and the BOR Commissioner urging them to implement the law and take action to help us address this serious public health crisis. Sadly, our pleas have fallen on the deaf ears of the Bush Administration.

"READY-TO-GO" PROJECT & IMPACT OF INADEQUATE INVESTMENT

The Nation is ready to move forward on repairing and replacing existing water lines in the town of Dulce and also completing water and sewer line extensions to new housing projects. The Nation's rural water infrastructure project meets the criteria set forth by the House Transportation and Infrastructure Committee's memorandum ("Memorandum") outlining "ready-to-go" projects.

More specifically, the Nation's project mirrors an example of a project located in the state of New York, the "Village of Cuba, New York" wastewater treatment system. The Memorandum states that the Village of Cuba project "is served by a sanitary sewer collection system constructed in the 1920's that utilizes mainly vitrified clay tile piping." Similarly, the Nation's water system was also constructed in the early 1900's and currently consists of clay and wood pipes. As a result, the Nation suffers constant line breaks from the clay pipes, which have no flexibility and are more prone to root intrusions and structural cracks.

The Memorandum further states that "most wastewater treatment utilities have small capital-related projects on the shelf that could be carried [out] very quickly," thereby citing the cost of the Village of Cuba as $2.1 million. The Nation's economic stimulus needs for our rural water infrastructure project falls between the cost range provided by the Memorandum (wastewater projects ranging from $2.1 million to $105 million).

Furthermore, Village of Cuba example details that the median household income is well below the New York State median household income, therefore, further justifying Congressional investment in the project. Indian Country comprises some of the most depressed and remote areas of the country. The Nation's location in the rural and remote Rio Arriba County limits economic development tied to the major metropolitan areas of the state of New Mexico and affects the Nation's overall economy. Specifically, according to the 2000 Census, the Nation's unemployment rate was 14.2 percent and the per capita income was $10,136. However, in comparison to the State of New Mexico 2000 Census data, the unemployment rate was 5 percent (the U.S. average was 4 percent) and the per capita income in 2000 was $17,261.

In addition, the BIA 2005 Labor Force Report ("Report"), the most recent report available, details that the Nation's unemployment rate is 52 percent. According to the Bureau of Labor and Statistics, the State of New Mexico's unemployment rate for 2005 was 5.2 percent. Notably, the

Nation's unemployment rate is 10 times higher than the state's average. Also, of the Nation's tribal members, approximately 2,310 individuals are available for work and approximately only 1,112 individuals are employed. This data illustrates the overwhelming need for employment opportunities for the Nation's tribal members and reflects the critical need for Congressional investment in the Nation's rural water infrastructure system.

NATION'S HOUSING AND ECONOMIC DEVELOPMENT NEEDS

Similar to the current crisis state and local governments are experiencing with stalled infrastructure and development projects, the Nation also has authorized economic development opportunities for its community and tribal members and is currently foregoing further progress until the proper infrastructure and investment are established. For example, the Jicarilla Apache Utility Authority ("JAUA") is developing the Mundo Ranch property to accommodate multiple facilities including institutional, single family housing, and small commercial properties. To date, the Nation has authorized the expenditure of $7.5 million in funds towards the development of the Mundo Ranch.

The first phase of the single family housing plan includes $3.5 million expended by the Nation through JAUA to construct utilities, roads, and site preparations for 46 housing units. To date, 35 units have been completed and are currently rented at $300 per month, under a 15-year-rent-to-own program. However, the Nation still has a current waiting list of over 400 families for housing. To provide additional housing resources for its tribal members, the Nation has acquired post-Katrina Federal Emergency Management Agency ("FEMA") mobile homes that have been allotted to tribes. As the Nation continues to receive the mobile home units, it is vital for the Nation to set-up and establish the proper infrastructure to serve the newly-acquired mobile homes for families to immediately inhabit them.

The Nation is an oil and gas producing tribe. Therefore, safe and reliable roadways must be constructed and maintained to access the oil and gas resources on the Reservation. The Nation contracts their roads program from the BIA under P.L. 93-638 and employs tribal members for the roadway work. The Nation maintains about 700 miles of BIA and tribal roadways. However, there are still dirt streets in our residential areas in Dulce and across the Reservation, and the Nation plans to extend the bike and pedestrian path to a new housing development and new elementary school. It is difficult for the Nation to proceed with these initiatives when the water infrastructure is incomplete and non-existent in certain areas on the Reservation.

The Nation's rural water infrastructure system is a vital link in providing adequate services to our tribal members and communities. Without a completely updated and properly-repaired system, the Nation is unable to move forward on pending projects. Therefore, the Nation cannot provide employment opportunities in roadwork for our tribal members; maintain, expand, and upgrade our roadways for community and economic development use; and further construct and make available housing units to our tribal members. It is our responsibility as a tribal government to provide the necessary services for our tribal members, and the Nation has continuously and consistently made the investment in our community to the extent possible. However, the Nation is in-need of assistance in this current crisis from Congress, just as state and local governments are requesting.

CONCLUSION

Since the legislation's enactment in December 2002, the Nation has been forced to borrow millions of additional dollars on the project because of the urgency and crisis facing our people. But, we have reached our debt capacity. While progress has been made on the project, the Nation has been forced to put a number of important projects on hold due to the lack of infrastructure and funding shortfalls. For example, there is a tremendous need for new housing on the Reservation. In fact, we currently have over 400 people on a waiting list for homes. We cannot build these new homes until the infrastructure is available to support them.

It is time for the federal government to invest in Indian Country and meet its statutory and moral obligations owed to the Nation. The United States has a trust responsibility to the Nation, our citizens and our trust resources. Notably, ours is the only project Congress has authorized which is fully encompassed in an Indian reservation and which has100 percent Indian project beneficiaries. We hope that you will work to ensure that Native American Tribal governments are included as governmental recipients of funds, along with state and local governments, for infrastructure work in the second economic stimulus.

Again, thank you for holding this very important hearing and for the opportunity to express our views and concerns as you move forward with the economic stimulus legislation.

U.S. House of Representatives
Committee on Transportation and Infrastructure
Washington, DC 20515

James L. Oberstar
Chairman

David Heymsfeld, Chief of Staff
Ward W. McCarragher, Chief Counsel

John L. Mica
Ranking Republican Member

James W. Coon II, Republican Chief of Staff

October 27, 2008

The Honorable Charles B. Rangel
Chairman
Committee on Ways & Means
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Chairman Rangel:

I write to urge you to include the Freight Rail Infrastructure Capacity Expansion tax credit, which will provide a 25 percent investment tax credit for spending on new track, intermodal facilities, and other projects that expand freight rail capacity, in the economic recovery package that may be taken up by Congress in November.

This tax credit would be an important part of any economic recovery package and result in substantial job creation at a time when unemployment rates are soaring. Indeed, according to the U.S. Department of Labor, total job losses for 2008 are at a staggering 605,000; the government reported employers cut 159,000 jobs just last month, the ninth straight month of job losses.

The Freight Rail Infrastructure Capacity Expansion tax credit will help boost our economy. According to the U.S. Department of Commerce, every dollar of freight rail infrastructure investment generates more than three dollars in total economic output because of the investment, purchases, and employment occurring among upstream suppliers. In total, the tax credit will result in at least $1 billion in economic benefits and the creation of 20,000 jobs nationwide.

The tax credit is also crucial to the health and competitiveness of our national economy. Freight railroads carry 42 percent of our nation's intercity freight and they are a key component to international trade, facilitating movement of both imports and exports and helping U.S. businesses to compete in global markets. The U.S. Department of Transportation (DOT) forecasts that the demand for rail freight transportation will increase 88 percent by 2035. It will cost $148 billion over the next 27 years to build the additional freight rail capacity necessary to accommodate this demand, $135 billion of this from the Class I railroads ($4.8 billion per year).

The railroad industry is extraordinarily capital intensive. In 2006, the Class I railroads, which account for 67 percent of the industry's mileage, spent $19.3 billion to maintain and improve their infrastructure and equipment. Of this, $1.4 billion was devoted to capital expansion projects. While the Class I railroads anticipate they will be able to increase their annual capital expansion investment to $3.4 billion due to higher earnings and productivity gains, there will still be a funding shortfall of $39 billion, or $1.4 billion per year, that will need to be raised from other sources. This could be met through enactment of the Freight Rail Infrastructure Capacity Expansion tax credit, which will allow the railroads to invest an additional $1.5 billion each year in capital expansion projects.

If the railroads are not able to build the additional capacity necessary to accommodate the increased rail freight demand, 30 percent of the rail miles in the primary corridors will be operating above capacity by 2035, causing severe congestion that will affect every region of the country and potentially shifting freight to an already heavily congested highway system. At a time when highway gridlock already costs the U.S. economy more than $78 billion per year in wasted time and fuel, taking freight off the railroads and onto our highways will only exacerbate the problem congestion brings to our nation's ability to move goods and products both efficiently and competitively.

I therefore ask you to include the Freight Rail Infrastructure Capacity Expansion tax credit in the economic recovery package that may be taken up by Congress in November.

Sincerely,

Corrine Brown

Corrine Brown
Chairwoman
Subcommittee on Railroads, Pipelines,
and Hazardous Materials

Cc: The Honorable Nancy Pelosi
The Honorable Steny Hoyer
The Honorable James Clyburn
The Honorable Rahm Emanuel
The Honorable John B. Larson
The Honorable James L. Oberstar

Joint Written Testimony Before the House Ways and Means Committee
October 29, 2008
Reverend Donald Roberts, President and CEO of Goodwill Industries of Manasota, and
Sandra Purgahn, President and CEO of Goodwill Industries of Acadiana

Mr. Chairman, Ranking Member and Members of the Committee, we appreciate this opportunity to submit written testimony outlining our experience in addressing the needs of our local communities, and how those strategies can help the nation address the severe unemployment outlook and spur job growth.

As you may know, Goodwill agencies located on Main Streets across the country see firsthand the impact of the current economic crisis and are uniquely able to tailor their programs to respond to local needs. Goodwill Industries International has submitted separate written testimony which describes the broad activities of Goodwills nationwide. We would like to describe to you the success of our specific programs that resulted from a federal welfare-to-work grant, and how that model of capitalization could be expanded to address the current spike in unemployment and promote job growth. The fundamental assumption tested by our welfare-to-work grant was that the building of new facilities is a long-term investment in job placement as opposed to the short-term investment associated with traditional programs that simply focus on hiring personnel. The fact that the one-time capital infrastructure investment provided to us by the U.S. Department of Health and Human Services (HHS) in 1997 has continued to reap benefits for job placement and training every year since demonstrates that this model works for both the short-term and long-term.

Although Goodwill is often recognized simply for its donation centers and donated goods stores, our most valuable role is through our job training and placement activities. The Goodwill Job Connection concept was initially developed by Goodwill of Manasota in 1988, and was recognized by the American Rehabilitation Association with its "Employment for Tomorrow Award" in 1994. As described in an evaluation of our program submitted to the Administration for Children and Families, our Job Connection model provides services in convenient locations situated throughout Goodwill community service areas, and are paid for through the donated goods business. Once the new infrastructure is built and operational, these Job Connection services are not dependent on external subsidies for either staff or referrals. The flexibility inherent in this approach allows Goodwill to serve anyone in need without consideration of eligibility criteria, on a timely basis, at no

cost to the consumer. In summary, Goodwill can support its own Job Connection programs with the proceeds from its donated goods stores.

Nevertheless, our challenge is related to the capitalization costs of infrastructure to grow our donated goods business, particularly the cost of site acquisition for new donation centers and stores, so that we can meet new and emerging needs in our communities. Congress recognized the potential for a system of capitalizing new Goodwill facilities in Section 413(h)(3)(A) of the Social Security Act, which allowed HHS to grant $10 million combined to our agencies ($7 million to Manasota and $3 million to Acadiana) for the purpose of purchasing additional sites and the construction of new facilities. In exchange, our Goodwill agencies were expected to demonstrate job placements for those leaving welfare to work with Job Connection programs funded by the proceeds from our new donated goods stores. A three-year evaluation of our grant showed that we met and exceeded our placement quotas. The dollars invested by Congress more than ten years ago have created 150 sustainable jobs within Goodwill with an annual payroll of $3.5 million – in 10 years that translates into payroll of $35 million and we are still going. It also resulted in training and placing hundreds of persons into unsubsidized employment through our Job Connection services, which includes job training and placement services – and that number grows every year without any additional federal subsidies and will continue to grow as long as the business continues.

The major target population for Goodwill of Manasota's "Hand-Up" services resulting from our welfare-to-work grant include persons with disabilities, senior citizens, ex-offenders and immigrants with English as second language. The major target population for Goodwill of Acadiana's "Hand-Up" services has been largely women with families moving from welfare to work and a younger population.

The benefits of capitalization can vary based on the needs of the community being served. In addition to our traditional Job Connection services, Goodwill of Manasota created a "Good Partner Coaching" program whereby each Goodwill client/employee is assigned a personal or family coach whose job is to provide financial planning services, address the educational needs of both parents and their children, and provide training to enhance employment opportunities. For our most vulnerable clients, we start with their G.E.D. while providing them with "Opportunity Wages" during their work with Goodwill, and eventually place them in employment outside Goodwill.

Additionally, Goodwill of Manasota is able to provide "Goodhomes" services leading to home ownership for those in our program based upon the concept that a steady paycheck, which often results from vocational training and transitional employment, and a mortgage, the American dream of home ownership, are the two key elements for family stability and economic security.

Goodwill of Acadiana has expanded its services by building certain skills for our clients. For example, we provide work skills such as resume preparation, interviewing, and vocational counseling, as well as life skills such as budgeting and conflict management. Other priorities include computer literacy, interpersonal skills, and educational skills such as G.E.D. preparation and literacy classes. Goodwill of Acadiana's work has often focused on proving a realm of services that allow a single parent to manage work and parenting. Our welfare-to-work grant also has allowed Goodwill of Acadiana to expand its scope of services to youth aging out of foster care who otherwise are at-risk for interactions with our criminal justice system.

The benefits of capitalization go well beyond our Job Connection programs. The welfare-to-work grant provided to each of our agencies in 1997 resulted in immediate benefits to the local economy as we constructed new facilities and began employing those we serve in our new donation centers and in our job training centers and stores. In addition, Goodwill activities are consistent with the nation's commitment to recycling as we divert millions of pounds of recycled goods away from landfills and back into the economy. By moving our clients/employees into jobs, there is the tangential benefit of taxable income generated to support our federal and local governments.

We believe that we must be accountable to the nation's taxpayers who expect their monies to be used in the most effective way possible, not only to simply fund programs but also to build the infrastructure to sustain those programs well into the future. Therefore, we urge Congress to learn from our experience and consider making capitalization a permanent program for addressing the workforce issues facing our nation. The one-time infusion of capital can lead to a lifetime of services for the hardest-to-serve populations.

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STATE OF NORTH CAROLINA
TURNPIKE AUTHORITY

MICHAEL F. EASLEY
GOVERNOR

1578 MAIL SERVICE CENTER, RALEIGH, N.C. 27699-1578

DAVID W. JOYNER
EXECUTIVE DIRECTOR

October 28, 2008

The Honorable Charles R. Rangel
Chairman, House Committee on Ways and Means
Longworth House Office Building
Room 1102
Washington, D.C. 20510

Re: Hearing on "Economic Recovery, Jobs Creation and Investment in America," October 29, 2008

Dear Chairman Rangel:

I am submitting this letter for the record of the Hearing on "Economic Recovery, Jobs Creation and Investment in America" being held by Ways and Means Committee of the United States House of Representatives on October 29, 2008. As Executive Director of the North Carolina Turnpike Authority (NCTA), I wish to express my strong support for the U.S. Department of Transportation (USDOT) program implementing the Transportation Infrastructure Finance and Innovation Act, known as TIFIA. Since its inception in 1998, TIFIA has provided $4.8 billion in credit assistance to 15 projects representing almost $18.6 billion in infrastructure investment.

The budget authority required to pay for the cost of this credit assistance (similar to a private bank's loan reserves) has amounted to only $369 million in direct cost to the Federal Government. In other words, TIFIA assistance has leveraged more than 50 times its value in dollars invested in infrastructure.

Currently, TIFIA has a pipeline of projects seeking approximately $5 billion in credit assistance that would require at least $350 million in budget authority. We strongly urge the Congress to consider an expansion of the TIFIA program, either separately or as part of the next economic stimulus package. Stimulus proposals using traditional grant funding have their place, but planning, environmental, and design requirements mean that the beneficial effects of such measures often come long after the stimulus funds are made available. By providing an immediate increase in budget authority for the TIFIA program, the Congress can advance to financial closing projects that are ready now to commence construction.

By way of background, the NCTA was created in 2002 by the North Carolina General Assembly in response to concerns about rapid growth, soaring construction costs, heavy congestion and dwindling resources. The NCTA is authorized to study, plan, develop, construct, operate and maintain up to nine projects throughout the State. In pursuing its mission, the NCTA has initiated an ambitious program of toll roads and public private partnerships to improve transportation and reduce congestion for the people of North Carolina, and enhance mobility for motorists through and to our State. The NCTA program has allowed North Carolina to pursue projects that would have been impossible to consider given the limited resources available to the North Carolina Department of Transportation (NCDOT) using traditional sources of state and Federal funds.

NORTH CAROLINA TURNPIKE AUTHORITY
TELEPHONE: 919-571-3808 FAX: 919-571-0813

NCTA has found the TIFIA program and staff to be supportive partners in its efforts to advance the financing of our projects. These loans not only provide much needed capital, but by being more willing to lend at a favorable interest rate, the TIFIA program allows us to secure private capital at an affordable price which allows us to complete our plan of finance. Without this significant boost, some of our most important projects simply would not be built. *Again, TIFIA credit support will produce immediate economic benefits and leverage far fewer public dollars than any other use of Federal funds.*

By providing additional funding for the TIFIA Program and making a few procedural changes, Congress can support the construction of large public works projects in North Carolina and other states. Moreover, in doing so, it will strengthen equity markets by providing for secure, long term investments that are good for our economy.

Unlike stimulus projects that require a large infusion of grant money, TIFIA, an already existing transportation Federal credit program, combines Federal loans, some public funds, and private equity. This blend of public and private dollars lets the Federal government use its leverage to construct large public transportation projects with a minimum of budget authority. Because the TIFIA program is designed to provide credit assistance to the extent that private lenders and equity investors are willing to participate, TIFIA continues to work in a tight credit market. With only a few changes TIFIA funding could become even more attractive to private investors, resulting in even more transportation projects at a lower cost to State and Federal transportation agencies.

In the past, Congress has rescinded or reprogrammed the funds it originally made available for the TIFIA program due to the perception that such funds could not be obligated. However, the program is now oversubscribed and is more than able to make full use of the funds provided. Just by restoring the programmatic funding levels that have been provided to the TIFIA program in the past, Congress can take an important step to achieving the benefits outlined in this letter.

Recently, USDOT approved the $1.252 million Triangle Expressway Project for a $413 million TIFIA loan. This critical project which services the high-tech Research triangle Park will help bring thousands of jobs to our state and significantly bolster our economy. We understand that the "subsidy rate," that is the amount that FHWA will have to obligate in order to cover the cost of the loan to the Federal government, should have been only $ 30 million. However, because so little budget authority remains available in this program, USDOT has, for the first time, required borrowers to pay a substantial portion of this subsidy cost so that precious TIFIA funds can remain available for additional projects.

We acknowledge that USDOT has the legal authority to require borrower support, and, in spite of the adverse consequences for our financial plan for this project, we understand why they felt that this action was necessary. However, given the enormous public benefits of the TIFIA program for North Carolina and many other states, we think it a shame that USDOT is forced into this difficult position. Rather than curtailing the program, having to choose between winners and losers, and making it more expensive for those few projects that are able to obtain credit assistance, USDOT should be able to extend TIFIA credit assistance to as many states as meet the qualifying criteria.

Again, we urge the Congress to expand and improve this important program to help provide an enormous economic stimulus to our ailing economy and meet our states' immediate infrastructure needs. We appreciate the Committee's consideration of this urgent request.

Sincerely,

David W. Joyner

cc: The Honorable Jim McCrery

Statement of American Apparel & Footwear Association

"Our nation's financial markets continue to be in crisis today, which means hard-working American families are suffering and need urgent relief. Any economic stimulus package considered by the Congress needs to meaningfully address the pressing needs of troubled middle-America. The Affordable Footwear Act is a responsible, tangible tax break for all Americans, which would immediately stimulate the economy.

"The Affordable Footwear Act eliminates the import tariffs, collectively known as the shoe tax, on all lower—to moderately-priced footwear as well as all children's

shoes, or about 60 percent of all shoes sold in the United States. The depression-era shoe tax was implemented to protect the domestic footwear industry. The regressive shoe tax on footwear imports is highest—as much as 67 percent—on the least expensive shoes. The cost is necessarily passed on to consumers at the cash register as a hidden, regressive shoe tax that can be nearly 40 percent of the retail price of a pair of shoes. That extra 40 percent can add up quickly and be a burden for America's hardworking families. Today, with 99 percent of all footwear sold in America being imported, the shoe tax has out-lived its purpose, is unavoidable and needs to be abolished for the sake of America's families.

"Please stomp out the shoe tax by including the Affordable Footwear Act in the next economic stimulus package."

The American Apparel & Footwear Association (AAFA) is the national trade association representing apparel, footwear and other sewn products companies, and their suppliers, which compete in the global market. AAFA's mission is to promote and enhance its members' competitiveness, productivity and profitability in the global market by minimizing regulatory, commercial, political, and trade restraints. Learn more at www.apparelandfootwear.org or www.endtheshoetax.org.

Statement of American Benefits Council

We appreciate the opportunity to submit this statement on behalf of the American Benefits Council in conjunction with the hearing you are holding today on Economic Recovery, Job Creation and Investment in America. The Council is a public policy organization representing principally Fortune 500 companies and other organizations that assist employers of all sizes in providing benefits to employees. Collectively, the Council's members either sponsor directly or provide services to retirement and health plans covering more than 100 million Americans.

We urge immediate action to reform defined benefit plan funding requirements in light of the unprecedented market, credit and liquidity crises affecting our economy. Absent action to address the unforeseeable and crippling funding shortfalls and funding obligations pension plan sponsors now confront, millions of employee pension plan participants will face benefit restrictions and freezes and the job losses and business contractions threatening many U.S. employers and workers will only be made worse.

We are not asking for a so-called funding holiday, nor are we suggesting a revision of the important funding reforms contained in the Pension Protection Act of 2006 (PPA). Rather, we are confident that if the framers of PPA had foreseen the extent of this crisis, they would have softened the transition from the old funding rules to the new ones. So that is what we are suggesting below, combined with some critical clarifications of the intent of PPA. It is important to note that these proposals are an interrelated package and will not provide the needed response unless they are adopted as a package.

- ***Permit pension plans to smooth out unexpected asset losses***. In PPA, Congress permitted pension plans to recognize unexpected asset gains and losses over 24 months. The Treasury Department misinterpreted Congress' intent and has effectively applied a mark-to-market rule to pension plans, which will cause unmanageable burdens for companies in 2009. As noted above, if companies are required to take into account all 2008 losses immediately, many will cease benefit accruals for employees and will have enormous trouble recovering from the economic downturn. The proposal would allow all plans to use smoothing for 2009 and subsequent years. Moreover, for unexpected gains and losses recognized as of the valuation dates in 2009 and 2010, the smoothing period would be extended to 36 months.
- ***Remove restrictions on extent of asset smoothing***. Also, PPA only allowed unexpected gains and losses to be smoothed out to a very limited extent, so that the smoothed value must stay within 10% of the fair market value. In light of the dramatic reduction in the market this year, the 10% limit is strikingly insufficient to provide meaningful relief. Accordingly, it is critical that we let asset smoothing apply without percentage limitations in 2009 and 2010.
- ***Transition to the new funding rules***. Before PPA, the "funding target" for pension plans was generally 90%. Under PPA, the 90% figure was phased up to 100%; in 2008 and 2009, the phase-in levels are 92% and 94%, respectively. So if a plan is 92% funded in 2008, there is no shortfall to fund. But if a plan

is 91% funded, its funding obligation is based on a 9% shortfall, not a 1% shortfall. With a huge number of plans falling below 92% funded next year, it is critical that (1) the phase-in level stay at 92% for another year, and (2) the transition relief be available to plans below the phase-in level, as well as above.

- ***Permit new funding elections to avoid benefit restrictions and keep plans viable***. Generally, funding methods, such as which type of yield curve to use, must remain consistent, absent IRS approval. Given the enormous changes over the past several months, companies need to reassess their funding methods to find those best suited to maintaining their plans gong forward. So for 2009 and 2010, under this proposal, funding methods can be changed without IRS approval. This is particularly important so that employers using the 24-month yield curve average for 2008 can switch to the spot yield curve for 2009 to be able to benefit from the recent spike in interest rates.

We urge the adoption of these measures immediately and strongly recommend that they be included in any economic recovery legislation that may be considered during a lame duck session of the current Congress. While somewhat technical in nature, the proposals we have outlined above are critical in order to avoid further economic harm to working Americans and the employers upon which they rely.

The Council sincerely appreciates your consideration of our views. We hope that we can count on bipartisan and bicameral support in the committee for these initiatives, and we look forward to working with you to protect the economic and retirement security of American workers in these uncertain times.

ATTACHED: The American Benefits Council 10-Point Plan to Help Employees and Retirees and to Strengthen the Economy and the Retirement System

10-Point Plan to Help Employees and Retirees and to Strengthen the Economy and the Retirement System

The recent economic turmoil is substantially and negatively affecting virtually every aspect of our financial lives. Among the areas most adversely affected is retirement security. Employees and retirees have seen their 401(k) and other defined contribution plan savings plummet, and employers with pension plans have seen the value of their plan assets fall precipitously, creating enormous funding obligations for 2009 that are worsening the credit and liquidity crisis. We need to act now to restore retirement security, to protect jobs, and to prevent pension funding obligations from undermining companies' ability to recover.

As companies now must plan for funding requirements that were unanticipated just weeks ago, lenders are even less willing to extend credit. Companies are therefore unable to dedicate needed resources next year for job-creating business purposes to help their companies recover. This burden is placing even more pressure on companies to freeze or terminate their pension plans in order to mitigate the future impact, which further diminishes long-term retirement security. Liquidity, available credit, job creation, and retirement security are all inextricably related. Congress must act now to restore retirement security, to protect jobs, and to prevent pension funding obligations from undermining companies' ability to recover.

The American Benefits Council divides its proposals into three parts. First, we must help individuals get back on their feet economically. In developing these ideas, we built upon prior Council recommendations and also drew on key proposals offered by the presidential candidates and members of Congress. Second, we must prevent pension funding obligations from triggering a massive freeze of new benefits and widespread job loss. Third, recognizing that full economic recovery may take a while, we must begin now to lessen the impact of the downturn and better prepare for future economic uncertainties.

Helping Individuals Weather the Storm

- ***Restore savings to those who need it most and put dollars in their pocket too.*** We would expand the group of middle-income employees eligible for the Saver's Credit. This would allow middle-income employees the ability to replenish their depleted savings. And it would reward their savings with a tax credit that they could use to meet day-to-day expenses which, in turn, would assist economic recovery.
- ***Protect retirees from excessive distributions that deplete their retirement savings.*** Participants would have the right to be exempted from the age 70½ minimum distribution rules in either 2008 or 2009—and thus not be required to take any distributions—whether they are in a pension plan, a defined contribution plan (such as a 401(k) plan), or an IRA. It is important

to offer individuals a choice of 2008 or 2009, since many have already taken their 2008 distributions.

- ***Suspend the penalty tax on hardship distributions made in 2009.*** Like both presidential candidates, we want to help individuals whose circumstances necessitate them taking a hardship withdrawal while at the same time mitigating the likelihood that they will deplete their own long-term retirement savings. In recognition of workers' need to access the money in their defined contribution plans, we would suspend the 10% penalty tax on hardship withdrawals made in 2009.

Preventing Funding Obligations from Costing Jobs and Triggering Massive Benefit Freezes

The following is an internal report from the chief actuary of one defined benefit plan service provider:

> "Our projections are showing DB plans due to get slaughtered in their next round of actuarial valuations. Lest we forget, asset smoothing has all but been eliminated so their unfunded liability will see a $1 for $1 increase for their investment losses this year. . . . I haven't heard this consistent level of concern from plan sponsors in 20 years. Just to throw a real example out there, a large [organization] has gone from 114% funded for the 1/1/2008 year down to restricted (i.e., below 80% funded) as of yesterday. . . . You have to assume we'll be doing a lot of freezing amendments next year."

The benefits system has never seen this level of concern before. Unless something is done—quickly—massive funding obligations will trigger benefit freezes on an unprecedented scale. And freezing does not eliminate current funding shortfalls, so companies will be forced to direct huge resources to their plans, which will cost many jobs and prevent companies from making essential investments in their businesses.

In this regard, it is important to clarify recent reports that interest rate increases offset pension asset losses to a large extent. Those reports are based on accounting figures, not funding figures. Because plans generally use a 24-month average interest rate, the recent spike in corporate bond interest rates will do little to help the funding burden, even if the spike continues. For more on this, please see the third proposal below.

The American Benefits Council is not asking for a so-called funding holiday. And we are not asking to undo the important funding reforms contained in the Pension Protection Act (the "PPA"). On the contrary, we are confident that if the drafters of the PPA had known in advance of this crisis, they would have softened the transition from the old rules to new rules. So that is what we are suggesting below, combined with some critical clarifications of the intent of the PPA.

Although the proposals below generally do not modify the benefit restriction rules directly, they would have a very significant effect on the application of those rules, enabling participants across the country to receive earned benefits.

- ***Permit pension plans to smooth out unexpected asset losses, as clearly intended by Congress in 2006.*** In the PPA, Congress permitted pension plans to recognize unexpected asset gains and losses over 24 months. The Treasury Department misinterpreted Congress' intent and has effectively applied a mark-to-market rule to pension plans, which will cause unmanageable burdens for companies in 2009. As noted above, if companies are required to take into account all 2008 losses, many will cease benefit accruals for all employees and will have enormous trouble recovering from the economic downturn. The proposal would allow all plans to use smoothing for 2009 and subsequent years. Moreover, for unexpected gains and losses recognized as of the valuation dates in 2009 and 2010, the smoothing period would be extended to 36 months. In light of many plan losses of approximately 20% or 30% for 2008, smoothing—which in the long-term neither overstates nor understates asset values—is critical.
- ***Permit full asset smoothing.*** Also, the PPA only allowed unexpected gains and losses to be smoothed out to a very limited extent, so that the smoothed value must stay within 10% of the fair market value of the assets. In light of the dramatic reduction in the market this year, the 10% limit is strikingly insufficient to provide meaningful relief. Accordingly, it is critical that we let asset smoothing apply without percentage limitations in 2009 and 2010. Such smoothing would be applied for all purposes, including the determination of the variable rate premium payable to the PBGC (for which no smoothing is permitted today).

- ***Transition to the new funding rules.*** Before the PPA, the "funding target" for pension plans was 90% funded. Under the PPA, the 90% figure was phased up to 100%; in 2008 and 2009, the phase-in levels are 92% and 94% funded, respectively. So if a plan is 92% funded in 2008, there is no shortfall to fund. But if a plan is 91% funded, its funding obligation is based on a 9% shortfall, not a 1% shortfall. In other words, the transition relief is only available to plans at or above the phase-in level. With a huge number of plans falling below 92% funded next year, it is critical that (1) the phase-in level stay at 92% for another year, and (2) the transition relief be available to plans below the phase-in level, as well as above. The 92% phase-in level for 2009 would apply for all purposes for which the same phase-in structure applies, including the benefit restrictions.
- ***Permit all new funding elections for 2009 or 2010 to avoid benefit restrictions and keep plans viable.*** Generally, funding methods, such as which type of yield curve to use, must remain consistent, absent IRS approval. Given the enormous changes over the past several months, companies need to reassess their funding methods to find those best suited to keeping their plans alive. So for 2009 and 2010, under this proposal, funding methods can be changed without IRS approval. This proposal (which is a clarification with respect to 2009), along with the smoothing changes above, will provide a large number of plans with the ability to avoid having to apply the PPA's benefit restrictions solely by reason of the 2008 market downturn. For example, employers using the 24-month yield curve average for 2008 could switch to the spot yield curve for 2009 to take advantage of the recent spike in interest rates. Without such a change, the recent spike in corporate bond rates will provide little help with respect to funding obligations and benefit restrictions.
- ***Relief from 2008 plan losses and reduce plan freezes.*** Under the PPA, plan losses generally must be amortized over seven years. For losses that arose in 2008 and are recognized in 2009, the amortization period would be extended so that such losses are amortized over 10 years. In addition, 2008 losses can trigger benefit restrictions for 2009. Such benefit restrictions can be avoided through employer contributions, but employers are discouraged from making such contributions by a rule prohibiting those contributions from being taken into account for minimum funding purposes. Under the proposal, that prohibition would be made inapplicable for 2009. Furthermore, plans would be permitted to amortize 2009 normal cost over two years. This would help reduce freeze activity in 2009.

Plan for the Future

- ***Enhance financial education.*** Plan participants have questions about what the current economic situation means for their long-term retirement security. The Department of Labor ("DOL") should publish a model notice that employers could choose to provide to employees and retirees regarding such things as diversification, retirement income needs, and the importance of continuing to save. In addition, the Department of Education should come up with a five-year plan to enhance financial literacy through incorporating financial education into school curriculums.
- ***Increase the start-up credit for small business retirement plans.*** Under current law, small employers are eligible for a tax credit of 50% of the cost of starting a new retirement plan, up to a maximum of $500 per year for three years. For 2009 and 2010, the 50% should be increased to at least 75% and the $500 maximum should be increased to $2,000. It is critical that during this crisis we continue to plan for the future by encouraging more employers to adopt plans for their employees.

Statement of American Federation of State

The American Federation of State, County and Municipal Employees (AFSCME) represents 1.6 million members who provide the vital services that make America happen and advocate for prosperity and opportunity for all working families. AFSCME members are deeply concerned that national economic outlook continues to darken. The American economy has lost 760,000 jobs this year. The national unemployment rate of 6.1% is at a five-year high and is projected to significantly worsen in the coming months. Foreclosure signs continue to spread across neighbor-

hoods. The repeated nosedives of the stock market have threatened to lay waste to worker and retiree savings and retirement accounts. The continued downward spiral of the economy has caused state revenues to fall hard and fast, causing a fiscal crisis of major proportions. Nearly three out of four states are in fiscal stress. And state deficits threaten a broad range of vital services—health care, education, child care, job training, and public safety—which help maintain the fabric of our communities.

To begin to change the direction of our economy Congress must develop and pass a comprehensive economic recovery package that addresses the mounting economic challenges facing working families and the urgent fiscal distress confronting state and local governments. Such a package should include direct and immediate state fiscal relief, unemployment benefits for those looking for work and strengthening of the unemployment insurance system, investments in job creation and infrastructure, and an increase in food stamp assistance to help maintain a basic standard of living for those struggling to feed their families.

This statement will focus on two key components of a needed economic recovery package, state fiscal relief and modernizing the unemployment insurance system.

State Fiscal Relief

According to the Center on Budget and Policy Priorities, 29 states closed budget shortfalls of at least $48 billion in fiscal year 2009. Since the enactment of the 2009 state budgets, revenues have dropped sharply already causing 22 states to have new, mid-year deficits totaling more than $11 billion. States are exhausting their "rainy day funds" and other reserves dedicated for weakened fiscal times. The expected continuing deterioration of tax revenues, rising unemployment and declining property values is a toxic combination for state budgets. With worsening economic conditions, states are projected to have budget gaps in 2010 in the $100 billion range. And unlike the Federal Government, states must balance their budgets each year, requiring service cuts or tax increases—actions which may further exacerbate the current recession.

During the last economic downturn in 2003, Congress provided states with a combination of a temporary increase in the percentage of the Federal Medicaid reimbursement rate and emergency block grant funding. The short-term increase in the Federal Medical Assistance Percentage (FMAP) and flexible grants proved to be an effective form of state fiscal relief. It helped stave off additional cuts to health care and other vital services and in fact helped stimulate the economy.

Due to declining state economies, our Medicaid system—which is a Federal-state partnership—is experiencing particularly corrosive pressures. Even before the recession, the effect of rising Medicaid costs has had devastating consequences for state budgets. Moreover, the growing strain of the rising number of uninsured Americans seeking Medicaid assistance adversely affects other important public services. States have not been able to adequately invest in education or meet basic infrastructure needs because of rising Medicaid costs.

The demand for Medicaid increases during an economic downturn as people lose their employer-sponsored health coverage, or because their declining wages push them into poverty. New York, for example, has seen applications for Medicaid rise 30 percent between December 2007 and April 2008 as a result of increased unemployment. A recent analysis by the Kaiser Commission on Medicaid and the Uninsured projects that a one percent rise in our nation's unemployment rate—which has already occurred—will translate into increased Medicaid and SCHIP enrollment of approximately one million and will result in another 1.1 million Americans becoming uninsured. This will result in a three to four percent drop in state revenues and in increased health care spending of at least $3.4 billion.

An analysis by Mark Zandi, chief economist of Moody's Economy.com, demonstrates that of all the options available to Congress, state fiscal relief through general aid or a temporary increase in the Medicaid matching rate to state governments generates one of the greatest economic returns. Specifically, every $1.00 increase in spending for general aid to state governments will generate $1.36 in increased real gross domestic product (GDP). Zandi has called aid to states a potent stimulus. Similarly, earlier this year, the Joint Economic Committee concluded that increasing the Federal medical assistance percentage (FMAP) is one course of action to alleviate increased fiscal demands on states because it would "help buffer the impact of the economic slowdown to preserve Medicaid coverage as people lose their jobs and health insurance, as was done during the last economic downturn."

When states cut Medicaid and other public services to balance their budgets, it hurts individuals, communities and the economy. An analysis of the Medicaid cuts made in Oregon during the 2003 recession found that more than 50,000 low-income adults lost health care coverage which, in turn, spurred a $253 million increase in

uncompensated care for Oregon's hospitals because of increased use of emergency rooms and hospitalizations.

An economic recovery package that provides state fiscal relief through a temporary increase in the Federal share for Medicaid and flexible grants could make a real difference in the lives of millions of average Americans. It could help stabilize state budgets, forestalling deep and damaging cuts to health care and other vital public services. It could help avert state actions that would undermine the stability of the health care sector which is important to the economic health of many communities.

In addition to helping to avert state cuts in Medicaid and other public services, AFSCME urges Congress to impose a moratorium on Federal cuts in Medicaid reimbursement for outpatient hospital services. Shifting Federal Medicaid costs onto states through a regulation on outpatient hospital clinics is harmful to beneficiaries, state budgets and providers.

Unemployment Insurance System Improvements

Our national unemployment insurance system was established during the Great Depression in response to another major economic crisis. It was designed to mitigate economic hardship for jobless workers and their families and to help stabilize the economy during periods of economic downturns.

Today, there is more need than ever for a strong unemployment insurance program. Unemployment is accelerating, and long-term joblessness is growing. Since Congress passed the Emergency Unemployment Compensation (EUC) program in June, national unemployment has jumped from 5.5% to 6.1% and from 8.5 million jobless workers to 9.5 million. The number of long-term unemployed workers (those unemployed for more than 26 weeks) rose by 450,000 between May and September to more than two million workers, while the number of states with unemployment rates over 6% more than doubled from 7 to 18 states. According to some projections, the national unemployment rate could exceed 8% next year.

Congress should act now to strengthen the EUC program and the underlying Federal-state system in order to provide greater assistance to American families and a greater stabilizing effect on the economy.

Unemployed workers who began collecting the 13 weeks of Federal unemployment benefits under the EUC program in July started running out of those benefits on October 5. According to estimates by the National Employment Law Project (NELP), 775,000 workers ran out of EUC benefits in early October. Absent congressional action, that total will rise to 1.1 million workers by the end of December.

Shortly before the congressional recess, the House of Representatives approved legislation to strengthen the EUC program as part of its economic stimulus package. The legislation, sponsored by Chairman Rangel and Representative McDermott, would provide 20 weeks of Federal extended benefits for unemployed workers in all states and an additional 13 weeks of benefits for workers in states with unemployment rates exceeding 6 percent. AFSCME strongly supports the House bill and urges continued efforts to adopt these provisions.

Earlier this year, the House of Representatives also passed important and long-overdue legislation to modernize the unemployment insurance program. Outdated state policies have limited the stimulative effect of the program. Currently only about 36% of jobless workers receive unemployment benefits—far fewer than in the 1950's. Most significantly affected by these outdated policies are women, part-time and low-wage workers who are twice as likely to become unemployed as higher wage workers but only one-third as likely to receive unemployment benefits.

The Unemployment Insurance Modernization Act would provide financial incentives to states that adopt measures to enable these workers to qualify for unemployment benefits, and it provides $500 million to the states to address a severe underfunding crisis in the state agency operations. If fully implemented, it will result in an additional 500,000 workers qualifying for unemployment benefits and a substantial improvement in the ability of states to process benefits accurately and in a timely fashion. AFSCME believes this legislation should be part of the upcoming economic recovery package.

Conclusion

Since Congress passed a stimulus plan in February, the economy has deteriorated significantly causing tremendous upheaval in the lives of millions of working class Americans. Congress must act again to change the direction of our economy. As an initial step, Congress must develop and pass a comprehensive economic recovery package that addresses the mounting economic challenges facing working families and the urgent fiscal distress confronting state and local governments. Such a package should include direct and immediate state fiscal relief, unemployment benefits

for those looking for work and a revitalized unemployment insurance system, investments in job creation and infrastructure, and an increase in food stamp assistance to help maintain a basic standard of living for those struggling to feed their families.

Statement of American Prepaid Legal Services Institute

I am Joan Beranbaum, President of the American Prepaid Legal Services Institute. The American Prepaid Legal Services Institute (API) is a professional trade organization representing the legal services plan industry. Headquartered in Chicago, API is affiliated with the American Bar Association. Our membership includes the administrators, sponsors and provider attorneys for the largest and most developed legal services plans in the nation. The API is looked upon nationally as the primary voice for the legal services plan industry.

I offer this written testimony in support of employer-paid group legal services for working families. Employer-paid group legal services provide a vital safety net for lower and middle-income working families.

The hearing deals with the unique new set of economic challenges facing American families today. Committee Chairman Rangel noted in calling the hearing that "This hearing will examine the growing challenges facing working families . . . to determine how we can best restore economic security throughout our nation."

One effective and inexpensive way to provide relief for working families should be the restoration of the tax exempt status of Employer-Paid Group Legal Services. This is targeted tax relief that works two ways:

- It reduces the tax burden on working families and businesses
- It seeks to provide preventive legal services in the face of calamitous events that without legal assistance can quickly snowball into disaster

For example, one of the economic challenges facing working families is surviving in an increasingly complex financial environment. Currently working families are in an extremely precarious economic position. A perfect storm of adjustable rate mortgage increases, credit card interest rate increases, pension losses, layoffs and cutbacks have put many families on the edge of economic collapse. Many working families are living paycheck to paycheck with very little cushion in the event of illness or injury.

In New York City, our plan, DC37, serves thousands of workers, our foreclosure unit has seen an increase of over 70% in their caseload in the past 12 months, with no end in sight.

In one recent case handled by my office, we represented a hospital worker married to a security guard, each earning about 35,000 a year. When her husband lost his job, they were no longer able to meet their mortgage payments. They had an adjustable rate mortgage with a rate of 7.9%%, which was about to adjust to 9%. They were 12 months behind on their mortgage and about to go into foreclosure when they sought our assistance. We were able to renegotiate the mortgage so that their new rate was a fixed rate of 6.35% with the arrears rolled over into the new mortgage. The husband is now working again as a security guard and the family is able to meet their mortgage obligations.

Group legal plans can help working Americans before they are in financial distress. Plans provide preventative assistance with mortgage and refinancing document review, as well as advice on sub-prime loans and exotic financing instruments. Thousands of members were probably spared disaster by meeting with their group legal plan lawyers before closing. Millions more could benefit from group legal plans to help them understand the economics of their mortgages to avoid entering into transactions likely to result in future defaults.

If a default has occurred, plan lawyers will review the documents for compliance with existing laws and advise on workouts that allow reinstatement of the mortgages. The result is not only saving the family's place to live, but safeguarding the family's primary investment.

Group legal plans also provide employees with low or no-cost basic legal services, including assistance with the preparation of a will, probate, and domestic relations issues, such as child support collection. Most plans also cover:

- Addressing financial management and investment issues in the face of a decreased income
- Anticipating the need for long term care, as well as Medicare and Medicaid issues

- Informing medical professionals on how they want to be treated in the event of a serious illness or a life threatening accident
- Instructing family members on how they want their property handled in the event of incapacitating illness or accident
- Educating clients on how to avoid identity theft and what steps to take if a client is a victim of this crime

Yet now, when the need is at its greatest, fewer Americans have access to inexpensive, preventative legal assistance. Since the loss of the benefit's tax-preferred status in 1992, existing plans have been forced to cut back and few new plans have been added.

Bills have been offered in the past several Congresses, including this year's bill, HR 1840, introduced by Congressmen Stark and Camp and co-sponsored by 40 members of Congress, 15 of whom are on the Ways and Means Committee. The identical Senate version of the bill, S 1130, has similar bi-partisan support on the Finance Committee. Throughout the 110th Congress, language to reinstate Section 120 have been included or offered as amendments in 6 pieces of legislation in the House and Senate, demonstrating the strong bi-partisan support of the provision.[1] Section 120 passed the House as part of an earlier version of H.R. 6049 that failed in the Senate. Now is the time to reinstate Section 120.

Reinstatement of the benefit's tax preference will provide direct and immediate tax relief to employees. When this exclusion expired, it triggered a tax increase for millions of working Americans whose employers contribute to such plans. Currently more than 2 million working families with legal plans offered by such national companies as Caterpillar, J.I.Case, Mack Truck, John Deere, Ford Motor Company, General Motors. Businesses large and small will gain direct and immediate tax relief. Employers must pay an additional 7.65 percent of every dollar devoted to a legal plan as part of its payroll tax.

Encouraging this benefit is also an efficient and low cost way of offering economic protection and education to middle class working families. Employers can provide a substantial legal service benefit to participants at a fraction of what medical and other benefit plans cost. For an average employer contribution of less than $150 annually, employees and retirees are able to take advantage of a wide range of legal services often worth hundreds and even thousands of dollars, which otherwise would be well beyond their means.

Across the country other organizations have recognized the importance of group legal services to assist working Americans. I have attached a Resolution passed by the National Association of Attorneys General supporting Group and Prepaid Legal Services as an important part of continuing access to justice. In August, the Oregon State Bar identified group legal services as a vital component of access to the justice system for persons of moderate means. The Center for Responsible Lending, in a recent presentation on the sub-prime mortgage crisis, called for increased accountability in the mortgage industry, stronger anti-predatory lending laws and increased funding for legal services. Belatedly, Congress has seen to the first two recommendations, now is the time to enact the third. The group legal services industry already exists and can serve millions more, by creating the incentive for business to offer the benefit. Low cost and efficient, group legal services can help prevent legal problems that result in foreclosure and bankruptcy.

Just as employers are seeing the benefits of medical insurance wellness coverage to keep their employees healthy and productive (and their own costs down), preventive legal services help ensure the financial and legal well-being of America's workers and their families.

[1] H.R. 6049, Energy and Tax Extenders Act of 2008 (reinstatement of the pre-tax status of group/prepaid legal services benefits); S. 3098, Alternative Minimum Tax and Extenders Tax Relief Act of 2008 (reinstatement of the pre-tax status of group/prepaid legal services benefits); S. 3125, Energy Independence and Tax Relief Act of 2008 (reinstatement of the pre-tax status of group/prepaid legal services benefits); S. 3335, Jobs, Energy, Families, and Disaster Relief Act of 2008 (reinstatement of the pre-tax status of group/prepaid legal services benefits

In conclusion, reinstating Section 120 would repeal a tax increase on middle class Americans and businesses and restore equity to the tax treatment of this benefit. We strongly support the inclusion of Section 120 in any legislative package addressing the economic problems of working families, especially the Second Stimulus package now under consideration.

Respectfully,

Joan Beranbaum
President, API

Chairman Rangel, Ranking Member McCrery and Members of the House Committee on Ways and Means:

Thank you for the opportunity to submit testimony for this hearing on Economic Recovery, Job Creation and Investment in America. My name is Noel Thompson, President of the American Public Works Association (APWA). I submit this statement today on behalf of the more than 29,500 public works professionals who are members of APWA, including nearly 2,000 cities, counties, special districts and other public agencies who are members.

As you move forward, we urge you to include a robust investment in job-generating public infrastructure projects in any economic recovery proposals considered by Congress. The investment will serve as a much-needed catalyst for economic recovery and job creation in local communities and provide resources to reverse years of deferred maintenance and improvement that have cost Main Street jobs and economic opportunity.

APWA is an organization dedicated to providing public works infrastructure and services to millions of people in rural and urban communities, both small and large. Working in the public interest, APWA members design, build, operate and maintain transportation, water supply and wastewater treatment systems, waste and refuse disposal systems, public buildings and grounds, and other structures and facilities essential to the economy and the American way of life.

Our nation's current economic crisis requires a new fiscal policy that injects much needed investment at the local level. I urge you to consider a sound, robust Federal investment program that directs funding to urgently needed "shovel-ready" infrastructure projects. An economic recovery package so designed will produce timely and effective results, while at the same time laying a solid physical foundation for America's future economic vitality.

We welcome and commend the recent attention you have given to issues affecting 'Main Street' America. With our nation confronting the greatest economic crisis in decades, local governments—those responsible for the improvement and repair of America's 'Main Streets'—are finding it increasingly difficult to secure the necessary funding to repair and rebuild aging and deteriorating critical infrastructure in their communities. Because of the severe problems in the domestic and global financial markets, local governments are finding it increasingly difficult to access the capital they need to finance these important infrastructure projects. Moreover, shrinking state and local tax revenues are further constraining local budgets and will continue to do so in the near term. Despite increasing local commitments, the scale and the breadth of the nation's infrastructure needs are such that increased Federal commitments are both urgent and necessary to support Main Street's future economic recovery and growth.

State and local governments have billions of dollars of backlogged infrastructure projects that are ready to go but lack immediate funding. An increased Federal investment will put people to work, generate orders for supplies and equipment and make improvements to key infrastructure assets that will continue to sustain economic growth in our communities for years to come. Targeting projects that have been approved, yet remain unfunded, such as road resurfacing, bridge repair, water treatment facility upgrades and pipe repairs, will create jobs, generate immediate economic activity and spur a multiplier effect.

As local governments struggle to find the resources to pay for essential community infrastructure projects (water, sewer, and transportation), billions of dollars of backlogged "shovel-ready" projects remain delayed because of funding shortfalls. For instance, APWA recently conducted a survey of over 8000 members and identified approximately 3600 "ready to go" projects with a cost of over $15 billion. The total number and cost of unfunded, ready to go local projects is surely greater, as the results represent a sample of our membership. Survey respondents identified road

widening, paving, traffic light and signal repair work, highway intersection improvements, storm drain pipe realignments, pumping station improvements, sewer line replacements, treatment plant upgrades, water valve replacement, pedestrian underpass safety improvements and basic sidewalk repair projects that are ready to proceed except for the lack of necessary funding. A stimulus proposal that provides this critical funding will put people to work and lay a solid physical foundation for America's economic competitiveness.

A recovery plan that targets already approved yet unfunded projects will produce timely and effective results by generating jobs and orders for supplies and equipment, while making necessary and long overdue improvements to key infrastructure assets. Federal investment in these types of projects would generate approximately 565,000 jobs, spark new business orders, while simultaneously laying a sound physical foundation for America's future economic vitality.

Investment in public infrastructure projects is a proven way to boost the economy. Data show that every $1 billion invested in transportation, for example, generates an estimated 34,700 good paying jobs and up to $6 billion in additional gross domestic product. Increased investments in water and sewer projects are equally relevant. However, public infrastructure investment as a share of gross domestic product has steadily decreased for decades. A reversal of this trend can provide economic stimulus and build the foundation for long-term economic growth and sustainability.

Such investment will also help repair and improve the nation's deteriorating infrastructure, thereby improving safety, efficiency and economic competitiveness. Without a strong public infrastructure backbone, the nation's economy, local governments and Main Streets across the country will not have the capacity to support the movement of goods and services needed to revitalize communities and ultimately the economy. Addressing the financial challenges of local governments is just as important as addressing the challenges faced by the national financial institutions and Wall Street. As Government spending is increased, it creates ripple benefits through the entire economy. According to Mark Zandi from Moody's Economy.com, each dollar of infrastructure spending could provide a $1.59 boost to the economy, while each dollar of refundable tax rebates only boosts Gross Domestic Product by about $1.26.

Tackling long-standing infrastructure needs would lower transportation costs and benefit water quality and the environment and ultimately add a much needed boost to the flagging economy.

The decades of chronic underinvestment in our nation's public infrastructure are jeopardizing public safety, our economic competitiveness and environmental quality. The nation cannot remain economically competitive with the rest of the world if our transportation systems are inadequate, our bridges are crumbling and our water systems are leaking and in need of repair and maintenance. Currently, local governments pay for over 95% of the investment in water infrastructure, and the Federal share continues to be cut while the U.S. Environmental Protection Agency routinely upgrades water quality standards imposing additional unfunded mandates on already strained local budgets.

Despite the best of efforts of local government officials, the nation's infrastructure gap continues to grow while local budgets are faced with numerous competing needs. Our clean water infrastructure investment needs exceed $400 billion. As a nation, we currently invest less than 40 percent of the $225 billion to $340 billion the National Surface Transportation Policy and Revenue Study Commission found is needed annually to bring of our surface transportation network (roads, bridges, public transportation, freight rail and intercity passenger rail) into good repair. The result of this underinvestment is diminished public health and safety and reduced productivity and competitiveness.

A recovery plan that targets already approved yet unfunded projects will produce timely and effective results by generating jobs and orders for supplies and equipment, while making necessary and long overdue improvements to key infrastructure assets. Federal investment in these types of projects would generate approximately565,000 jobs (more than twice the 240,000 jobs lost in October), spark new business orders, while simultaneously laying a sound physical foundation for America's future economic vitality.

Such investment will also help repair and improve the nation's deteriorating infrastructure, thereby improving safety, efficiency and economic competitiveness. Without a strong public infrastructure backbone, the nation's economy, local governments and Main Streets across the country will not have the capacity to support the movement of goods and services needed to revitalize communities and ultimately the economy. Addressing the financial challenges of local governments is just as important as addressing the challenges faced by the national financial institutions and Wall Street.

Infrastructure investment contributes to economic productivity by expanding economic growth of the locality, region, state and nation as a whole. For example, a new highway allows for increased transportation of people, goods and services. More importantly, such investment does more by creating opportunities for new businesses to locate near the new road, providing additional jobs and output. Similarly, infrastructure investment also contributes to economic growth through expenditures associated with purchasing, installing, operating and maintaining the infrastructure itself. Additionally, strategic public investments in the economic backbone of the nation's economy—transportation, water and sewer systems—will spur the economy in the short-run and increase the long-term economic growth. The sooner these investments are made, the sooner Main Street can start reaping the rewards.

Mr. Chairman, thank you for holding this hearing. We are especially grateful to you and Committee members for the opportunity to submit this statement. APWA stands ready to assist you and the Committee as we move forward toward economic recovery.

Statement of American Seafaring and Longshore Labor Unions and U.S.-Flag Shipping Organizations

We are writing on behalf of the undersigned American seafaring and longshore labor unions and U.S.-flag shipping organizations to ask your support for a proposal to amend the Internal Revenue Code of 1986 to exempt the waterborne transportation of domestic and Great Lakes non-bulk cargo from the Harbor Maintenance Tax (HMT).

As applied today, the HMT is imposed on cargo entering a U.S. port from an overseas market. However, if that same cargo were to be transferred to another vessel for transportation along our coasts to another American port, this same cargo would be taxed again under the HMT. Most importantly, this dual or multiple taxation of cargo under the HMT only applies to waterborne transportation; it does not apply to cargo moving domestically by truck or rail. Since the payment of the HMT is the responsibility of the shipper of the cargo, the multiple taxation of waterborne cargo under the HMT discourages shippers from considering the use of vessels and, consequently, has impeded the development of a U.S. marine highway system.

The American maritime labor and U.S.-flag shipping organizations we represent believe very strongly that the establishment of a short sea shipping industry is in the national interest and should be encouraged and supported by our Government. The utilization of commercial vessels for the carriage of cargo along our coasts will be a cost-effective, efficient, and environmentally-sound way to supplement and complement the rail and truck traffic that is already pushed to capacity in most major transportation corridors. A short sea shipping transportation network will offer shippers an additional means to transport the ever-increasing volumes of imported cargo expected to move in interstate commerce between American ports in the coming years. Most importantly, by moving this cargo by ship, we will not be adding to the congestion that plagues our nation's surface transportation systems.

We would note that Congressman Elijah Cummings has introduced legislation, HR 1499, to achieve this goal and, according to Congressman Cummings, the Congressional Budget Office estimates that HR 1499 will reduce revenues by approximately $12 million over ten years.

We would greatly appreciate your willingness to support this extremely important proposal and to include it as part of the economic stimulus legislation to be considered by Congress prior to adjournment this year. As we have stated, we strongly believe that this much-needed and long overdo change in America's tax law will ease landside congestion, increase the use of environmentally and economically efficient merchant vessels, and create new seafaring, longshore and shipbuilding employment opportunities for American maritime workers.

We ask that this letter be included as part of your Committee's hearing record on economic stimulus legislation.

Thomas Bethel, President, American Maritime Officers

Timothy Brown, President, International Organization of Masters, Mates & Pilots

James Henry, President, Transportation Institute

Richard Hughes, President, International Longshoreman's Association

Don Keefe, President, Marine Engineers' Beneficial Association

Gunnar Lundeberg, President, Sailors' Union of the Pacific

Karen Myers, Legislative Director, American Maritime Officers Service

C. James Patti, President, Maritime Institute for Research and Industrial Development

Anthony Poplawski, President, Marine Firemen's Union

Matthew Dwyer, Legislative Representative, American Maritime Congress

Michael Sacco, President, Seafarers International Union

Statement of Associated General Contractors of America

The Associated General Contractors of America (AGC) is the largest and oldest national construction trade association in the United States. AGC represents more than 33,000 firms, including 7,500 of America's leading general contractors, and over 12,500 specialty-contracting firms. More than 13,000 service providers and suppliers are associated with AGC through a nationwide network of chapters. Visit the AGC Web site at www.agc.org.

THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA

The Associated General Contractors of America (AGC) is submitting these comments for the record of the hearing on "Economic Recovery, Job Creation, and Investment in America." AGC would like to express its appreciation to the Committee for conducting this important hearing. AGC believes that investing in America's infrastructure will create jobs and lead to economic recovery.

The AGC is the largest and oldest national construction trade association in the United States. AGC represents more than 33,000 firms, including 7,500 of America's leading general contractors, and over 12,500 specialty-contracting firms. Over 13,000 service providers and suppliers are associated with AGC through a nationwide network of chapters. AGC contractors are engaged in the construction of the nation's commercial buildings, shopping centers, factories, warehouses, highways, bridges, tunnels, airports, waterworks facilities, waste treatment facilities, dams, water conservation projects, defense facilities, multi-family housing projects, site preparation/utilities installation for housing development, and more.

AGC urges this Committee to recommend to the full House economic stimulus activities that would have an immediate positive impact on economic activity. Specifically, AGC strongly encourages the Committee to make recommendations on provisions that would immediately boost construction activity. The construction industry employs more than 7 million people and represents more than $1 trillion annually in economic activity, including $500 billion in materials and $36 billion in new equipment. There is excess capacity throughout the construction industry. With additional investment, the industry will create jobs, contribute to economic recovery, and build a world class infrastructure to improve the nation's overall quality of life.

State of the Economy

When budgets are tight, private and public investment at all levels is cut. At the state and local level, budgets have declined significantly because of the decline in incomes, sales, and home values, resulting in lower personal and corporate income, sales, and property tax collections. The recent financial crisis has also hampered the ability of state and local governments and public agencies to borrow short term, delaying or eliminating various infrastructure improvement projects. According to Municipal Market Advisors, a consulting firm that specializes in municipal bonds, $100 billion of new infrastructure projects have been delayed because of the constricted credit markets. In addition, volatility in construction materials prices, driven by inflation, has reduced the purchasing power of public works dollars. As a result, fewer contracts are going out to bid, which means less work for contractors and fewer jobs for their employees.

Construction Inflation Data

Construction materials continue to drive up the cost of our product. AGC's economic research shows that the Producer Price Index (PPI) for construction rose 45 percent from December 2003 to September 2008. This compares to a 19 percent increase in the Consumer Price Index (CPI). Indexes for highway and street construction and other heavy construction—activities under the jurisdiction of this Committee—are more dramatic. They rose 76 percent and 60 percent, respectively, over

the same period. The PPI reflects the increase in the cost of basic building materials including steel, cement, asphalt, aggregate, and other materials. Diesel fuel price increases also impact this cost as construction activity is energy intensive. Recent dramatic drops in the price of oil and scrap steel have barely been reflected so far in the cost of asphalt, concrete, rebar or steel for bridges.

Impact on Employment

The impact of fewer contracts being bid is reflected in increasing nationwide unemployment numbers. Heavy and civil engineering construction employment peaked in June 2007 and has steadily decreased over the past 16 months. There was more than a 6 percent decrease in these jobs over that period, which equates to 62,000 construction employees. Swift enactment of an infrastructure spending package would enable these skilled workers to be rehired promptly.

AGC's Chief Economist is projecting a decline of as much as 9 percent in non-residential construction activity in 2009, which is in line with the 10 percent decline projected by McGraw-Hill Construction economists. Moreover, AGC's economist reports that an additional loss of 10–15 percent nationwide is possible if the economy does not turn around. That could add another 100,000 or more lost jobs to the 62,000 lost over the last 16 months.

Broader Economic Impact

This decline in the construction market also has broader implications for the economy—for equipment manufacturers, materials suppliers, and so on. AGC member companies have been forced shelve or trim down plans for expansion and reduce their usual annual investment in equipment. Companies have already canceled some planned purchases for next year and are putting many others on hold until they see what funding is going to be available for new work. In fact, the Census Bureau reported on November 4 that factory orders fell 2.5 percent, seasonally adjusted, in September and 4.3 percent in August. This suggests that economic uncertainty is causing businesses to refrain from making new purchases.

Leading Economists Support Infrastructure Investment

An infusion of Federal infrastructure funding would have a direct stimulus effect by putting more contractors and their employees back to work and many leading economists agree that infrastructure investment does have a powerful stimulating effect on the U.S. economy.

Mark Zandi, Chief Economist for Moody's Economy.com has found that the "boost to GDP from a dollar spent on building new bridges and schools is estimated to be a large $1.59." He argues that "if infrastructure projects can be identified that could be started quickly then this could prove to be an efficacious form of fiscal stimulus."

Lawrence Summers, former Secretary of the Treasury, further argues that "there is reason to believe today that a significant amount of stimulus can be delivered with reasonable rapidity . . . If one looks at the several hundred million dollar infrastructure commitment that was made after the bridge collapse in Minneapolis about a year ago, 86 percent of the money had not just been obligated, but had been spent within a 9 month interval. The sense that there is a backlog that can be moved rapidly is reinforced by the extensive anecdotal evidence of projects [that] have been slowed partially through the process of construction, or that are ready to let, but have been held back for budget reasons . . . "

As these economists have stated, there are stimulative effects attributable to infrastructure investment. To maximize the speed with which the money is sent into the economy, funds should be directed through existing successful Federal infrastructure investment programs.

Economic Stimulus Legislation—Ways and Means Committee Recommendations

AGC greatly appreciates the action taken by the House in September in passing H.R. 7110, which would provide additional supplemental appropriations for a number of major Federal construction programs to stimulate economic recovery through infrastructure investment and direct and indirect job creation. AGC strongly supports this additional investment and urges the Congress to reconsider this or other similar legislation as soon as possible in the upcoming weeks.

In addition to a substantial infrastructure investment component, AGC recommends the Committee consider the following tax provisions that would have a positive impact on construction industry and the economy as a whole:

Depreciation Bonus and Section 179 Expensing Levels

AGC urges the Committee to extend the Economic Stimulus Act's capital investment incentives, including the depreciation bonus and increased Section 179

expensing levels. The Economic Stimulus Act enacted in February 2008 created a 50 percent depreciation bonus and increased the amount that small business can expense to $250,000. These provisions were designed to incentivize business capital investment this year; however, the depreciation bonus expires at the end of 2008 and the higher Section 179 levels apply only to 2008 tax years. AGC urges Congress to extend these incentives for at least one year.

A survey of contractors conducted in summer 2008 found that the capital investment incentives included in the Economic Stimulus Act have had some positive impact on equipment purchasing. Approximately one-third of the survey respondents said that they purchased equipment in the first half of 2008 to take advantage of the depreciation bonus and/or the increased Section 179 expensing levels. The reason cited most often by the survey respondents for why their companies had not taken advantage of the incentives was that the economic slowdown had let to a considerable drop in construction work (and need for additional equipment). That is why increased infrastructure investment, combined with targeted tax incentives, is so important. The survey also found that more than three-quarters of contractors would be more likely to buy additional equipment in 2009 if the depreciation bonus and the increased Section 179 expensing levels were extended.

Multi-Employer Pension Plans

The drop in the value of pension plan assets coupled with the current credit crunch has placed defined benefit plan sponsors in an untenable position. At a time when companies desperately need cash to keep their businesses afloat, the new funding rules require huge, countercyclical contributions to their pension plans. Consequently, many companies will divert cash needed for current job retention, job creation, and needed business investments and instead contribute the cash to their pension plans to fund long-term obligations.

Many AGC members contribute to multi-employer defined benefit plans. AGC urges Congress to enact temporary relief designed to moderate the effects of the aggressive funding targets contained in the Pension Protection Act. Such relief is necessary to avert devastating burdens and job losses arising from massive contribution increases and unavoidable benefit reductions that would be required to comply with those rules.

Specifically, AGC urges Congress to consider following three proposals:

- An optional and temporary "freeze" of the plan's 2008 zone certification (with a special rule for plans with a plan year that begins in the last quarter of the year);
- The use of actuarial value of assets for projecting the plan's zone status in future years; and
- A five year extension in the remediation periods for both the Funding Improvement Period and Rehabilitation Periods from 10 to 15 years.

3 Percent Withholding Tax

Section 511 of P.L. 109–222 requires a 3 percent tax withholding on all Government payments, which affects all Government contracts as well as other payments, such as Medicare, grants, and farm payments. While this requirement is not set to go into effect until January 1, 2011, companies, as well as Federal, state, and local governments are expending funds starting to prepare for implementation now. These are needless preparation expenses, particularly during rough economic times, for a requirement that most believe should never have been enacted and should be repealed. The Department of Defense, for instance, estimated that the costs to comply with the 3 percent withholding requirement will be in excess of $17 billion over the first five years, which is far more than any estimated revenue gains. Moreover, $17 billion is only a portion of the additional costs with which governments and the private sector will be burdened. AGC urges Congress to include a repeal of the 3 percent tax withholding law in any upcoming stimulus package.

Concluding Remarks

AGC members are ready to build, so we can create and sustain jobs throughout the country. Construction has always been an engine of economic stimulus and can play that role once again. Increases in infrastructure investment can be quickly put to work and will have a direct, immediate, and dramatic impact on the economy. Moreover, since some construction contracts take many years to complete, investments made today will provide economic growth through any prolonged period of economic downturn. Most importantly, however, the long-term economic benefits of infrastructure investment today should not be overlooked. Through additional in-

vestment in infrastructure, our nation would be well positioned to emerge from the economic downturn, rebuild our world-class infrastructure system, and ensure our continued economic prosperity well into the future.

At the same time, AGC members would benefit from extending tax incentives to purchase more equipment, especially if there is more work, and their businesses would benefit from some relief to their pension plan obligations and from the upcoming implementation of the 3 percent withholding tax.

Thank you for this opportunity to comment. AGC looks forward to working with the Committee to enact an economic recovery package that will create jobs in the construction industry and invest in the nation's infrastructure.

Statement of Burnett County Wisconsin Child Support Agency

On behalf of the Burnett County Wisconsin Child Support Agency and the families we serve, I respectfully ask you to consider the effect of funding cuts made to the child support program in the 2004 Deficit Reduction Act when considering a second Economic Stimulus Package and, if possible, to restore funding to this critical program. Wisconsin child support agencies alone lost $9 million as a result of the 2004 Deficit Reduction Act.

The National child support program is one of the most cost-effective programs in the history of this Nation. Child support agencies are the last line of defense for the well-being of children and families as the successful collection of child support enables families to be self-supporting, reduces the number of families needing public assistance and thereby results in lower costs to taxpayers.

Thank you for your consideration and for your continued commitment to the well-being of children and families!

Statement of Center for Law and Social Policy

In the past few months, the collapse of financial markets, a credit crunch, and tumbling consumer confidence have pushed what was already a weak economy into a full-out recession. Economists predict that this recession will be longer and more severe than any the United States has faced in recent decades.[1] America needs more than another stimulus package aimed at temporarily boosting consumer demand. We must shore up our tattered safety net and extend a helping hand to those who are most vulnerable in this period of uncertainty and distress. And we must secure the American dream by ensuring that all of us have the opportunity to share in the benefits of recovery.

Shoring Up the Safety Net

- Encourage States to Provide Cash Assistance to Needy Families
- Expand Food Assistance to Low-Income Individuals and Families
- Provide Child Care Help to Low-Income Families.
- Leverage Income for Single-Parent Families by Restoring Child Support Enforcement
- Protect Vulnerable Children from Abuse and Neglect
- Ensure Adequate Resources to Provide Low-Income Families Health Care

Securing the American Dream

- Ensure Access for Low-Income People to Good New Jobs Created Through Infrastructure Investments
- Fund Summer Jobs in Areas with High Youth Unemployment Rates
- Increase Support for Education and Training During the Downturn
- Expand Transitional Jobs for Individuals with Barriers to Employment

Low-Income Workers and Families are Especially Vulnerable in Recession

Over the past 12 months, the national unemployment rate has climbed by 1.7 percentage points to 6.5 percent, with 10 states plus Washington, D.C., hitting unemployment rates of 7 percent or higher. In October 2008, 2.8 million more Americans

[1] Jared Bernstein, Testimony Before the House Committee on Ways and Means, October 29, 2008. http://waysandmeans.house.gov/hearings.asp?formmode=printfriendly&id=7463

were unemployed than a year previously.[2] Low-income workers and families are especially vulnerable to the challenges of a weak economy. Less-educated workers have higher unemployment rates in general, and employers are quick to cut their hours, or to lay workers off, when faced with a recession.[3]

Nearly half (44.2 percent) of all households in the lowest income quartile are "asset poor," meaning that they do not have enough savings to allow them to get by without income for three months, even at the low level of the Federal poverty threshold.[4] Low-income families also have poor access to mainstream financial institutions, such as bank loans and credit cards, and the credit crisis is making these options even less accessible. When they are able to borrow money, it is often through mechanisms such as payday loans and bank overdrafts, with extremely high effective interest rates.[5]

Even in good times, basic needs—food, housing, health care, energy, transportation, and child care—consume most of low-income workers' budgets.[6] Low-income workers, including many with incomes well above the official poverty line, often find themselves deciding which bills can and cannot be paid each month, and relying on food banks or other community supports to make up any shortfall. When they experience a decline in income due to job loss or reduced hours, lose child support payments, or face unexpectedly high costs, there is no fat in their budgets that can be sacrificed—they have to cut into the meat. In particular, there is good evidence that when faced with unusually high heating bills, poor families are forced to spend less on food, sometimes with serious nutritional consequences.[7]

The collapse of the housing market is another source of instability for many low-income families, including those who are renters. About one-third of the million-plus homes currently in foreclosure are being rented.[8] In many cases, renters only discover that the bank is foreclosing on the house they live in when the sheriff shows up at their door to evict them. Many of these houses then sit empty for months, because the banks do not have the capacity to manage them as rental properties.

Job loss or eviction can be the trigger that sets off a cascade of negative consequences for vulnerable children and families. Mayors in many cities are reporting increases in family homelessness and requests for shelter.[9] Child abuse and neglect are known to increase during times of economic distress.[10] Even for families that do not experience such dramatic effects, consequences can include malnutrition and higher risk of illness, having to change schools and child care settings, sometimes multiple times, increased marital stress and family breakups.[11]

Job loss can also have long-term economic consequences. Few laid-off workers can now expect to be rehired to the same job when the economy improves. Displaced workers frequently remain unemployed or under-employed for extended periods, and only slightly more than half of those who get full-time jobs earn as much or more

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[2] Bureau of Labor Statistics http://www.bls.gov/news.release/empsit.nr0.htm. State rates are from September 2008, http://www.bls.gov/news.release/laus.nr0.htm

[3] Jim Hines, Hilary Hoynes, and Alan Krueger. "Another Look at Whether a Rising Tide Lifts All Boats," The Roaring Nineties: Can Full Employment Be Sustained?, Russell Sage Foundation, 2001. Between 1981 and 2006 workers with the lowest education levels, especially high school dropouts, have lost jobs at higher rates than more educated workers. Younger workers also face a greater risk of job loss than more-experienced workers, Henry S. Farber. Job Loss and the Decline in Job Security in the United States, Working Paper #520, September, 2007.

[4] CFED, Asset Poverty in America. http://www.cfed.org/focus.m?parentid=31&siteid=2471&id=2565

[5] Lynette Rawlings and Kerstin Gentsch, *How Households Expect to Cope in a Financial Emergency, Opportunity and Ownership Facts #9*, The Urban Institute, March 2008.

[6] Randy Albelda and Heather Boushey, *Bridging the Gaps: A Picture of How Work Supports Work in Ten States*, Center for Economy and Policy Research and the Center for the Study of Social Policy, October 2007.

[7] Jayanta Bhattacharya, et al., "Heat or Eat? Cold Weather Shocks and Nutrition in Poor American Families," *American Journal of Public Health*, Vol. 93, No., July 2003.

[8] Associated Press, "Sheriff tells deputies not to help in foreclosures: Illinois lawman too many innocent renters are being made homeless," October 8, 2008. http://www.msnbc.msn.com/id/27090355/

[9] Wendy Koch, "Homeless Numbers 'Alarming,'" *USA Today*, October 22, 2008. http://www.usatoday.com/news/nation/2008-10-21-homeless_N.htm

[10] Domarina Oshana and Lori Friedman. *Prevention Funding Project: Synthesis of Research on Economic Change, Welfare Reform, and Child Maltreatment*. Prevent Child Abuse. Arloc Sherman, *Wasting America's Future: The Children's Defense Fund's Report on the Cost of Child Poverty*, Beacon Press, 1994.

http://member.preventchildabuse.org/site/DocServer/pfp_lit_review.pdf?docID=146

[11] Ariel Kalil, "Unemployment and job displacement: The impact on families and children," Ivey Business Journal, July/August 2004. http://www.iveybusinessjournal.com/view_article.asp?intArticle_ID=570

than before.[12] An increasing share of the unemployed remain jobless for extended periods—in October 2008, 2.3 million workers, 22 percent of all unemployed workers, had been out of work for more than six months.[13] Young adults who enter the labor force during periods of recession continue to earn less than their counterparts who began working during years of growth as many as 10 years later.[14]

Beyond Stimulus: Recommendations for an Inclusive Recovery

To date, the response to the economic downturn has been primarily focused on stimulating aggregate demand, as in the "rebate" checks issued earlier this year. Many of the recommendations here will indeed stimulate the economy, by putting money in the hands of low-income individuals and families who are likely to spend it immediately to meet their urgent needs. Similarly, our recommendations for fiscal relief to the states will also prevent states from having to cut spending, layoff workers, and reduce services. But the need for a recovery package goes beyond stimulating the broad economy. We must commit to an inclusive recovery that protects the vulnerable and provides opportunity for all.

The Federal Government must play a central role in any recovery effort. First, only the Federal Government has the ability to make significant counter-cyclical investments. Almost all states are required to balance their budgets each year. When the economy is bad, tax revenues fall; without additional Federal investments, states are forced to cut services exactly when they are needed the most. Second, states vary widely in their capacity and commitment to serving low-income families and workers.[15] Federal policy can act as a balancing force, reducing the inequities faced by residents in different parts of the country.

Shoring Up the Safety Net

The United States is entering this recession with large holes in our core safety net programs, which were created in response to the Great Depression. Unemployment Insurance only reaches one in three workers who lose their jobs—with low-wage and part-time workers only half as likely to receive benefits. In the wake of welfare reform, Temporary Assistance for Needy Families only provides cash assistance to 40 percent of those eligible under state rules—down by half since 1996. Federal funding cuts to the child support program are expected to result in a loss of $1 billion per year in support payments collected for families, Medicaid, child welfare, child care; and other programs that serve low-income families are under severe pressure due to budget deficits in the states.

Extend and Modernize Unemployment Insurance

Despite its weaknesses, Unemployment Insurance (UI) is the first-line response to a declining economy. It is a crucial source of temporary financial assistance for jobless workers and their families. The need for temporary assistance is growing with 2.8 million more American workers unemployed in October than at this time last year.[16]

> **Recommendation:** As part of the stimulus package, Congress should approve an extension of federally funded extended benefits to workers who exhaust their UI benefits. The extension would include seven additional weeks of emergency unemployment compensation for workers in all states and another 13 weeks for workers in high-unemployment states. This extension is necessary since 800,000 workers have already exhausted their benefits under the first extension.[17] However, an extension of benefits for current recipients is just the first step because it will still leave out large numbers of low-wage, part-time, and other workers in some states.
>
> **Recommendation:** To ensure that low-wage, part-time, and other vulnerable workers have access to UI, Congress should immediately pass the Unemployment Insurance Modernization Act. This legislation provides incentive funding to states that count the most recent earnings of workers and extend benefits

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[12] Bureau of Labor Statistics, Displaced Workers Summary, August 2008, http://www.bls.gov/news.release/disp.nr0.htm

[13] BLS Employment Situation, Table A–9. http://www.bls.gov/news.release/empsit.t09.htm

[14] Phil Oreopoulos, Till von Wacther, and Andrew Heisz. The Short- and Long-Term Career Effects of Graduating in a Recession: Hysteresis and Heterogeneity in the Market for College Graduates. National Bureau of Economic Research, 2006. http://www.columbia.edu/%7Evw2112/papers/nber_draft_1.pdf.

[15] Thomas Gais, Stretched Net: Spending on the Poor, Rockefeller Institute of Government, October 2008. http://www.rockinst.org/observations/gaist/2008-10-stretched_net_spending_on_the_poor.aspx

[16] Bureau of Labor Statistics http://www.bls.gov/news.release/empsit.nr0.htm

[17] http://www.nelp.org/page/-/UI/WaysMeansTestimonyOct292008.pdf

to part-time workers and others who leave jobs for compelling family reasons. Enacting the UIMA now will allow state legislatures to take action to draw down the funds when they reconvene.[18]

Encourage States to Provide Cash Assistance to Needy Families

Historically, many low-income single mothers who did not qualify for Unemployment Insurance benefits were able to receive financial support through Aid to Families with Dependent Children (AFDC). However Temporary Assistance for Needy Families (TANF), which replaced AFDC in 1996, provides a much more limited safety net, leaving millions of children in low-income families without the income assistance and employment services that TANF can provide. One recent study found that only half of former TANF recipients who experienced spells of unemployment lasting least three months received benefits from either unemployment insurance or TANF.

During the 2001 recession, TANF caseloads continued to decline even as poverty levels rose significantly. The changes made by the Deficit Reduction Act (DRA) of 2004 further discourage states from allowing jobless workers to receive assistance that can help families meet their most basic needs. The funding and participation rate structure both create strong incentives for states to keep their caseloads low even when poverty and need are rising.

Recommendation: Congress should provide additional funding to those states that, in the face of rising need, provide more families with basic assistance. States that are making good faith efforts to help needy families should receive relief from fiscal penalties that will create further holes in their stressed budgets. Congress should also make other temporary revisions to TANF to reduce the incentives created by the work rules and caseload reduction credit to keep caseloads low even when need rises, and to allow states to make greater use of education and training when the labor market is weak.

Expand Food Assistance to Low-Income Individuals and Families

Over the past year, the cost of food has been rising far faster than inflation. Just from June to September, the cost of buying the foods in the Thrifty Food Plan has increased by 3 percent.[19] This means that the value of Supplemental Nutritional Assistance Program (SNAP; formerly Food Stamp) benefits has fallen behind even before the start of the new fiscal year. In addition, many food pantries are themselves experiencing shortages.

Recommendation: A temporary increase in SNAP benefits to current recipients will help low-income families afford more food. This is critical, because food is a part of the budget that gets squeezed when other living expenses increase or income declines. An increase in SNAP benefits is also one of the fastest and most effective ways to put additional spending power in the hands of low-income individuals and families, and thus to stimulate the economy.

Provide Child Care Help to Low-Income Families

Families need safe and stable child care in order to find and retain employment, yet for many low-income families the cost of child care is a barrier to work. These families need help paying for the child care that best meets their needs, yet funding for the Child Care and Development Block Grant (CCDBG), which provides child care assistance to low-income working families, has been nearly flat since 2002—as the cost of child care has been increasing consistently. In just the period from 2006 to 2007, the price of full-time center care for young children increased at nearly twice the rate of inflation. In every state, monthly child care fees for two children at any age exceed the median rent cost and are nearly as high or even higher than the average monthly mortgage payment.[20] Seventeen states have waiting lists for child care assistance, as high as 204,063 children in California and 47,603 children in Florida.[21] Getting families back to work is a key component in reviving the economy, and child care is a key piece of this recovery.

Recommendation: CCDBG should be increased by $956 million. This will allow states to provide funding for child care for more than 164,000 children in low-income working families who are suffering from the economic crisis. Con-

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[18] For more information about unemployment insurance, see http://www.nelp.org/page/-/UI/WaysMeansTestimonyOct292008.pdf

[19] U.S. Department of Agriculture, *Cost of Food at Home*, http://www.cnpp.usda.gov/USDAFoodCost-Home.htm.

[20] NACCRRA: Parents and the High Cost of Child Care 2008 Update http://www.naccrra.org/docs/reports/price_report/Price_Report_2008.pdf

[21] NWLC: State Child Care Assistance Policies 2008: Too Little Progress for Children and Families

gress should signal that these funds ought to be available to low-income families who are working and to those who are involved in education, job training and skill building and reemployment activities.

Leverage Income for Single-Parent Families by Restoring Child Support Enforcement

One in four children in this country participate in the child support program. Along with EITC and Food Stamp benefits, child support is one of the main sources of income support for low-income working families. Next to earnings, child support is the second largest income source for poor, single-mother families that receive it—30 percent of the family's budget. Support payments play a stabilizing role during economic downturns, helping families get from paycheck to paycheck and weather job losses. Families spend the money very quickly. State data suggest that 97 percent of child-support funds dispensed to family debit cards are spent down by the end of the month. In addition, the child support program is one of the few programs that help connect unemployed fathers to jobs. The child support program is cost-efficient, collecting $4.73 for every public dollar spent.

A number of states and counties are in the process of laying off child support enforcement staff and cutting back on services, as a result of the 20 percent Federal child support enforcement funding cut included in the Deficit Reduction Act of 2004 (DRA) and state budget cuts. Other states expect to do so in coming months. According to the Congressional Budget Office, $1 billion in support payments to families will go uncollected every year, even if states replace half of the Federal funding cut by the DRA. In addition, critical initiatives to help low-income fathers obtain jobs will be eliminated or cut back.

Recommendation: Congress should permanently reverse the 20 percent Federal child support enforcement funding cut included in the Deficit Reduction Act of 2004 (DRA). In the short run, Congress should include a two-year moratorium on implementing the cuts in an economic recovery package at a cost of $1.1 billion per year.

Protect Vulnerable Children from Abuse and Neglect

During times of economic distress, child abuse and neglect rates often rise. Poverty is the single best predictor of child maltreatment. Children living in families with incomes below $15,000 annually are 22 times more likely to experience abuse or neglect than children living in families with incomes of $30,000 or more.[22] However, the vast majority of poor parents do not maltreat their children—consider that there were 13 million poor children in 2006 but less than 1 million victims of child abuse or neglect that year.[23] While the connection between poverty and maltreatment is complex, the research suggests a link between job loss—changed economic circumstances—and increased rates of abuse and neglect.[24] Families may be forced to choose between paying for heat or food or they may lose their homes. If they don't have a safety net to fall back on, the children may experience neglect and end up in foster care. The stress that flows from job loss and economic hardship may also push parents over the edge so their behavior becomes harsh, even abusive. Thus, during times of crisis families need additional supports and services to prevent maltreatment from occurring. Unfortunately, such times are precisely when states cut such services to balance their budgets.

Recommendation: Congress should help the most distressed states provide additional prevention and early intervention services, as well as child protection services, by increasing the Social Services Block Grant (SSBG). Specifically, states which are struggling with significant job loss and unemployment should receive additional SSBG funds to provide such services. In addition, Congress should increase the funds that go to community-based child abuse prevention programs through the Child Abuse Prevention and Treatment Act (CAPTA).

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[22] A. Sedlak, and D. Broadhurst, Third National Incidence Study of Child Abuse and Neglect (NIS–3) (1996)

[23] New Statistics Reveal No Change in Child Poverty, Columbia University, Mailman School of Public Health, National Center for Children in Poverty, August 28, 2007, http://www.nccp.org/media/releases/pdf/release_31.pdf; Child Maltreatment, 2006, U.S. Department of Health and Human Services, Administration on Children, Youth and Families, 2008

[24] Domarina Oshana and Lori Friedman. Prevention Funding Project: Synthesis of Research on Economic Change, Welfare Reform, and Child Maltreatment. Prevent Child Abuse. http://member.preventchildabuse.org/site/DocServer/pfp_lit_review.pdf?docID=146 Arloc Sherman, Wasting America's Future: The Children's Defense Fund's Report on the Cost of Child Poverty, Beacon Press, 1994; Kristen Shook Slack, Jane L. Holl, Marla McDaniel, Joan Yoo and Kerry Bolger, Understanding the Risks of Child Neglect: An Exploration of Poverty and Parenting Characteristics, Child Maltreatment, 2004, No. 9, 395–408.

These community-based organizations play a critical role in delivering prevention services, but their budgets—often based on charitable donations—are likely to suffer during difficult economic times.

Ensure Adequate Resources to Provide Low-Income Families Health Care

Health insurance is critical to the well-being of children and families. It is only because public health insurance has expanded coverage over the past decade that the overall number of uninsured children has fallen, as employers have continued to reduce family coverage, and many low-income workers can not afford to buy family coverage even when available. But Medicaid is highly vulnerable to cuts during a recession, because its costs naturally rise when individuals lose their jobs and health insurance for themselves and their families. Already, 17 states have planned cuts that will affect health insurance eligibility or reduce access to health care services for low-income children and families. In the 2001 recession, 1 million people lost health insurance because of cutbacks in Medicaid and SCHIP in 34 states before Congress provided fiscal relief.[25]

Recommendation: The Federal medical assistance percentage (FMAP) for Medicaid should be raised temporarily to ensure that states have sufficient revenues to continue to provide low-income families and individuals access to critical health-care services.

Securing the American Dream

American workers and families want a hand-up, not a hand-out. One way to invest in the future of our country is to build the physical infrastructure—roads and bridges, high-speed internet connections and public transportation—that will support economic development in the years to come. Another way is to develop the human capital infrastructure by investing in education and training, transitional jobs and work-study.

In good times, a major barrier that prevents workers from upgrading their skills is what economists call "opportunity cost"—the fact that there are only so many hours in a day, and time spent studying is time not spent working or caring for their families. When unemployment rises and jobs are scarce, the opportunity cost of education falls. It makes sense to increase funding for workforce and education programs so that unemployed and under-employed workers can improve their skills.

Ensure Access for Low-Income People to Good New Jobs Created Through Infrastructure Investments

Congress is considering investing significant funds in our nation's infrastructure in order to stimulate the economy and create badly needed new jobs in the face of growing unemployment.

Recommendation: Congress should structure this investment to help create job opportunities for traditionally underserved populations and to build our workforce by dedicating funds to increase access to job training and education. Congress should require that at least 15 percent of work hours on infrastructure projects receiving Federal funding be performed by veterans, low-income individuals, out-of-school youth, homeless individuals, or ex-offenders. To ensure that low-income individuals and those with barriers to employment can gain the skills necessary to access the new jobs created by Federal investments in infrastructure, states should be required to dedicate at least 1 percent of available funds for skills development. States should have flexibility to identify and fund creative and effective workforce development programs and partnerships, including those run by nonprofit organizations, labor organizations, employers, local workforce investment boards, community colleges, and other state and local entities.

Fund Summer Jobs in Areas with High Youth Unemployment

This summer, even before the latest economic decline, the youth employment rate was only 32.7 percent, the lowest in over sixty years.[26] There are 3.8 million 18-

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[25] Iris Lav, Testimony before the House Budget Committee, Center on Budget and Policy Priorities, October 20, 2008, http://www.cbpp.org/10-20-08sfp-testimony.pdf and Nicholas Johnson, Elizabeth Hudgins and Jeremy Koulish, *Facing Deficits, Many States are Imposing Cuts that Hurt Vulnerable Residents*, Center on Budget and Policy Priorities, updated October 20, 2008, http://www.cbpp.org/3-13-08sfp.htm

[26] The Collapse of the 2008 Summer Teen Job Market: A Record 60 Year Employment Low for the Nation's Teens by Andy Sum, et. al., Center for Labor Market Studies, Northeastern University, August 1, 2008 http://www.nyec.org/content/documents/collapse_2008_summer_teen_job_market.pdf

to 24-year-olds out of school and out of work. Dollars spent on summer jobs flow immediately into the local economy. Just as important, these jobs will be the first exposure to the work environment for many youth, and will help them develop appropriate work skills and behaviors, and provide important community service.

The Workforce Investment Act of 1998 substantially curtailed the use of Federal funding for summer jobs. Nonetheless, each year, communities across the country mount summer jobs efforts, although at a substantially reduced level from past years, with long waiting lists and thousands of young people turned away. Stimulus money directed to those communities with the summer jobs programs in place could eliminate waiting lists and ensure that these dollars circulate in the local economies throughout the summer.

Recommendation: Summer jobs for youth should be funded at $1 billion for the summer of 2009, with the provision that 30 percent of funds can be spent beyond summer months for transitional jobs for out-of-school youth.[27] Providing the money now will allow for better planned and managed summer jobs programs.

Increase Support for Education and Training During the Downturn

Unemployed workers or suddenly under-employed workers could benefit from skill development while they are out of work or working reduced hours. Nearly half the U.S. workforce has only a high school education or less. Some 25 million workers aged 18 to 64 lack a high school diploma or GED,[28] while another 52 million adults have no postsecondary education, which is increasingly the doorway to family sustaining employment.[29] Investing in the skills of our workforce is also critical to preparing our workforce for the jobs of the future, and to rebuilding our economy.

Recommendation: Congress should provide an additional $1.25 billion in funding for programs authorized under the Workforce Investment Act to enhance the nation's capacity to help unemployed and under-employed people gain access to career counseling the skills to compete for family-sustaining jobs. Congress should also provide an additional $250 million for re-employment services targeted to those most likely to exhaust their unemployment benefits.

Recommendation: An additional $500 million should be provided for adult education. Funding should be directed at programs that integrate basic skills, English language and occupational training and focus on transition to postsecondary education and job training in order to ensure that lower-skilled people are not left behind in this labor market.

Recommendation: Congress also should provide $250 million to expand the Federal Work-Study program to help financially disadvantaged college students earn the funds they need to pay for college and attain a postsecondary credential with value in the labor market. This program provides funding for jobs on campus, in the community, and in the private sector thereby providing a financial stimulus and helping students develop strong work habits and gain exposure to potential employment opportunities.

Expand Transitional Jobs for Individuals with Barriers to Employment

During tough economic times, individuals with barriers to employment are particularly hard hit. Transitional Jobs are a successful program model aimed at helping individuals with barriers to employment enter and succeed in the workforce. Transitional Jobs help individuals overcome employment obstacles by using time-limited, wage-paying jobs that combine real work, skill development, and supportive services, to transition participants successfully into the labor market. Studies have shown that transitional jobs programs increase short- and long-term employment opportunities for people facing the most significant barriers to employment. More than 30 states and numerous localities across the country have implemented transitional jobs programs for populations with barriers to employment, including TANF recipients, homeless individuals, at-risk youth, people being released from prison, refugees and immigrants, and disabled individuals. The number of Americans that currently face or will face these and other barriers to employment is alarming and rising.

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[27] National Youth Employment Coalition letter of March 26, 2008 to Senator Kennedy and Representative Enzi. http://www.nyec.org/content/documents/SummerJobsStimulusActMarch08final.pdf

[28] Creating Postsecondary Pathways to Good Jobs for Young High School Dropouts: The Possibilities and the Challenges by Linda Harris and Evelyn Ganzglass, Center for Law and Social Policy, October, 2008. http://www.clasp.org/publications/postsecpathyouth.pdf

[29] Crosley, Adair and Brandon Roberts, Strengthening State Policies to Increase the Education and Skills of Low-Wage Workers, Chevy Chase, MD: Working Poor Families Project, 2007.

Recommendation: As part of the recovery package, Congress should provide $400 million dollars for the development and expansion of Transitional Jobs programs. A portion of these funds should be reserved for technical assistance for new and existing programs.

Conclusion

In his victory speech this week, President-elect Barack Obama called upon Americans to recognize our connections to each other, and our interdependence. He knows that we cannot prosper as a nation; we cannot recover from our economic troubles, unless all of us share in that prosperity and in that recovery. As he said, "let us summon a new spirit of patriotism, of responsibility, where each of us resolves to pitch in and work harder and look after not only ourselves but each other."

CLASP: Policy Solutions That Work for Low-Income People

CLASP develops and advocates for policies at the Federal, state and local levels that improve the lives of low income people. We focus on policies that strengthen families and create pathways to education and work. Through careful research and analysis and effective advocacy, we develop and promote new ideas, mobilize others, and directly assist governments and advocates to put in place successful strategies that deliver results that matter to people across America.

For more information, please contact Elizabeth Lower-Basch, Senior Policy Analyst elowerbasch@clasp.org

Statement of Chippewa County Child Support Agency

ECONOMIC SECURITY AND ECONOMIC STIMULUS LEGISLATION

Wisconsin Child Support Agencies and more particularly Chippewa County Child Support Agency in Chippewa Falls, Wisconsin, are asking you to restore the Federal funding that was taken away by the 2004 Deficit Reduction Act.

The Federally mandated Child Support Program has been and continues to be one of the most lucrative programs that maintain families throughout the nation. In Wisconsin, approximately $6.00 in child support is collected for every dollar spent on its child support program.

Chippewa County was never on the tax levy nor was this program a tax payer's responsibility. With the 2004 Deficit Reduction Act we will be entering our third year of being a tax levy to our county. States and Counties are struggling due to the economic crisis. Attempts to give the same and/or improved services to our customers with less to work with (less staff, less money) is evident by the reduction in our State's overall child support collections. Without child support single families are unable to help stimulate the economy as any money earned must go for the basics with no extra to allow the children an opportunity for any extracurricular activities and most likely the tax payer will absorb another family to support by way of being taxed more.

Let it be known, States and Counties do not have the extra monies to backfill this mandated void. Thus again you are urged to reinvest in the Federally Mandated Child Support Program in the next economic stimulus package.

Statement of Coastwise Coalition Joint Letter

As the Congress considers elements for the economic recovery/stimulus legislation, the Coastwise Coalition recommends that any such legislation create an exemption from the Harbor Maintenance Tax for carriage of domestic and Great Lakes non-bulk cargo. Doing so would remove a barrier to use of U.S. flag shipping and thus foster job creation in the maritime sector.

The Coastwise Coalition is a diverse group of public and private sector organizations and individuals including ports, maritime labor unions, shipyards, transportation professionals, vessel operators and other transportation providers, and others in the maritime industry and workforce.

The Coalition's purpose is to promote the use of waterborne transportation as a safe, economical, energy efficient, environmentally beneficial, and sustainable means to meet a growing need for reliable transportation options and capacity. Congestion on our land routes is a fact of life in many major corridors and most metropolitan

areas of the country. Greater use of marine transportation on domestic ocean and water routes and on the Great Lakes can relieve part of the increasing demands on the nation's major highways and rail system by providing additional routings for cargo.

Increasing domestic coastwise and inland shipping services would stimulate job creation in the maritime industry while providing cargo owners, transportation intermediaries, trucks, and rail carriers a safe, reliable, and cost competitive transportation option. In the process, our transportation system can improve in terms of energy efficiency, environmental impact, and reduced stress on corridor communities.

To achieve these short and long-term benefits, Congress should promptly enact legislation that would exempt carriage of non-bulk domestic and Great Lakes cargo from the Harbor Maintenance Tax. This is cargo currently moving largely on congested and aging highways that can have the option of moving on water routes. There are some exemptions to this tax already, notably when the vessel movement in question pays the inland waterways fuel tax, for passenger ferries, and for certain shipping that serves Hawaii, Alaska and U.S. possessions. However, absent applicability of exemptions, or an unusually strong special niche market, the HMT is a serious barrier to moving these non-bulk cargoes on water in domestic or Great Lakes service, as we explain.

The Harbor Maintenance Tax is an ad valorem charge—0.125 percent—on international cargo entering this country, on domestic cargo moving between U.S. ports, and cruise passenger tickets. The tax, which is paid by the cargo owner, discourages the use of marine transportation by intermodal cargo in several ways.

First, at a time when all business is extremely cost conscious, the charge itself can be a major barrier. It is a charge not imposed on land transportation moves. Second, there is an administrative barrier. A considerable amount of the freight moving on the congested Interstates and major corridors is in consolidated shipments such as you would find in a UPS trailer. Use of the marine highway alternative would obligate the owners of goods with a value over $1,000 in the truck to file separately the appropriate HMT payment with Customs and Border Protection, the collecting agency. That, of course, assumes that the shipper knows that the truck opted for the water route.

Similarly, if an international containership operator wanted to consider routing import cargo to its destination via a coastal shuttle, new charges and customer paperwork would apply that does not apply if land carriers were used. Further, in this context, where the import cargo is already assessed the HMT for the transportation to the entry port in the U.S., using the marine highway can result in the cargo having to pay the HMT twice. This is the case even though the coastal vessel has a far shallower draft than the importing vessel. In the larger gateways the harbors are being dredged to maintain depth principally for the large transoceanic vessels. There the shallower vessel is not causing the need for the dredging that is paid for by the proceeds of the HMT.

In short, when one is trying to persuade potential customers to try a new solution to their transportation problems, it doesn't help to say that extra charges and paperwork would be a part of the new approach. The HMT is a serious barrier to success for vessel operators trying to establish new services and attract non-traditional customers of marine transportation.

Because of these barriers, however, these marine services have had difficulty being developed at all. As a result, the Treasury collects very little revenue from the HMT in the context of carriage of non-bulk domestic and Great Lakes cargo (including cargo carried on rolling stock such as trucks, trailers and rail cars, as well as cargo in containers or in the form of vehicles). Further, these barriers discourage shipbuilding plans for these services, with the attendant lost opportunity for American shipbuilding jobs. So, enacting the exemption will provide stimulus and longer term economic and societal benefits with little if any cost to the Treasury.

This is well illustrated by the facts regarding the Detroit-Windsor Truck Ferry, which operates between the U.S. and Ontario and primarily serves trucking carrying hazardous cargo. It provides an essential alternative to the heavily traveled Ambassador Bridge and long distance alternatives. The operator of this barge service testified on February 15, 2007, before the Coast Guard and Maritime Transportation Subcommittee that hazmat trucks use the service in the direction of Canada but that trucks bearing cargo and originating in Canada do not use the service expressly because of the Harbor Maintenance Tax. Thus, the most desirable route for hazardous cargo—away from the crowded international bridge and a significantly shorter distance than other route alternatives—is discouraged by current law.

In summary, there is an opportunity for innovative, new maritime service that would:

- create U.S. citizen maritime jobs, strengthening the active base of U.S.-flag vessels and mariners for national defense;
- stimulate shipbuilding, with the associated jobs;
- ease landside congestion;
- ease the need to construct new, expensive landside capacity;
- utilize an energy efficient, less polluting mode; and,
- involve very little cost to the Treasury.

The merits are compelling, short and long term.

Accordingly, we strongly urge the Committee and the Congress to enact now legislation to exempt carriage of domestic and Great Lakes non-bulk cargo from the Harbor Maintenance Tax.

We thank the Committee for its consideration of our views and we respectfully request that this letter be included in the record of the Committee's hearing of October 29, 2008.

Paul H. Bea Jr., Chairman
Coastwise Coalition
James Henry
Transportation Institute
David Sanford
American Association of Port Authorities
Karen Myers
American Maritime Officers Service
Joseph J. Cox, President
Chamber of Shipping of America
Horizon Lines, LLC
Crowley Maritime Corp.
Peter Drakos, President
Coastal Connect LLC
Captain Timothy A. Brown
International Organization of Masters,
Mates & Pilots
Arthur W. Moye, Jr., Exec. Vice President
Virginia Maritime Association
David C. White, Chairman
South Atlantic Marine Transportation System Organization
Ron Silva, CEO
Westar Transport
Rosemary Lynch, Exec. Director
Atlantic Intracoastal Waterway Association
Roberta Weisbrod, Ph.D.
Partnership for Sustainable Ports LLP
Thomas Bethel, National President, American Maritime Officers
Gregg M. Ward, Vice President
Detroit-Windsor Truck Ferry
Vice Adm. Albert J. Herberger, USN (Ret)
Vice Chairman, American Ship
Management and Former Maritime Administrator
John Horsley, Executive Director
American Association of State Highway and Transportation Officials
Richard Hughes, President
International Longshoremen's Association
C. James Patti, President
Maritime Institute for Research and
Industrial Development

Richard Blouse, Jr., President & CEO Detroit Regional Chamber
Steven A. Fisher, Executive Director
American Great Lakes Ports Association
Matthew Paxton, President
Shipbuilders Council of America
Stephen Flott, Chairman
SeaBridge USA, Inc.
Bruce Fenimore, Owner,
Columbia Coastal Transport, LLC
Matt Dwyer
Legislative Representative
American Maritime Congress
Torey Presti, President
National Shipping of America
Tom Adamski
New Jersey Motor Truck Association,
Bi State Harbor Carrier Conference
Joseph A. Riccio, Executive Director
Bridgeport Port Authority
Hank Hoffman, President & CEO
SeaBridge Freight, Inc.
Stan Wheatley, Director
Center for the Commercial Deployment of Transportation Technologies
California State University, Long Beach
Jeanne Cardona, Executive Director
Association of Ship Brokers & Agents
Dennis Rochford, President
Maritime Exchange for the
Delaware River and Bay
Raymond R. Barberesi, President
Marine Transportation Specialists Corporation
Stuart H. Theis, Executive Director
United States Great Lakes Shipping Association
Mark Yonge, Managing Member
Maritime Transport & Logistics Advisors, LLC
H. Clayton Cook, Jr., Counsel
Seward & Kissel LLP
Alan Gray
MetroMarine Holdings
George E. Duffy, President/CEO
NSA Agencies, Inc

Statement of Columbia Country Child Support Agency

I am writing on behalf of the Columbia County Child Support Agency and pleading on behalf of the taxpayers (custodial parents and children of Wisconsin) of which our agency collects child and medical support to allow theses families to provide food, health insurance and clothing for their children.

I wanted to let you know how critical it is to restore the Federal funding cuts that were made to the Child Support Enforcement Program under the 2004 Deficit Reduction Act (DRA).

Putting together an economic stimulus package which includes the restoration of pre-DRA funding levels for the nation's Child Support Program is critical, especially now, when America's children and families have been financially devastated by the

country's recent economic downturn as they struggle each and every day to "just get by".

The Child Support Enforcement Program is charged with establishing legal fatherhood for children unwed parents (Wisconsin alone had 22,000 new paternity cases for non-marital children in 2007), as well as establishing and enforcing all child support and medical support obligations (affecting over 400,000 children in Wisconsin in 2007). As part of the medical support program, Child Support Agencies establishes and enforces the requirement that parents obtain private health insurance for their children, thereby reducing reliance on Medicaid, while the collection of child support by the program reduces reliance on other Federal benefit programs in addition to Medicaid, specifically Food Stamps, TANF, SSI and Housing.

I urge you, in moving forward with the second stimulus package to please demonstrate your concern for our children and families and support the reinstatement of the DRA funding for child support as part of the next economic stimulus package. It is those American families who have the ability to maintain economic stability within their households (in part through the assistance of child support), who make up the backbone of our economy.

I want to thank you and all the Congressional leaders that support our interest in protecting the nation's Child Support Enforcement Program, as is evidenced by the strong bipartisan support this year for H.R. 1386, The Child Support Protection Act. I want to also thank you for this opportunity to submit this statement for the record, and for your leadership on this important issue.

Statement of Congressman Luis G. Fortuño

I want to thank Chairman Rangel and Ranking Member McCrery for holding today's hearing on the prospect of a second economic stimulus package and for providing me with the opportunity to submit this statement for the record. I believe that a well-designed stimulus package is both appropriate and necessary in order to restore economic security and to create new jobs. I look forward to working with my colleagues to craft a package that the President will sign into law before the new year.

Earlier this month, I wrote a letter to Speaker Pelosi, Majority Leader Boehner, Chairman Rangel and Ranking Member McCrery. In that letter, I urged the leaders of this body to ensure that the U.S. citizens of Puerto Rico are included in any package that is ultimately put forward to help working families and invigorate the national economy. I respectfully reiterate that request now. Thanks to our collective efforts, and in particular to the efforts of this Committee's chairman and ranking member, Puerto Rico and the other U.S. territories were included in the first stimulus package enacted in February. Residents of the territories were also included in the stimulus package that was approved by the House, but not the Senate, just before the October recess. In light of Congress's record of inclusiveness, I am confident that my constituents will benefit, no less than their fellow citizens in the states, from the package now under consideration.

Although I know the precise content of the contemplated legislation is still being worked out, it is my understanding that the package might contain some or all of the following components: an extension of unemployment benefits, a temporary increase in aid to states and territories for Medicaid, funding for public infrastructure projects like roads and bridges, a second round of rebate checks, and increased food stamp payments.

I believe that each of these measures would provide a much-needed boost to the national economy, and to the Puerto Rico economy in particular. As Chairman Rangel noted in his statement announcing this hearing, the national unemployment rate is 6.1 percent, a five-year high. The unemployment rate in Puerto Rico is the highest in the country by roughly three percentage points. According to the most recent figures, the rate of unemployment on the Island now exceeds 12 percent—double the national average.

With respect to Medicaid, between one-quarter and one-third of my constituents rely on this Federal-state program for their health care. Unlike in the states, the Federal contribution to Puerto Rico's Medicaid program is subject to a spending cap. The upshot of this spending cap is that the local government pays more than 80% of the cost of providing Medicaid to beneficiaries on the Island. In Mississippi, by contrast, the state Government pays less than 20%. I have never been shy about expressing my belief that this state of affairs is deeply unfair and requires a long-term fix. Nevertheless, a temporary but meaningful increase in Federal funding for

Puerto Rico's Medicaid program would more fairly distribute the respective financial burdens now being shouldered by the local and Federal Government.

With respect to infrastructure, 50 National Highway System bridges in Puerto Rico have been deemed structurally deficient by the Department of Transportation and many other vital construction projects on the Island cannot be commenced or completed due to insufficient funding. I hope that the second stimulus package will provide increased funding for public infrastructure projects like road-building and bridge-building, and that Puerto Rico will receive its fair share of those funds. Among the many benefits that will result from increased infrastructure funding is the creation of well-paying new jobs in the construction and other sectors.

Finally, over one million low-income residents of Puerto Rico rely on food stamps to feed themselves and their families. As you know, the economic crisis on the Island—and it is a crisis—has taken a particularly heavy toll on individuals of limited means. Increasing Federal funding for this vital program will make sure that this economic crisis does not become a battle for survival for our most vulnerable citizens.

I thank the Committee again for conducting this timely and important hearing and I urge my colleagues in Congress and the President to quickly approve a stimulus package that will benefit all hard-working American families, including those in Puerto Rico and the other U.S. territories

Statement of Denise Soffel

Medicaid Matters New York (MMNY) believes that an increase in the Federal Medicaid Assistance Percentage (FMAP) must be a part of any emergency supplemental stimulus appropriation package. A temporary increase in FMAP would provide all states with critical fiscal relief during the current economic downturn. Medicaid is a counter-cyclical program, experiencing a growth in enrollment at the very time states are experiencing tightened budgets. Absent Federal relief, New York and many other states will be confronted with the need to make budget cuts to Medicaid that would harm the most vulnerable members of our communities.

Medicaid Matters New York is a statewide coalition of over 130 organizations that advocates on behalf of the over four million New Yorkers who rely on Medicaid for their health and well-being. MMNY includes within its coalition a diverse set of organizations united in their determination to ensure that the voices and concerns of Medicaid beneficiaries are included and met in any discussion about Medicaid. We remind the Legislature that for the consumers we represent, any cut backs in Medicaid result in more people who are without health coverage of any sort.

New York is facing an economic downturn of unprecedented proportions. As the home of the financial services industry, New York is at the epicenter of the economic crisis confronting the nation. The state faces a deficit of $1.5 billion in the current fiscal year, which is expected to grow to $12.5 billion next year. A temporary increase in the FMAP would substantially ease the state budget deficit at this time of economic crisis, thereby minimizing cuts that inevitably hurt the have-nots in a disproportionate way. Community-based health care providers and grassroots organizations, many of whom are MMNY members, sustained significant cuts in the first round of midyear budget cuts enacted in August. Another round of cuts is expected on November 18th when the Legislature has been called back for an unprecedented special session, whose sole purpose is to identify further budget cuts. Families already struggling with increased costs for fuel, the fear of housing instability and foreclosure, and ever-rising prices for food and clothing should not have to fear losing their health coverage as well. Together we must ensure that the most vulnerable Americans have the health security that Medicaid offers.

MMNY supports the proposal laid out in H.R. 5628 which calls for a 2.95 percent FMAP increase for all states over a 15-month period. Mirroring Congressional action taken in 2003, this will ensure that continued healthcare services are available to low-income and disabled children and families.

Statement of Diana Aviv

The 25 percent rise in the number of unemployed Americans and the millions of families who have lost their homes to foreclosure over the past year can be seen in the growing lines of people coming to nonprofit organizations for the food, shelter,

medical care, and financial and crisis counseling they need to survive this difficult economy. The numbers of individuals and families seeking assistance—and the types of assistance they are searching for—have expanded considerably as a result of the most recent economic developments. Millions of older Americans will be living in reduced circumstances because of the dramatic drop in their retirement savings; many young people can no longer access the loans they need to stay in school; and there has been an alarming rise in calls for help with domestic violence, depression, and substance abuse.

The same conditions that have expanded the numbers of people in need have also left the nonprofit organizations people turn to for assistance struggling. Cuts in Government funding, coupled with diminished private resources and rising costs of doing business, have left nonprofits facing significant challenges in meeting the increased demand for services. As the Committee on Ways and Means and the Congress consider measures to address state and local Government budget shortfalls, home foreclosures, and long-term unemployment, we offer five proposals that would also help our nation's charities and foundations provide the vital programs upon which communities throughout the nation rely. Specifically, we recommend simplifying the excise tax on private foundations, lifting the ceiling on individual giving above 50 percent of AGI, raising the annual cap on giving from individual retirement accounts, providing temporary transition relief from the new funding rules under the Pension Protection Act, and establishing a revolving loan fund to enable foundations to meet their commitments to communities.

Impact of State and Local Government Budget Crisis

Our nation's 1.5 million nonprofits receive roughly one-third of the funding they use to provide services to individuals and communities from Government, and those that provide health and human services derive over 55 percent of their funding from Government. As state and local governments have cut their budgets for these vital areas, many nonprofits have been forced to curtail programs, reduce their hours of service, or even close their doors.

The fiscal challenges facing state and local governments have hit charities hard. For example, New Jersey eliminated from its 2009 fiscal year budget $42.4 million that was slated to cover the rising costs of nonprofits serving 500,000 people with developmental disabilities and mental illnesses, as well as children and families suffering from domestic violence and other problems. In New York, the 211 hotline program, which refers people in need to groups that can help them, was cut by more than 90 percent. Legal Aid in Sonoma County, California lost 15 percent of its operating budget when the county Human Services Department could not afford to renew its contract for Fiscal Year 2009, and the local YWCA may lose nearly $700,000 in Government funding. With at least 36 states experiencing fiscal stress,[1] the likelihood of sweeping cuts in nonprofit programs is expanding while the need for those programs grows.

Declining Private Contributions

Private contributions from individuals, foundations, and corporations are another critical source of support for the programs and services nonprofit offer, comprising another ⅓ of the funding for nonprofit organizations. In the last two years, total private contributions have remained relatively flat, and a recent study by the Center on Philanthropy at Indiana University indicated that fundraising in the first half of 2008 was less successful than anticipated due to "the economic environment—including layoffs, corporate losses, stock market declines, and rising gas prices."[2] The recent economic turbulence has caused many individual donors to hold back on their charitable contributions at a time when their support is needed even more. Many corporations have severely cut back or suspended their giving programs, and private foundations have experienced major reductions in their investment portfolios, which will mean substantial reductions in their grantmaking activities in the coming years. All of these factors indicate that nonprofits will continue to be hard pressed over the next few years to find the resources needed to continue, much less expand, vital programs and services.

Effects of the Credit Crunch

The current credit crisis has left many nonprofits without sufficient funds to meet current program obligations. In addition to their common practice of reimbursing nonprofit contractors only after they have incurred expenses, many state and local

[1] Testimony of Iris J. Lav, Center for Budget and Policy Priorities, before the House Budget Committee, October 20, 2008.

[2] "Philanthropic Giving Index," (Center on Philanthropy at Indiana University, July 21, 2008)

governments have delayed payments to nonprofits that are delivering vital community services. Without access to quick-turnaround, short-term, low-cost financial assistance, the nonprofits may find it impossible to provide necessary services such as supporting foster families caring for abused children or purchasing supplies needed for educational programs. Other organizations, such as health clinics, will be forced to cut back on the hours of service they provide to communities in need. Some community and private foundations have been a critical source of such short-term loans for nonprofit organizations. The market downturn, however, has left many foundations with severely reduced financial resources, and some must now choose between selling assets at the current depressed rates or failing to meet their funding obligations. Over time, these foundations may decide to cut back on the ongoing support they provide to vital programs and may not consider new requests to support programs developed to address emerging needs of individuals and communities.

To ensure that essential community programs are able to continue during this difficult economic period, short-term loans, using current assets as collateral, must be made available to both nonprofits that offer services and foundations that provide emergency assistance..

Rising Health Insurance Costs

Nonprofits are also facing challenges in retaining the skilled, experienced employees necessary to support their high-quality service programs because of the rising costs of health care coverage and retirement benefits. In the most recent study of nonprofit health insurance, researchers found that nonprofits "are being especially hard hit, experiencing higher than average health benefit cost increases and finding it necessary to shift a disproportionate share of the resulting burden on their already less well-paid employees in order to reduce the impacts on the populations they serve."[3] Smaller organizations, and particularly children and family services agencies, have been particularly affected by rising insurance premiums. In addition to layoffs and reduced hours of work, the study found that organizations have been forced to raise fees or cut services to their communities.

This year, these challenges have only grown, and nonprofits are increasingly forced to lay off workers, adding to the unemployment rolls, or reducing or eliminating the health care coverage they provide to employees. Both actions reduce the amount and quality of services nonprofits can provide. Because nonprofits, as tax-exempt organizations, do not benefit from employer tax credits and similar proposals for addressing health insurance cost and coverage issues, it will be necessary to find other methods to ensure that this vital group of workers are not forgotten in the quest to make affordable health care accessible to all.

Defined Benefit Plan Obligations

Nonprofit organizations that provide defined benefit pension plans to their employees are being particularly hard hit by new funding obligations enacted with the Pension Protection Act of 2006. As tax-exempt organizations, nonprofits offer retirement benefits not as an opportunity to take a tax deduction, but as a means for attracting and retaining qualified employees committed to serving their communities. The Pension Protection Act of 2006 significantly increased the funding obligations for pension plans, which nonprofits have endeavored to meet. The abrupt market decline has turned those obligations into a severe problem never anticipated when the act was drafted. Specifically, organizations will be required to restore the market losses of upwards of 35 percent of assets in only seven years, starting next year. Even if nonprofits freeze their pension plans to curb costs, this provision will require nonprofits to divert millions of dollars away from programs at the time they are needed most.

Recommendations

In addition to measures the Committee is considering to respond to the state and local government budget shortfalls, home foreclosures, and long-term unemployment, we strongly urge the Committee to consider the following five measures that could help nonprofits to provide the critical services our communities need.

- **Lift the ceiling on individual giving:** Congress should temporarily allow individuals to give more than the current ceiling of 50 percent of their adjusted gross income.
- Under current law, the amount allowed as a charitable deduction in any taxable year may not exceed fifty percent of an individual's adjusted gross in-

[3] Lester M. Salamon and Richard O'Sullivan, "The Health Benefits Squeeze: Implications for Nonprofit Organizations and Those They Serve." *Communiqué No. 3.* Baltimore: The Johns Hopkins Center for Civil Society Studies, October 2004.

come. When Congress raised this limit to encourage giving in response to Hurricane Katrina and more recently the Midwestern floods, Americans responded by digging deeper to help their neighbors. The current economic crisis warrants a similar incentive to help the millions of Americans who need the services, solace and support nonprofit organizations offer.

- **Raise the annual cap for gifts to charity from IRA holdings**: Congress should temporarily allow older Americans (age 70½ and older) to give back to their communities through nonprofit organizations in amounts beyond the current annual cap of $100,000 when they feel their accumulated retirement resources exceed the amounts they require to meet their own needs.
- **Simplify the excise tax on private foundations** so that foundations are not penalized for increasing gifts in times of greatest need. Private foundations that maintain a minimum distribution rate averaged over a five-year period are currently subject to a one percent excise tax on their investment holdings, whereas those that substantially increase their distributions in a given year may be subject to a two percent tax rate. Significant increases in distributions at times like these inflate the rolling average, requiring additional spending in subsequent years to avoid the higher tax rate. The current two-tiered taxing system, therefore, has the perverse effect of discouraging foundations from increasing their distributions for charitable purposes during times of greater need. This disincentive should be corrected either by eliminating the excise tax or by replacing the current two-tiered tax with a single-tier rate.
- **Establish a Revolving Loan Fund**: Congress should establish a temporary revolving loan fund that would provide short-term loans with a reasonable interest rate to nonprofit organizations that are facing short-term cash flow problems due to delayed payments from Government contracts and private grants. Existing contracts and grant commitment letters could be used as collateral, and financial institutions involved in the broader economic recovery program could administer such a fund. The fund could also be available to help foundations meet their commitments to charitable works in the near term without having to sell assets that are temporarily but significantly undervalued.
- **Defined Benefit Obligations**: Congress should provide relief to nonprofit organizations that sponsor defined benefit pension plans by extending the transition period for implementing the new funding obligations enacted as part of the Pension Protection Act of 2006, by allowing flexibility in choosing funding election methods, and by permitting smoothing of unexpected losses. Without this relief, nonprofits that sponsor defined benefit plans will be forced to meet the unexpected losses that occurred as a result of the market downturn by shifting substantial financial resources away from vital community services.

Independent Sector is a national, nonpartisan charitable organization with approximately 600 members, including public charities, private foundations, and corporate giving programs, collectively representing tens of thousands of charitable groups in every state across the nation. Our coalition leads, strengthens, and mobilizes the charitable community to fulfill our vision of a just and inclusive society and a healthy democracy of active citizens, effective institutions, and vibrant communities. IS members represent a broad cross-section of our nation's nonprofit community, which exists to meet society's needs, frequently in partnership with Government, in diverse areas such as the arts, education, human services, community development, and health care.

Statement of Frank Hugelmeyer

On behalf of the Outdoor Industry Association (OIA), I would like to thank the Committee for the opportunity to present this written testimony and respectfully submit the following in support of a comprehensive economic recovery strategy. Specifically, OIA asks Congress to pass an economic stimulus package *this year* that:

- Provides greater financial security to the American people and more certainty for America's businesses by reducing their costs and stabilizing retail prices.
- Includes H.R. 3934/S. 2372, the Affordable Footwear Act—legislation that repeals many of the anachronistic tariffs on footwear.

Outdoor Industry Association (OIA) is a national trade association with a mission to ensure the growth and success of the outdoor industry. OIA's members include the leading manufacturers and retailers of outdoor recreation equipment and services such as The North Face, Columbia Sportswear, Timberland, Patagonia, W.L. Gore, Cabela's, REI, L.L. Bean to name a few. The industry includes more than 4000 businesses in every state across the country.

In addition to the economic contributions of businesses specific to our sector, outdoor recreation impacts the health of major economic sectors across the economy including manufacturing, retail trade and travel and tourism.

More than three out of every four Americans participate in active outdoor recreation each year. Americans spend money, create jobs, and support local communities when they get outdoors.

According to a recent report[1] by the Outdoor Foundation, the outdoor recreation economy:

- Contributes $730 billion annually to the U.S. economy
- Supports nearly 6.5 million jobs across the U.S.
- Generates $88 billion in annual state and national tax revenue
- Provides sustainable growth in rural communities
- Generates $289 billion annually in retail sales and services across the U.S.
- Touches more than 8 percent of America's personal consumption expenditures—more than 1 in every 12 dollars circulating in the economy

The outdoor industry though, like most other sectors of the economy, is substantially threatened by the current economic downturn. The majority of our industry are small businesses—entrepreneurial manufacturers and independent retailers—which are facing the stark reality that current economic conditions may deteriorate further and may be extended over several months.

The upcoming winter months are of greatest concern for many of these businesses, which are reacting by reducing their inventories and postponing some production. Some retailers are already struggling with credit issues and planning to be 10 to 15 percent down this season.

An economic stimulus package passed by Congress that places a focus on reducing costs for small businesses and stabilizing and even reducing retail prices for American consumers can go a long way towards easing these anxieties while providing more certainty with which to plan towards next year.

History indicates that Congress will see a good return by focusing on small business and the outdoor segment in any economic stimulus package. During the recessions of the late 1980's and early 1990's, several outdoor retailers reported that sales slowed to single-digit growth. However, sales quickly rebounded and returned to double-digit growth before the rest of the economy recovered. Anecdotal evidence from long-time industry leaders suggests that it was a consumer shift to affordable and simple activities like family camping that helped fuel growth in tough economic times.

Fast-forward to the economic slow down over the last eighteen months and we now have hard data to back these claims. According to the OIA Topline Retail Sales Report, U.S. outdoor industry retail sales grew 10 percent in 2007[2] and another healthy increase of 9 percent was posted in the first six months of 2008.[3] At same time, the U.S. Gross Domestic Product (GDP) slowed measurably and posted an average increase of only 2 percent over the same eighteen-month period.

Why did the outdoor industry remain so strong through the difficult time frame leading into this economic downturn? In short, Americans returned to low-cost transportation and recreation activities. Cycling and camping sales shot up and the equipment, outerwear, footwear and accessories related to these activities realized strong growth.

While many outdoor businesses have weathered the recent economic downturn, they are not immune to its effects. Stagnation and even negative growth has begun to appear across the outdoor industry. Despite these troubling signs, businesses that support cycling, camping, hiking, fishing and paddling activities are well-positioned to help lead our nation's economic recovery. Congress can foster that economic recovery by passing an economic stimulus package that reduces costs for businesses and stabilizes or reduces retail prices for hard working American families.

More specifically, OIA respectfully urges Congress to include H.R. 3934/S.2372, the Affordable Footwear Act in a comprehensive economic stimulus package or other appropriate legislative package Congress considers this year.

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[1] *The Active Outdoor Recreation Economy*, Outdoor Foundation, 2006

[2] *Topline Retail Sale Summary, For Calendar Year 2007*, Outdoor Industry Association, 2007

[3] *Monthly Topline Market Summary*, Outdoor Industry Association, Jan–June, 2008

The Affordable Footwear Act, or AFA, eliminates outdated tariffs on most kinds of footwear. These extremely high U.S. footwear tariffs are the remnants of policies from more than 75 years ago (instituted in 1930 under the Smoot-Hawley Tariff Act). Some of the highest tariffs are applied against hiking boots, trail shoes and other outdoor footwear. These tariffs no longer serve the intended purpose of protecting a U.S. footwear industry and are now an excessively high and unnecessary tax. In fact, these tariffs translate into a $4 to $5 billion tax each year on U.S. consumers. The current, arcane tariff structure puts products like hiking shoes out of reach of many consumers. Americans at all economic levels should be able to enjoy the great outdoors and have access to affordable products.

Introduced in Congress with the support of the few remaining domestic footwear manufacturers, the AFA has attracted a bipartisan group of 157 sponsors in the House of Representatives, including 21 members of the Ways and Means Committee and 14 U.S. Senators, six of whom serve on the Finance Committee.

OIA believes the cost savings that will be realized through passage of the AFA will alleviate some of the impact of the economic downturn and will allow businesses to plan for future growth, but the AFA will also provide a direct and tangible benefit for American consumers on one of the most basic necessities, shoes.

Statement of Honorable Aníbal Acevedo Vilá

I would first like to commend Chairman Rangel for his leadership in shepherding into enactment the first economic stimulus bill this past January. I believe that it was crucial that you included the U.S. citizens of Puerto Rico in the rebate program, and I appreciate having had the opportunity to work with you and the House leadership in securing these important resources for our constituents. The Commonwealth has effectively managed the funding and trust that was afforded to it under this legislation, and has ensured the efficient disbursement of rebate checks to the people of Puerto Rico. We thank you for the partnership that this enabled, and assure you that the economic benefits have been felt.

The Commonwealth has distributed over $1 billion in tax rebates to 1 million taxpayers, Social Security beneficiaries and veterans. The U.S. Treasury Department approved the Commonwealth's plan within eight weeks of Congressional enactment and the Puerto Rico Treasury Department was able to distribute over 90% of the checks within 45 days of the approval of the plan. While some may have questioned the Commonwealth's capacity to administer this program, it is clear that we accomplished our goals and met the requirements of the U.S. Treasury and the Congress both accurately and in a timely manner.

As we move forward, it is clear that the United States economy, which drives the Puerto Rican economy, faces significant challenges and it is critical that the Congress move forward on a stimulus agenda. Though Puerto Rico has not been affected by the economic burdens of the sub-prime market and the resultant spike in foreclosures, the Island does have significant delinquency rates and our financial institutions have been impacted by the sub-prime mortgage market through their financial activity elsewhere in the U.S.

The economic stimulus bill passed by the House of Representatives in September, H.R. 7110, is an important step towards investing in America's workers and providing resources for recovery to our families and communities. That bill would provide critical resources to Puerto Rico for the development of infrastructure, training and assistance for workers, and additional support for low-income families and medical care. I have worked closely with your colleagues in the House, including Transportation and Infrastructure Committee Chairman Jim Oberstar, to outline the needs and opportunities for recovery in Puerto Rico, and appreciate that this is reflected in that stimulus bill. Likewise, S. 3604, as proposed in the Senate, would fund a wide range of programs that would bring economic and quality of life benefits to communities in Puerto Rico and elsewhere.

Yet, as has been noted in recent days by Federal Reserve Chairman Ben Bernake, Speaker Nancy Pelosi and other leaders, there remains a vital need for the quick enactment of a new economic stimulus bill. It is also clear that the size of any such recovery legislation be substantial in order to address the looming recession.

I believe that the House-passed bill represents a strong starting point for that stimulus. Investing in our infrastructure will not only get people working, but it will also improve our highways, airports, transit, water systems and public housing stock, and will also generate activity that grows state and local tax revenues. Extending unemployment and funding training programs will aid workers in their pur-

suit of jobs. Providing funds for food stamps, our local Nutrition Assistance Program and increasing Medicaid FMAP percentages will help protect our low-income populations during these difficult times.

In addition to funding for those programs, I strongly support investment in the following additional proposals:

- Fiscal Relief to States, Commonwealths and territories—The slowing economy has greatly reduced state and local tax revenues, and will undermine their investment in important Government services. Congress provided similar assistance to the States and Puerto Rico in 2003, and it would provide resources for critical program security at this time.
- Rebate Checks—The previous round of stimulus rebate checks provided crucial funding directly to families that were spent primarily on retail purchases or to pay down debt, both which result in economic and quality of life improvements. A second round of rebate checks, as proposed by Senator Barack Obama, would provide important resources to families and help stimulate the economy.
- Energy Investment—While oil prices have fallen, they remain relatively high. Gas prices and electricity bills eat away at family budgets. Providing funding through the Low-Income Home Energy Assistance Program and the Weatherization Assistance Program will reduce the impacts of increased energy bills on working families. Further, investment in 'green' projects, including energy efficiency, renewable energy infrastructure, and research and development would not only help improve our economy, but will also bolster workforce skills, increase energy security, and lessen energy burdens on families, industry and Government.
- Housing Preservation—As I noted previously, while the foreclosure crisis has not greatly affected Puerto Rico, I realize that it is a predominate concern across the nation. To address the continuing problem of families losing their homes, housing stock sitting idle, and falling bank assets, I would encourage the Congress to provide additional funding for homeowner counseling, foreclosure prevention, mortgage restructuring, and other programs that will avert future foreclosures.

Investment in these programs, I believe, will help in many ways stimulate the economy, while also improving the stock of our infrastructure, providing income security for families, and assisting State and local governments weather this storm.

Once again, I appreciate having worked with you, Chairman Rangel, as well as your colleagues on the Ways and Means Committee and throughout Congress, in pursuing effective economic recovery and stabilization opportunities. I look forward to continuing to partner with you as legislation is developed and implemented to restore the economic growth of the United States and Puerto Rico.

Statement of Honorable John P. DeJongh, Jr.

Chairman Rangel, Ranking Member McCrery, and Distinguished Members of the Committee, I am honored to present the views of the Government of the U.S. Virgin Islands on the growing economic crisis facing the United States—as well as the U.S. Virgin Islands—as a result of the current financial meltdown, and to present recommended options to address these unprecedented challenges.

But first, I would like to thank the Chairman for his leadership and his tireless efforts to ensure that this country responds vigorously and appropriately to the critical challenges we face. Largely as a result of his leadership, the first economic stimulus bill enacted into law at the beginning of the year addressed the needs of the Virgin Islands and other U.S. territories, as well as the mainland United States. The Economic Stimulus Act of 2008 reaffirmed the principle that Congress has an important responsibility to ensure that the U.S. Territories are treated fairly and equitably in Federal programs and economic policies. In particular, this legislation included special provisions to ensure that the tax rebate program, which was the centerpiece of the Act, did not cause unintended revenue losses for the Virgin Islands and other mirror code jurisdictions and thus negate the intended stimulative effect of the tax rebates.

Looking ahead, it appears that even greater economic challenges now confront the nation, including the U.S. Territories. Along with my fellow governors, I believe it is critical that Congress pass additional stimulus measures as soon as possible to address the rapidly deteriorating economic situation. The growing economic pain

and hardship suffered on Main Street have not spared the Virgin Islands or the other outlying areas of the United States. Unemployment and poverty have increased, projected revenues have declined, and the ability of insular area governments to deliver essential public services has been compromised as a result of the economic downturn. It is clear that further stimulus is needed to avoid even more serious economic deterioration in the Virgin Islands, as well as in the nation at large.

Any legislative effort to address the current situation should use H.R. 7110—the economic stimulus bill that the House of Representatives passed in September—as the starting point. H.R. 7110 would provide increased funding for critical infrastructure repairs and improvements, extend Federal unemployment insurance, expand worker training, and provide additional funding for food stamps and Medicaid costs. H.R. 7110 extends eligibility to the Virgin Islands and other Territories for each of these stimulus programs, but in some cases, as described below, the program formulas for allocating such stimulus are not always equitable or fair to the Territories. I will continue to work with the Members of this Committee and the other committees of jurisdiction to ensure fair treatment of the U.S. Territories in any stimulus legislation enacted by the Congress and to ensure the full participation of all Americans in our nation's economic recovery.

In particular, we are concerned with the way the Virgin Islands and the other U.S. Territories are treated under Title III of H.R. 7110, which would temporarily increase the Medicaid FMAP. While States and the District of Columbia could qualify for up to a four percentage-point increase under this provision, the Virgin Islands (and other Territories) would receive only a one-percentage-point increase. Not only is this limitation unfair to the Virgin Islands, but the unfairness is exacerbated by the fact that this smaller increase is based upon a permanent FMAP for the Virgin Islands that is set lower—and in most cases substantially lower—than the FMAP for States and the District of Columbia. Accordingly, we respectfully urge the Congress to amend the Title III language in any second stimulus bill to ensure that the Virgin Islands is eligible, on the same basis as States and the District of Columbia, for the additional FMAP increases authorized under H.R. 7110. Alternatively, we request that the Virgin Islands be provided a higher base FMAP increase.

It is also apparent, after the last several weeks, that the magnitude of our economic problems is much greater than Congress anticipated just one month ago. The Government of the Virgin Islands is facing an operating deficit approaching $80 million in the current fiscal year—an extraordinary sum equal to nearly 10 percent of our General Fund budget. My Administration has attempted to address our fiscal problems by imposing a hiring freeze, cutting already under-funded programs, and further deferring urgently needed capital improvements. But we cannot close the gap without additional Federal assistance. Accordingly, I respectfully urge Congress to consider enacting a much broader and more comprehensive stimulus program than that which was contemplated in September. In particular, I would urge that Congress consider legislative action in at least five additional areas which I believe can help mitigate the current economic damage and help restart the engines of growth for the Virgin Islands as well as the country at large.

First, Congress should consider approving a new round of tax rebates similar to the program enacted in the first stimulus bill. Most economists believe that these stimulus checks played a significant role in keeping the economy from sinking into recession before the current credit freeze. While it is hoped that the financial stabilization legislation enacted earlier this month quickly begins to "thaw" the credit markets, it is also essential that Congress not ignore the immediate needs of our citizens who are suffering financial hardship as a result of this unprecedented economic storm. A second round of stimulus checks will help alleviate this hardship and help jumpstart economic growth by encouraging increased consumer spending. I understand that some are concerned that direct taxpayer rebates may be used to pay down household debt or increase savings rather than for consumer spending. In this regard, I would respectfully submit that increased household savings, by themselves, are a critical element in ultimately ending this, and any, recession, as families must regain a sense of financial security before they can begin to spend in confidence once again. Simply stated, it is time that we pay attention to rebuilding the balance sheets of American families that have been devastated by market losses that were no fault of their own, even as the Treasury and the Federal Reserve together appropriately tackle the problem of rebuilding bank balance sheets. In enacting any new tax rebate program, however, I respectfully request that Congress include the same special rules for the U.S. Territories that were included in the earlier stimulus bill.

Second, all States and Territories, including the Virgin Islands, face increasing budget deficits as revenues decline and public needs increase. As noted above, the

Government of the Virgin Islands is facing a deficit of $80 million, or nearly 10 percent of our already-reduced operating budget for the current fiscal year. Accordingly, I also respectfully urge the Congress to consider enacting "counter-cyclical" block grant assistance to States and Territories, similar to the program enacted by Congress in 2003. Such assistance will help our governments to close these deficits without destroying vital public services and, in the process, thwarting economic recovery.

Third, H.R. 7110 provides $12.8 billion for highway projects across the country, including $8.4 million for the Virgin Islands, *provided* that such projects are "ready-to-go," *i.e.*, contracts can be bid within 120 days and funding can be obligated within 180 days of enactment. In the case of the Virgin Islands, we have over $40 million of highway projects that are "ready to go," but lack available funding. In addition, the Government has a backlog of some $400 million of deferred (non-highway) capital projects, of which at least $25 million meet the "ready to go" criteria. Most economists agree that infrastructure projects are an important and effective way to stimulate the economy by creating construction and construction-related jobs and generating substantial indirect hiring and economic impacts. Because of the backlog of "ready to go" projects in the Virgin Islands and across the nation, I respectfully urge Congress to consider substantially expanding the program for infrastructure funding and broadening the types of eligible projects to include public facilities such as schools, hospitals, and environmental infrastructure, as well as transportation-related projects.

Fourth, we would strongly encourage the Federal Reserve to immediately expand its asset purchase programs that now provide for the purchase of asset-backed corporate bonds and corporate commercial paper to include the direct purchase of investment grade municipal bonds for infrastructure investment purposes. Today, state and local governments across the country have tens of billions of dollars of projects ready to go that would have been funded by now had the markets functioned as they should. While Congress is considering a stimulus package that would provide for direct funding of projects, allowing for direct purchases of municipal bonds by the Federal Reserve would be the fastest and most cost-effective way of putting money, and people, to work.

Governments across the country depend upon reliable access to low cost, fixed rate capital for investment in all manner of infrastructure projects funded at the state and local level. Year after year, the municipal bond market has been the source of several hundred billion dollars of capital for investment in our roads, schools, community facilities, and wastewater and solid waste projects, among other essential public infrastructure. But today, the municipal bond market is in turmoil. One of the first casualties of the subprime mortgage problem was the virtual disappearance of the monoline municipal bond insurance companies that are critical to effective market access for many governmental bond issuers. Then, as the financial crisis deepened, the major commercial banks that have been the source of credit support and liquidity for municipal issues shut down their credit windows. Finally, lending simply stopped, and today a wide range of governments and agencies, with projects ready to put shovels into the ground, remains excluded from the market.

A direct bond purchase program would literally cost the Federal Government nothing. Municipal bonds are bankruptcy remote, and Moody's Investors Service data have demonstrated in a thirty-year time series study that the incidence of default among all investment grade municipal bonds, from the triple-A category to the triple-B category, is less than the rate of default among triple-A rated corporate bonds. The Federal Reserve can borrow funds at interest rates well below those of state and local governments (which was true even before the crisis began). Therefore, the Federal Reserve, through a direct purchase program, could achieve three important goals that are timely and critical to the nation's economic recovery. First, it would make funding available for critical infrastructure projects that are "ready-to-go" today. Second, it would fund projects that state and local governments are prepared to fund, providing needed assurances of essentiality. And, third, it would accomplish these goals at zero net cost to the Federal Government.

Finally, we also believe that dramatically higher energy costs—particularly petroleum-based energy costs—will only increase the financial hardship for American families. Accordingly, we respectfully request that Congress consider significantly increased funding for the Low-Income Home Energy Assistance Program (LIHEAP) to help reduce the impacts of increased energy bills on households. In doing so, we urge that the Virgin Islands be treated fairly and equitably in how those funds are allocated. Because of our geographic isolation, the Virgin Islands must rely upon oil for production of 100 percent of our electricity needs. As a result, and because of the high price of oil, we are paying more than any State to generate power. Yet, all of the U.S. Territories collectively receive only a small portion (0.135%) of

LIHEAP funds. The Secretary of Health and Human Services, whose Department administers the LIHEAP, has discretion to increase the Territorial apportionment to 0.5%, but has never exercised his authority to do so. Accordingly, I respectfully request that the Territorial apportionment be adjusted statutorily to 0.5%. This proposed amendment would be a progressive step towards the program's goal to provide equal assistance to low-income households based upon need rather than geographic location.

Again, I appreciate the opportunity to work with the distinguished Members of the Ways and Means Committee in developing effective economic stimulus measures to restore the economic health of the U.S. Virgin Islands and the United States as a whole.

Statement of J. Lee Pickens Project

This submission goes to the heart and soul of the average American who have not reached Main Street priority in the recovery, bailout or have received program intentions before the melt down. Where the homeowners and grassroots businesses are not the cause for the failure, they can be part of the solution to create a strong dollar collectively. They are part of the solution, if combined with an upgrade to 21st Century methods to compete globally. Conversely, the grassroots can a factor to further the extent of the failure, if their victimization is unchecked. The back street failure moves working and middle class assets to the secure upper class that profited from the economic good times that precipitated the bailout, those who's holdings in turn legitimately concentrates assets in a few hands.

Local government can be the solution or the source of problems on either end of the spectrum, depending on the quality of leadership and organization. If special interest has influence, whether initiated at the Federal or state level, the impact will be injected at the local level somewhere, as all politics are local. Certainly pharmaceutical, insurance, lawyers, oil and financial services have powerful lobbyist that approach congress and get provisions that may impact the consumer in many ways but the local government are in on roads, programs, small and medium business (SMB) support and generally planning. Local government can surgically squeeze or relieve a community, an impact far more personal than big business perks. Spoken or unspoken, political affiliation can influence choices on various issues. The history of Block Grants clearly demonstrates that local government can redirect funding, support policy and mask activity for special interest benefit. Mis-management or any reason that hinders the "cream rising to the top", hold back entrepreneurial exploration, business expansion or individuals to improve the way they live and uplift their community is a stake in the heart of the nation. Tax issues before return on capital that yield jobs and more opportunities

The bail out does consider Wall Street and Main Street. However, behind Main Street are the "Community Streets". These streets are not administered equally or demonstratively appropriately in some cases, to the credit of local government. Pet projects get staff time, funding and support disproportionately. The Federal Government hears what the priorities are from local government. If local government favors one group or project over others, then those interests are the requests forwarded. Further, local government can skew or warp information for program redirection. That is, Federal program funding for poverty prevention or economic development in stricken urban areas can be transposed at the local level and placed in special interest projects for Main Street by mimicking the needs across the tracks in request justification.

A CRA can be presented as well used and blight in inner city continue to grow until gentrification has taken place. Some how the reports show great progress and the reality is people are displaced from systemic and endemic poverty. Surely as if the public would make a total pull out of bank deposits, bank defaults would cause a great depression . . . the inverse of small business deposits into banks, including wages passed on from jobs, in the accumulation of unleashed small businesses across America, this volume will recover the economy quickly. Local government is indelibly linked to this promoting potential, supporting growth. The private sector is directly responsible for wealth generation. Congress accountability is dependent on functions that achieve purpose; the efficient match of local government/private partnerships.

When grant money intended for balanced economic growth, lifting the blighted areas is diverted for use in downtown parks, established business infrastructure and wealthy area's façade, all mentioned having above average capital access, influence

and per capita on Main Street . . . funds failing to reach blighted areas are left as prey; they go further into their personal melt downs. It is a continuation for them, a hardening more than the pinch just now being felt on Main Street. If this sounds like mistrust in Government, where these practices exist, mistrust is justified.

II. SIZING LOCAL GOVERNMENT IN THE MELT DOWN; "BOTTOM–UP" AS A FACTOR

Federal programs restoring America's productivity and small business converted or transformed for optimized utility is, in part, where local government's awareness of community realities can respond with modifications that remedy conditions; this is an ideal. Wealth generation springing up from the bottom, met by funding opportunities unleashed from the top that meet in middle class or urban/rural America, in a locally controlled design, to create supply that meet local consumption and even export to global users will accelerate recovery and strengthen the dollar. All the people with good ideas and a willingness to work hard should be able to enter the market to do business, producing revenues, paying taxes and creating jobs is how the system should work. If this was the standard, the nation would have an immunization from the Wall Street folly, as local economies would have the resistance to hold on until credit and 21st Century modernization could catch up from the abuses.

Programs or grants funded from the Federal level of Government should go where local government can show matching relevance to comprehensive programs at the local level. These program's congruity must be verifiable, in deeds, echoed by more than local government reporting. Instead progress measurements should include real recipients acknowledging inclusion that raised their economies, bottom-up. This means entrepreneurial new starts and modernization of micro enterprises (mom/pop) should show they are on track in growth projects. This is a radical change from local government is the first and last word of how economies are going at the grassroots. Waiting to vote a local official in or out is not the efficient way to see that the amalgamation of America's core, the middle class is okay. A President or congress allocating money or policy that is not matched with reforms, also, designed from the ground up is unlikely to reach the optimums that boost America's economic recovery and acceleration back to a leadership position, community-by-community.

County or Municipal leaders voices should be heard but congress is advised to keep in mind "power corrupts, and absolute power . . . corrupts absolutely". Expanding economies must include areas that have not been significant participants in the past, or those called historically poor. Gentrification is not the answer for improvements. Displacing blighted areas with Main Street Players only concentrates power into fewer hands and frankly is disingenuous behavior from a government. Exasperating economic slow downs is when wealth or business opportunities never trickle down to communities. Instead, selective support only forces the poor to lose what they already have, only to intensify the slow down or reversing economic growth.

Congress acting on local short sighted public support or misrepresentation that cloak outcomes in deceptions, are practices that lead to increased crime, youth delinquency and gentrification in addition to pushing the economic tipping point to a melt down. As rating agencies are suspect for companies that were thought to be strong the state of credit and local economies should have be displayed more closer to the reality. It will be said more than once, if people earn a living wage, which infer there are companies enough to create jobs, then they can pay bills, save and expand incomes. Credit is not the "end all" for even the overextended, where an income comes closer.

III. SOLUTION DISCUSSIONS

If local government will produce a strong local tax base the strain on Federal dollars should be lessened.

Local Government should be a "Dog that will hunt". It must produce jobs and ownership opportunities. Job and wealth creation is more important than spending taxes. A direction for business prosperity is preferred more than the medieval image of taking people property or the speed traps to finance the Government.

In a conversation with a Fortune 500 company's sale manager, he explained the lack of success from their "partnership" with outside companies in strategy to downsize yet penetrate markets. The large company wanted its partners to be innovative to generate sales, but instead the partners relied on the big name company to prospect and deliver potential work, which they would then hope to close on. The sales manager referred to this situation as "Dogs that won't hunt".

If a local government fails to have a functional policy that inspire innovation they are remiss. The nation as a whole is harmed as a result. Locally, governments can help implement these innovations into the market (see SBIR). Further, where mu-

nicipal and county leaders themselves lack entrepreneurial learning in areas vital to 21st Century Modernization, logistics and project planning "they are not in the hunt". Belly aching about Federal support may be related to inaction or poor execution at the local level.

Community Based Economic Organizations devoted to economic development for outreach in blighted area present a novel bottom up approach to reduce the drag on a local economy and at the same time make geometric improvements as a network participant; understanding Metcalfe's Law. The Community Based Organization must be a design that can work with higher ed, Chambers of Commerce and local government departments/agencies for a real world representation of the facts. The same design must also be a provider, or a Forth Party Logistics (4PL) that can lead to fill gaps for real people to be successful.

Local government or Main Street who have manipulated policy, for the few, their input will not reflect across the tracks. If the proverbial "tide" that lifts all boats includes permanent residents that will "cast their buckets where they are", and they manage to pull them up with what is needed to feed their own and share the wealth from the bottom up, then intervention is well placed. This simple difference is one for the national level Government to know, risk communities being left behind. If a community has a culture of self-determination then schools and organizations will promote it further, that in turn will restore the reality of "rags to riches" or America as the Land of Opportunity. The friends, family and fellow political affiliates choke hold can have an economic strangle hold that is detrimental to any recovery.

The private sector is the source for wealth creation. Where gaps in education, capital acquisition or resource attainment contribute to or limit poverty levels or the progress of an emerging middle class, community based organizations built with capacity to integrate these private sector innovators in a Fed/State/Local Partnership for growth creates opportunities.

There are gaps to fill. Gaps that come to mind consists of:

- Expanded modernization, technical assistance to obtain global/21st Century capacity. This refers to infrastructure, hardware, software and other networking improvements for connectivity, broadband and otherwise.
- Business process, re-engineering for suitable small business utility, those abilities to send and receive data, where that data is made into useful information by the indigenous community population, considering their average educational and business background levels of attainment.
- Making a business plan that pertain to item (2) and all processes, competition for dollars and showing acceptable risk requires this as a necessity for a startup, expansion, growth and sustainment. Business plans are complex and expensive, and even with the best plan it maybe effective; they are not silver bullets. Having local support infused in the plan, here advantages can be seen as to how it fits in a larger economic development plan, as well as local resources and the information to construct technology, outsourcing and best practices in the core mission will outperform the SBA projections of a 80 percent failure rate.
- Protection from mal-practices in finance, quality deterioration and fair business impropriety in proactive local policy improves growth and reduces litigation. Products and services that work increase productivity by elimination wasted time and money to undo harmful affects and then start from the low point to a recovery in process.

The Community Based Economic Recovery Centric Organization offers risk management for Federal contribution in two channels, where it is allocated 1) directly to SMB and 2) Local Gov programs. A community based facility role can reach out to SBA or Department of Commerce as a grassroots voice to make funding productive and monitor total progress. The Community Based Organizations built with Government cooperation may seem like duplication, and it may be. However, "garbage in" still results in "garbage out" is more likely from a local government with no verification on what happen on the ground. Efficiency should be measured in productivity seen in GDP or per capita. So the suggestion of having an operational (community) and administrative (local government) report will provide a clear picture and a mechanism for better application.

In this manner, the investment in America can be monitored for effect. Progress is more real time in a connected community based organization monitoring the bottom, where the rubber meets the road. Certainly, policy like the Community Reinvestment Act (CRA) are not white washed with users reporting. Metaphorically as this paper may be, the "Fox" should not be reporting on the well being of the "Hen House". The "fox" being a icon for one not to be trusted is intentional. Congress can do everything perfectly, but if the effect is bastardized at the local level, the con-

gress looks bad or ineffectual and America suffers economically. Progress should be hands-on until results is achieved, and the Congress like others only get what it "inspects not what it expects". The bail-out to save a person's house is best done by making an income and that is more likely with functional local policy. Local government cannot be a bucket with holes in it to carry out successful programs.

Congress should be able to ask the community if their efforts have arrived and are being handle responsively. Walmart has a system to track every item on the shelf. Technologies exist, and this is a low technology item to give progress reports on starts, impact, needed adjustments and interventions for decision making. Will this put local government under the scrutiny of Federal Government? Yes, unless local projects come from non-Federal funded budgets. Local government oversight is crucial when funding in the form of grants are directly placed with a community or individual project.

IV. SPECIFIC SUGGESTIONS

Growth incentives:

— Public Land, must be as a matter of state law, first offered for public programs, non-profit economic development, social improvements before sales to private developers. Local budgets that fall short should not be free to sell the people's asset for short falls accumulated from lack of creating a stronger tax base from wealth creation activity.

— Until all public money, taxes or other government collected money that is used in creating the economic recovery package, no private land for operational small business or occupied home/dwelling should be taken or sold for delinquent taxes. Local government should meet a standard employment rate, precipitated by ownership or business establishment before they can take private land and sell it. That is, local government must have a performance standard before the Federal Government puts good money after bad. The deciding factor for assistance is an existing plan for growth.

— Local government shall have ordinance, policy and guidance for small business growth. These policies shall include a intellectual property protection, guidance for business starts, fair business practices and reporting. Strong consumer protection and quality insistent policy will make a measurable improvement to recovery. Consumer spending is key to a recovery; credit, product safety, quality and pricing has to be appropriate and is in the preview of the local system. City Hall and County Seats must be effective for consumer confidence. This is critical to consumer spending and business starts. It is almost a proverb for startups to get ripped off from promises form web site creators, networks, financial products or business services. With scarce dollars in the startup stages, such losses can shut down a business start before the doors ever open.

— Local government shall have an updated 3 and 5 year plan that lifts the poor sections to average standards, these feed into Federal planning of budgets and policy construction. These should be viewed more favorably when endorsed by Community Based Economic Development Organizations.

— Community based organizations with a mission to improve business capacity that balances the influence of local government. That is if funding is allocated for a community project the community should verify the impact. There should be a "truth in impact" much like the "truth in lending" for credit that is employed. Many times communities are not aware or understand funding appropriated for them or in their name that may arrive in part or at all.

— Community based organizations that will capture information and distribute information. This is on a subject well presented by Deloitte & Touche, explaining how companies hire to extract learning for better practices, and how that is used to make institutional improvements. Local government may publicly say it support private enterprise, in reality it is likely to be a controlling and deciding entity where communities are less influential.

— Simplify Federal programs for average users and speed up process. Many Federal grants and programs are literally hundred of pages to apply. The instructions are hundreds of pages. Many application packages are carryovers, where verbiage is added, convoluting the process beyond the response of the average person. Afflicting the situation moreover, is an application error can cause total rejection or a review set back for over a year. Concerning is many times application items can be wavered, favoring certain sources. Related to the same issue, an established company, perhaps one

waved can re-submit on the basis of having the contract or grant, where the approving authority takes the path of lease resistance to approve.

— Un-bundle contracts. Where bundling may save money at the originating level, locally the small company is disadvantaged, specially if the contract bundle is mixed with unrelated specifications.

— Connect with entrepreneur and owners who generate wealth and create opportunities for wealth accumulation (savings and investments) and wage earnings. Local government as a middle man can act contrary to capitalism or the free market. The local level cannot be indifferent. Innovations start with private enterprise, then to business, yet to Government and finally higher ed. Being proactive, government can project the equivalent of "Small Business Innovation Research" (SBIR) at the local level to push economic development projects from the bottom up and draw down specific support to make broad markets, even those that compete globally. In a partnership, state/local and Federal, real world information will improve trust and effectiveness.

— Stimulus package that has funding to and for small businesses. Money to small business will be spent. Returns from ownership spending are wages, taxes and resulting complementary business opportunities. Support systems that effectively modernize small business "on site" in the community, is fundamental. Funding to study groups or Government departments that result in documents on the shelf, are not the same as people opening doors and learning as needed to keep them open. One university I know, got several million dollars to make a community based plan. No money was put in the plan and the community was no better off. Incidentally, no community member was on the planning staff.

— Evaluate compliance capacity for prime contractors. In contracts a certain amount of labor or estimated pricing is expected. This topic goes to unfair bids. The lowest bidder may lead to illegal labor, labor abuse or substandard components to get a bid; then complications mentioned in the simplification issue discussed above apply. Bundling with mixed unrelated items is harder to track. In any case workers are forced to work over 40 hours without compliance with laws and if people need their jobs they are less likely to report. If local government is not pro-active to have policy or enforce laws for fair competition the community will be in a "race to the bottom", as wages are lowered or hiring is not as needed to handle requirements.

V. A PILOT PROGRAM, A MODEL IN PROGRESS FOR COMMUNITY SUPPORT

This is not a complaint without a solution.

The Multi Educational Cultural Center for the Arts is a non-profit registered with the Florida Secretary of State. The parent organization has taken startup steps sponsoring a pilot program for such a community based organization as described in the sections above.

The J. Lee Pickens Project proposal has been submitted to local government with requests for 1) Inclusion in existing economic recovery plans, 2) talks for a Memorandum of Understanding, 3) leadership to align local business centric non-profit organizations, 4) fair business policy review and 5) a fair share financial support. A response is pending.

Please note the parent organization's mission statement:

> **"The Multi Educational Cultural Center of the Arts** is formed to research, develop, maintain data, augment better practices and sustain information technologies as they can be used to further the art of business and self-expression. Particular emphasis is given to innovative concepts and ways of empowering minority owned small to medium sized companies and individuals to act within a collective of services which gives knowledge based assistance and facilities, devoted to understand creating markets, and having national as well as international access for social and economic improvements, especially those creative solutions to over come contributing factors responsible in furthering the information gap. Relieve burdensome transactions by providing assistance through networking and pooling talent, service and goods using information management where economic and information short falls are evident in communities by reason of absence or lacking technology. Create a center to improve cultural enhancements, including awareness, by causing partnerships such to assist in public and private participation toward entrepreneurship to improve skills ultimately for community based efforts to do commerce and spread a positive image of African Americans engaged in social and economic change."

The pilot project is entitled "The J. Lee Pickens Project". The purpose speaks to a logistics lead that adds viability for community based small businesses to succeed. In speaking, wealth generation, wealth accumulating and wages are distinctly different income types. All forms have a place in economic development but operate with separate rules.

Surely communities may or may not have a culture for ownership, the entrepreneurial spirit or global outreach ambitions, which they should in this "Information era". This transformation directs the reflection on leadership and less on the innate composition of the people.

A copy (in PDF Format) of our letter of support and the Pensacola Eastside Plan is available upon request for your consideration.

Undercapitalization is a main cause for SMB failure. The lack of assets, education attainment, influence, organization and experience in historically poor areas create high risk for capitalization. Business plans that originate from these areas, unsupported and not aligned is more wishful thinking. The J. Lee Pickens Project is devoted to organize and plan so as to show scale and scope that make sense for community based banking and Main Street to become willing in support for joint grant, equity and debt packaging.

The J. Lee Pickens Project presence as a 4PL, a source that fill gaps to support success in market making will add confidence for economic recovery. The same organization assists disaster preparedness and global outreach. The community requires an enabler to operate in the startup mode as a 21st Century operation and from there grow to have these internal capabilities. As a 4PL, the J. Lee Pickens Project is more than a business incubator, or a passive design who's main point is offering a discount. J. Lee Pickens Project will have "skin in the game", the parent organization, local government and private sector investors/business.

Improvements go to:

— Counter affects of blight, as these areas are often associated inner city or rural where community per capita is poverty levels and business 2activity is low precipitating joblessness, less public safety and lower educational attainment.
— Such centers should have a designated commerce, VA and SBA representatives on site or directly involved on a weekly, if not daily basis.

This paper is written with a background for a project proposal submitted in Pensacola, FL, a small city located in West Florida. The city has a rich labor base. It has a strong military presence to provide trained active, separated and retired personnel. The BRAC closure of the Depot Level Repair facilities places a high volume of production skill in the market, under utilized. The proposal benefits are focused on small business for veterans, minorities and willing and able traditionally poor communities, these aligned with Main Street and larger companies in 21st Century modernized processes for effectiveness.

The project was announced and presented for support to the city, chamber and local economic centric organizations since 2000. Where none of these entities offered significant support to join in with our organization, multiple examples exist where J. Lee Pickens Project information provided can be found in attempts by some of the same to duplicate our project. Top city officials have in fact advised us to "give the information to others so they can be successful".

The city has no guidance or policy for supporting fair business, innovations or new starts for small business. At best, a policy on how to contract with the city is attempted. There is no policy for protection of intellectual property. In fact, this is a major issue, along with the lack of policy to form accountability in handling fair advantages from information. The city manager insist on information but makes no attempt to prevent unfair use of information despite examples of policy used by the Patent Office or SBIR who demonstrates the ability to maintain confidentially. Meantime, this same office has a history of taking our information, items we choose to guardedly share, and we find it in use by others.

A city plan was approved by council for economic development in a generational depressed area, one with a per capita of less than 20 thousand dollars. The plan has a title and wording for improving a historically poor area but is arguably serving a Main Street project, with no visible rise of economic activity or per capita in the stated community. The community has no control of dollars allocated from state or Federal sources, where all projects are handled solely by city staff. Where the plan for action was approved for completion by 2004, no public reports have been conducted. The subject area defined by geographic boundaries still remains impoverished in 2008, a community experiencing melt down decades long and per capita unchanged.

Resources for broadband, capital improvements and talent are sufficient for 21st Century adaptations for business. The city has access to technical education for skill development and higher ed for research and development in the public domain. The level of existing skills in the private sector is rounded to create several market sectors.

Speculative as to where, but there are local area or city that has families with strong standing influence in the area. Where the concept of "Old Money That Talks" or the "Good Ole Boy Network" are nebulous terms, these same concepts are as "the glass ceiling", an excellent cloak for swaying policy or behavior. Whether evidence exists of fair policy execution or the absence is clear to the researcher who examines business progress, minority, middle class or not. Failed policy clearly has to do with the melt down today, but much of the melt down in historically poor areas came from low wages or insufficient businesses to produce jobs. Where relationships are admirable, they should not supercede vetting a project based on the merits. Then permission for a local project to proceed is other than a matter of democratic process, then the melt down is economic dynamics sandwiched between Wall Street abuse on the top and Main Street manipulation on the bottom, false controls directing the advantages of supply and demand away from 70 percent of potential originators that can bring innovation to power the nation's economy. Relationships that use Government to manipulate are no better than violations of Sherman Anti-Trust or de factor R.I.C.O., said for comparison, as these laws are non-applicable in distorted appearances as being for public interest.

Allowing inner city decay or not tapping into middle class expansion lowers the tipping point for Main Street to fall into a melt down, and Old Money still stands to profit on the fallout. Government managers and old money, arguably may get a pass, meanwhile, across the tracks communities continues to fail, "two out of three isn't bad?" The worry about America, in the end, is household to household, not exactly included in concepts of Main or Wall street. If blight or the middle class is to emerge, congress must reach them directly and hold state and local governments in their proper administrative role to interface with the private sector who are free agents to generate wealth, hence creating jobs and accumulate.

The project is a pilot program that is reproducible, customizable to find and fit markets suitable to a locality. Reproducibility is to scale and scope for initial implementation and diversification as opportunities can be identified. The city is well suited geographically, demographically, technologically and is a representative of small town America to make good assumptions for economic development modeling with scientific methods.

The purpose of the proposal is to roll out a community based organization that can house the connectivity capacity for 21st Century business that matches the community education and business experience, and fill gaps with consultant services and learning for operational and administrative capacity. As a model manager, the project connects for best practices. Further, where gaps hinder logistics, this organizations will develop or find means to supplement small business ability to operate on site or obtain information, services or skills that move academics to function. The organization is key to plan evaluation, filling gaps in function, providing solution where "if I could" limits a community member's business plan. This organization measures and codifies progress for policy construction, budget planning and best practices. Here where large companies can relate to real world business creation and joint projects can take wings. This is a big picture community/private investment with some public support project.

In a time where fast tracking economic development, making a market place where credit fulfills the purpose of return on capital, to repay and yield significant profits is important, this project is the bottoms up system of choice; at least worth exploring on the merits.

The yield has collateral benefits to homeland security, economic recovery, industrial capacity retention, market recovery and nation building contributions. Where some believe distribution of wealth is an evil, the project points that most economist contribute the Great Depression to wealth concentrated in too few hands. This is a way for the nation to grow a new generation for business from the roots in places that are now blighted. Money in local government's hands, even in places affected by natural disasters can fast track pass the disaster and melt down.

V. FINAL COMMENTS

Again this paper is an overview on bottom up or grassroots improvements to promote economic recovery; that grassroots part below Main Street. The requirements here is the collective of America small business power, the pool of Small Businesses realized or not yet materialized that make nearly 80 percent of jobs and incomes. Local government and established business operate on Main Street, it is conceivable

they traditionally have linked agendas. If you agree that local government can accelerate economic growth with new market incentives, attracting companies (see "Retooling for Growth"—McGahey/Vey), intervene in risk reduction and favorable business policy as minimums, then Congress should have a watch dog for their priorities on the ground, where the impact is intended, by the People or community itself. To be clear, there is a long drop from the level of Main Street down to the ground or grassroots.

This is not to say all local government and established business are in cahoots, profiteering or working with indifference to their communities. However, if they are, then Federal grants, program money and local budgets are unchecked "cash cows". Such activities may not be illegal, even as the "Credit Default Swaps" or derivatives had a severe negative impact to cause even a global melt down. Where no performance standards exist there is plenty of latitude for variations on due diligence.

The agitate of low income or joblessness creates the sound of silence when otherwise there should be bustling dynamic business activity at the grassroots. Investing in small companies at the grassroots is not necessary in line with Main Street or large companies prune to offshore potential growth opportunities. Local government can be as much the problem as the solution. Where the voice of the public cannot reach the level for corrections, progress is delayed or stopped.

Credit has a place, but should not be the expected support for daily life. Credit to expand or in any case create wealth generation for a return on the dollar, that pays the lender with interest and yield a profit to the borrower, is the standard for a prosperous community. In the greatest credit crisis, if people can generate wealth, manage returns on accumulated wealth or earn a sufficient wage, they can keep their house, educate the young, get health care and feed their families. Local government must have a positive role, as seen in policy, to small business starts, growth and participation in the local area.

I believe communities sounded the alarm that jobs, wages and new starts were not supporting a reasonable way of life, but the crisis comes as new news. I know one community whose city council meetings were always vociferous on the topics concerning the rate of economic dynamics.

As a disclaimer, where statements here-in are not indicative of all local governments or even members that make up whatever form of local government, the net effect is the main focus here. There is no value sought from impugning reputations but where credibility is essential the generalizations here-in are provided.

In any regard, recovery from the grassroots up is separate from Main Street and certainly Wall Street issues. Grassroots getting capital is a longer standing issue than the melt down. In terms of volume, a million or two from here and there at the grassroots, it soon adds up to be real money.

Statement of Jicrilla Apache Nation

On behalf of the Jicarilla Apache Nation in New Mexico, I would like to thank you for convening this hearing to gather testimony on economic recovery and more specifically about how targeted funding for infrastructure projects across the country can drive job creation. The Jicarilla Apache Nation ("Nation") is a federally recognized Indian Tribe, and our Reservation, which consists of approximately 1 million acres, is located in Northern New Mexico. We have over 4,000 members and 85 percent of the population lives on our Reservation in the town of Dulce, which serves as our tribal headquarters. We understand Congress' desire to quickly provide state and local governments with an infusion of funds for infrastructure projects, and we respectfully request that you work to ensure that Native American Tribal governments are also considered as potential recipients of funding through the proposed second economic stimulus. Like state and local governments, Tribal governments provide essential governmental services to our citizens and neighbors and are similarly in dire need of basic infrastructure development.

For our part, during the last nine years we have been working to address the failing public drinking water and wastewater systems, which were constructed, owned, operated and managed by the Federal Government, on our Reservation. We worked with Congress to authorize a project to repair and replace the dilapidated and failing Federal infrastructure and since that time we have committed significant additional funds and resources to the project.

We worked tirelessly to implement the statutory directive placed on the Secretary of the Interior to comply with the law and construct our project. Unfortunately, although Congress authorized our water system infrastructure project and President

Bush signed it into law in December of 2002 (P.L. 107–331), the Bush Administration has repeatedly failed to include any funding for out project in the Administration's annual budget to Congress. We also understand our project is the only one that acknowledges and mandates corrective action for the Federal Government's liability in establishing and creating a deficient and unsafe public drinking water system serving an Indian reservation population.

Through the leadership and commitment of our New Mexico Congressional delegation we have received almost $2 million appropriations funding for the effort, however a much larger infusion of funds is needed. The current situation requires action now as it has forced the Nation to put other construction projects on hold due to lack of infrastructure. In addition to fully meeting our statutory project share (approx. $15 million), we have invested millions of more additional dollars into repairing and replacing the system, but we have reached our debt capacity. The Nation is prepared to immediately utilize funding to continue our work on the water system so that we can ensure a safe and reliable water supply for our people. In addition, we expect that funding for this infrastructure project will provide between 30–50 jobs immediately in our community which is significant in the extreme rural and depressed region where we reside. The long-term effect of investing in this project will provide greater employment opportunities to the approximately 2,300 tribal members ready for work, as more construction and development opportunities will move forward once the water infrastructure is in-place.

BACKGROUND

The dilapidated condition of the current public water system and waste water infrastructure on the Jicarilla Apache Reservation stems from generations of neglect by the Bureau of Indian Affairs ("BIA"), an agency of the U.S. Department of the Interior, which, as creator, owner and operator of the system, did not properly design, plan for, manage, repair and upgrade portions of the system over the last 90 years. The system diverts water from the Navajo River—a pristine water source, and its initial structures served the original BIA facilities on the Reservation in the early part of the 1900's. As the community of Dulce became the center of activity, members began moving there from other areas of the Reservation. In response to the growth, the BIA expanded the water line to allow members to access the water from common areas. As the area grew with housing and other facilities, water lines were extended, on an ad hoc basis, with no planning or recording. By the 1990's the community's system had every type of water piping, including clay, asbestos lined, other metals, as even some wood piping has been unearthed.

In October 1998, the system completely collapsed at the river and left the Nation without water for a week. The home of one of our elders burned down, with no water to put out the fire. The National Guard brought in bottled water and portable restrooms. The Nation funded emergency efforts to restore water delivery and received no funding from the BIA. In 2006, the wastewater system failed and caused a backup in the Jicarilla Apache Public Library forcing it to close for a long period of time. Other buildings and homes were similarly condemned due to these dire conditions.

The Federal Government's neglect and failure to manage and maintain its public water system serving our people has caused many dire health threats and circumstances and economic hardship including: degraded water quality in the lines, obsolete and non-compliant sewage lagoon ponds which were operating without properly permits because the ponds did not meet the Federal standards, pollution from unlined sewage ponds spilling into the community and into a nearby arroyo which fed back into the Navajo River towards downstream users and stymied economic and housing development opportunities. The most disturbing circumstance, however, is that a large number of tribal members are experiencing serious intestinal and other internal diseases and more community members have been diagnosed and are dying from stomach and other forms of cancer, many documented cases of those living on and served by the main and oldest stem of the water system.

STATUTORY PROJECT AUTHORIZATION

A combination of the water outage, delayed housing and economic develop opportunities and the dire health related circumstances led the Nation's leaders to Washington D.C. to request assistance repairing the Federal Government's broken system. Our first step was to approach the owner and operator of the system, the BIA headquarters in the U.S. Department of the Interior in Washington. They told us they had no funds to address the problem. The Nation sought help from other Federal agencies, who were sympathetic but generally unable to assist because the BIA owned and operated the system at the time. They also informed that the enormity

of the problems with the system required a significant investment of resources that they would not be able to accommodate.

Working with our Congressional delegation from New Mexico and others sympathetic to our case, we developed and pursued a legislative route to authorize a project specifically to repair the system. In 2000, Congress passed a law which directed the Department of the Interior, through the Bureau of Reclamation ("BOR"), to conduct a feasibility study on upgrading the system. ***See*** **Public Law 106–243**. The Nation worked directly with BOR on conducting the study which was completed in September of 2002.

The study concluded that $45 million would be needed to replace the existing water delivery and wastewater infrastructure. The report acknowledged the Nation's efforts in contributing $15 million to improve portions of the system including: replacement of the diversion structures and pipeline at the river and up to the water treatment plant; building a new water treatment plant and expanding its capacity; repairing and replacing old water towers; and replacement of infrastructure on the expansion Mundo Ranch property.

Following the completed report, our New Mexico Congressional delegation introduced legislation to direct the Secretary of the Interior to repair and replace the infrastructure based on the recommendations in the feasibility report; the legislation also authorized the Department to expend funding to undertake this project.

On December 13, 2002, President Bush signed into law the Jicarilla Apache Reservation Rural Water System Act, **Public Law 107–331, Title VIII**, which directs the Secretary of the Interior to proceed with a project to replace the defunct infrastructure, as outlined and recommended in the feasibility report, and which authorizes the appropriation of funds ($45 million) for our project. There are no sunset provisions in the law and its construction mandate is specifically not subject to the availability of appropriations.

INADEQUATE FEDERAL FUNDING & FAILURE TO IMPLEMENT THE LAW

Since Congress authorized our project and mandated the Secretary of the Interior to commence construction of the project nearly six years ago, the Nation has worked tirelessly to secure funding for the development of our project through the Bureau of Reclamation's account in the Energy and Water Development Appropriations bill and through the annual budget process. In spite of our diligence, neither Congress nor the Administration provided any funding for our project in the Fiscal Years ("FY") 2003, 2004 and 2004 appropriations cycles. Finally, in FY 2006, Congress provided $250,000 for our project in the Energy and Water Development Appropriations bill. In total, since Congress authorized our project which was signed into law nearly six years ago, the Nation has received less than $2 million for our project. Currently, Congress has included $3 million in the House FY 2009 Energy and Water appropriations bill and $1 million in the Senate FY 2009 Energy and Water appropriations bill, though it remains unclear the fate of the remaining un-enacted appropriations bills. While we are very grateful for these funds in a tough fiscal environment, there is an overwhelming need for Congress to provide a greater infusion of funds for this project.

The Administration has failed to include funding for our fully authorized project in their annual budget request to Congress. We have regularly met with the Office of Management and Budget, the Assistant Secretary for Water and Science and the BOR Commissioner urging them to implement the law and take action to help us address this serious pubic health crisis. Sadly, our pleas have fallen on the deaf ears of the Bush Administration.

"READY–TO–GO" PROJECT & IMPACT OF INADEQUATE INVESTMENT

The Nation is ready to move forward on repairing and replacing existing water lines in the town of Dulce and also completing water and sewer line extensions to new housing projects. The Nation's rural water infrastructure project meets the criteria set forth by the House Transportation and Infrastructure Committee's memorandum ("Memorandum") outlining "ready-to-go" projects.

More specifically, the Nation's project mirrors an example of a project located in the state of New York, the "Village of Cuba, New York" wastewater treatment system. The Memorandum states that the Village of Cuba project "is served by a sanitary sewer collection system constructed in the 1920's that utilizes mainly vitrified clay tile piping." Similarly, the Nation's water system was also constructed in the early 1900's and currently consists of clay and wood pipes. As a result, the Nation suffers constant line breaks from the clay pipes, which have no flexibility and are more prone to root intrusions and structural cracks.

The Memorandum further states that "most wastewater treatment utilities have small capital-related projects on the shelf that could be carried [out] very quickly," thereby citing the cost of the Village of Cuba as $2.1 million. The Nation's economic stimulus needs for our rural water infrastructure project falls between the cost range provided by the Memorandum (wastewater projects ranging from $2.1 million to $103 million).

Furthermore, Village of Cuba example details that the median household income is well below the New York State median household income, therefore, further justifying Congressional investment in the project. Indian Country comprises some of the most depressed and remote areas of the country. The Nation's location in the rural and remote Rio Arriba County limits economic development tied to the major metropolitan areas of the state of New Mexico and affects the Nation's overall economy. Specifically, according to the 2000 Census, the Nation's unemployment rate was 14.2 percent and the per capita income was $10,136. However, in comparison to the State of New Mexico 2000 Census data, the unemployment rate was 5 percent (the U.S. average was 4 percent) and the per capita income in 2000 was $17,261.

In addition, the BIA 2004 Labor Force Report ("Report"), the most recent report available, details that the Nation's unemployment rate is 52 percent. According to the Bureau of Labor and Statistics, the State of New Mexico's unemployment rate for 2004 was 5.2 percent. Notably, the Nation's unemployment rate is 10 times higher than the state's average. Also, of the Nation's tribal members, approximately 2,310 individuals are available for work and approximately only 1,112 individuals are employed. This data illustrates the overwhelming need for employment opportunities for the Nation's tribal members and reflects the critical need for Congressional investment in the Nation's rural water infrastructure system.

NATION'S HOUSING AND ECONOMIC DEVELOPMENT NEEDS

Similar to the current crisis state and local governments are experiencing with stalled infrastructure and development projects, the Nation also has authorized economic development opportunities for its community and tribal members and is currently foregoing further progress until the proper infrastructure and investment are established. For example, the Jicarilla Apache Utility Authority ("JAUA") is developing the Mundo Ranch property to accommodate multiple facilities including institutional, single family housing, and small commercial properties. To date, the Nation has authorized the expenditure of $7.5 million in funds towards the development of the Mundo Ranch.

The first phase of the single family housing plan includes $3.5 million expended by the Nation through JAUA to construct utilities, roads, and site preparations for 46 housing units. To date, 35 units have been completed and are currently rented at $300 per month, under a 15-year-rent-to-own program. However, the Nation still has a current waiting list of over 400 families for housing. To provide additional housing resources for its tribal members, the Nation has acquired post-Katrina Federal Emergency Management Agency ("FEMA") mobile homes that have been allotted to tribes. As the Nation continues to receive the mobile home units, it is vital for the Nation to set-up and establish the proper infrastructure to serve the newly-acquired mobile homes for families to immediately inhabit them.

The Nation is an oil and gas producing tribe. Therefore, safe and reliable roadways must be constructed and maintained to access the oil and gas resources on the Reservation. The Nation contracts their roads program from the BIA under P.L. 93–638 and employs tribal members for the roadway work. The Nation maintains about 700 miles of BIA and tribal roadways. However, there are still dirt streets in our residential areas in Dulce and across the Reservation, and the Nation plans to extend the bike and pedestrian path to a new housing development and new elementary school. It is difficult for the Nation to proceed with these initiatives when the water infrastructure is incomplete and non-existent in certain areas on the Reservation.

The Nation's rural water infrastructure system is a vital link in providing adequate services to our tribal members and communities. Without a completely updated and properly-repaired system, the Nation is unable to move forward on pending projects. Therefore, the Nation cannot provide employment opportunities in roadwork for our tribal members; maintain, expand, and upgrade our roadways for community and economic development use; and further construct and make available housing units to our tribal members. It is our responsibility as a tribal government to provide the necessary services for our tribal members, and the Nation has continuously and consistently made the investment in our community to the extent possible. However, the Nation is in-need of assistance in this current crisis from Congress, just as state and local governments are requesting.

CONCLUSION

Since the legislation's enactment in December 2002, the Nation has been forced to borrow millions of additional dollars on the project because of the urgency and crisis facing our people. But, we have reached our debt capacity. While progress has been made on the project, the Nation has been forced to put a number of important projects on hold due to the lack of infrastructure and funding shortfalls. For example, there is a tremendous need for new housing on the Reservation. In fact, we currently have over 400 people on a waiting list for homes. We cannot build these new homes until the infrastructure is available to support them.

It is time for the Federal Government to invest in Indian Country and meet its statutory and moral obligations owed to the Nation. The United States has a trust responsibility to the Nation, our citizens and our trust resources. Notably, ours is the only project Congress has authorized which is fully encompassed in an Indian reservation and which has100 percent Indian project beneficiaries. We hope that you will work to ensure that Native American Tribal governments are included as governmental recipients of funds, along with state and local governments, for infrastructure work in the second economic stimulus.

Again, thank you for holding this very important hearing and for the opportunity to express our views and concerns as you move forward with the economic stimulus legislation.

Statement of Jim Gibbon

Goodwill Industries International, Inc represents 184 local and autonomous Goodwill Industries agencies in 48 states and 16 countries that help people with barriers to employment to participate in the workforce. The roots of today's Goodwill Industries International began as a simple idea in 1902 when Rev. Edgar Helms set out to help poor immigrants in Boston's South End by collecting clothes and household items from wealthier Bostonians to give clothing and household items for the struggling immigrants. He discovered, to his surprise, that the immigrants were too proud to simply accept the items. So he took his idea a step further by enlisting volunteers to repair, clean, and sell the items at reasonable prices. He used the revenue to provide wages to the workers—and the first Goodwill Industries store was born.

More than 100 years later, Edgar Helms' idea of "a hand up, not a handout" has become a powerful one. In 2007, the Goodwill Industries network raised more than $3 billion through its retail, contracts, and mission services operations. Nearly 84 percent of the funds Goodwill Industries raised last year was used to serve more than 1 million different people, including more than 163,000 job placements. As our nation—our World—faces an economic crisis that many experts believe to be the worst since the Great Depression, Goodwill Industries stands ready to continue in its long tradition of enhancing the dignity and quality of life of individuals, families, and communities by eliminating barriers to opportunity and helping people in need to reach their fullest potential though the power of work.

Local Goodwill Industries agencies are seeing first hand the effects of the recent economic crisis. In terms of retail, sales in North America increased by approximately 7 percent during the first eight months of this year, a statistic that is likely to demonstrate that more people, particularly more middle-class people, are shopping at Goodwill Industries stores in an effort to cut costs. On the supply side, donations, Goodwill Industries International has been concerned that donations may decrease as people, short on cash, decide to hang on to the items they have longer than usual. While some local Goodwill Industries agencies, particularly those in areas affected by recent hurricanes, have seen donations decrease, Goodwill Industries agencies nationwide report that the number of drop-offs in North America has remained stable; however it is just too soon to tell. For these and other reasons, Goodwill Industries International has been closely monitoring Congressional efforts to stabilize the financial sector and stimulate the economy. We are hopeful that the package Congress recently passed, the Emergency Economic Stabilization Act of 2008, will be good for both Wall Street and Main Street as Congress intended. We are also encouraged by Federal Reserve Chairman Ben Bernanke's recent testimony before the House Budget Committee, in which he stated that "consideration of a fiscal package by the Congress at this juncture seems appropriate."

Considering the nearly 900,000 lost jobs since January and the 6.1 percent unemployment rate, Goodwill Industries International believes that such a package should reflect a strategy to stimulate the economy while investing in job training

that support efforts to restore struggling and discouraged workers to employment. Therefore, Goodwill Industries International was encouraged by Speaker of the House, Nancy Pelosi's September 18 letter to President George W. Bush, which called for a second stimulus bill that invests "in infrastructure for economic growth and job creation here at home." While extending Unemployment Insurance benefits is necessary to extend a lifeline for people who have exhausted or are close to exhausting their benefits, a second stimulus bill should include additional investments in job training. For example, it should include funds such as those proposed in a Senate economic stimulus proposal to provide $300 million for "part-time jobs after school, paid internships, and community service jobs for older youth," and an additional $300 million for employment and training activities for dislocated workers.

Beyond such existing proposals, Goodwill Industries International urges Congress to include significant funding in the second economic stimulus bill that would allow us to do more. For example, with a minimal investment on the front end, our agencies can expand into new areas to increase transitional employment placements until job losses and the unemployment rate show a sustained trend in a positive direction. Goodwill Industries is in a unique position to become an administrative conduit and employer for putting workers into public sector jobs while providing the training and supports necessary to move their careers toward permanent jobs that help stabilize their family financial situation. Such an investment would help stimulate the economy and help restore people to employment in a number of ways. First, the provision of temporary employment would provide a much needed lifeline to unemployed workers. For example, those who have exhausted or those who are likely to exhaust their Unemployment Insurance benefits could be quickly placed in temporary employment, providing an immediate source of income in addition to other available public supports that they will quickly spend on basic needs such as housing, food, and utilities. As this money starts to circulate in the economy, our employment specialists could assist their efforts to find more permanent employment.

While most Goodwill Industries agencies provide transitional employment opportunities, Goodwill's 2007 Annual Statistical report shows that at least 82 local Goodwill Industries agencies in the United States provided more than $61.6 million in paychecks to 11,470 individuals participating in training. Goodwill's Annual Statistical Report includes a wealth of information about all the local Goodwill Industries agencies; however, I'll highlight the contribution made by Goodwill Industries of the Greater East Bay, which provides workforce development services, including transitional employment, job readiness training, and placement services to people facing barriers to employment in Alameda, Contra Costa, and Solano Counties. In 2007, Goodwill Industries of the East Bay reported that 324 individuals earned more than $6.2 million by participating in its paid employment training programs.

As I stated earlier in this testimony, last year, local Goodwill Industries agencies raised more than $3.1 billion through retail, contracts, and mission services. Nearly 84 percent of that revenue was used to provide services and activities, including transitional employment, to help people become productive contributing members of their communities—individuals who face such disadvantaging conditions as welfare dependence, homelessness, a criminal background, or a physical, mental, or emotional disability. During these uncertain times, the unemployment levels and social needs of Goodwill Industries constituents are likely to expand, despite the steady and disturbing trend observed over the past several years of reduced Federal funding for workforce development.

Many of our local agencies operate One Stop Centers or function as service providers in the public workforce system. As Members of the Committee know all too well, the Workforce Investment Act expired in 2003. Although Congress has continued to appropriate funds for WIA's expired Adult, Youth, and Dislocated Workers programs, funding levels for these programs have steadily eroded—from $3.9 billion in FY 2002 to $3.2 billion FY 2007. Certainly, the time to reverse this trend is now. A time of recession is no time to cut funding for job training. Goodwill Industries International urges Congress to make funding for and the reauthorization of WIA a top priority. The reauthorization of WIA offers an opportunity to ensure that our public workforce system is responsive to the diverse needs of workers and employers. Goodwill Industries International looks forward to working with Congress and the new Administration toward developing a bi-partisan WIA reauthorization bill that invests in the future of our workforce while assisting individuals with barriers to employment to obtain the job skills necessary to become self-sufficient and meet the needs of our nation's businesses.

Earlier in my testimony, I cited Goodwill Industries of the Greater East Bay to illustrate the positive impact that just one Goodwill Industries agency can have on the communities it serves; yet Goodwill Industries agencies nationwide are making similar contributions that we will gladly share with this Committee. In closing,

Goodwill Industries International would like to take this opportunity to extend an open invitation to Members of this Committee—as well as to other interested Members of the U.S. House of Representatives and the U.S. Senate—to visit the local Goodwill Industries agency in your district when it is convenient for your busy schedule. I hope that many of you will accept my offer to get a first-hand look at how Edgar Helm's entrepreneurial vision lives on in the communities you represent and others across the country.

Statement of Kenneth J. Kies

Mr. Chairman, Ranking Member McCrery, and members of the Committee, my name is Ken Kies. I am managing director of the Federal Policy Group, a practice of Clark & Wamberg, LLC. In addition to my positions in the private sector, I formerly served as Chief of Staff to the Joint Committee on Taxation, and as a tax counsel to this Committee.

I appreciate the opportunity to submit this testimony in connection with the Committee's hearing on "Economic Recovery, Job Creation and Investment in America". Clearly, the topic of the hearing is of critical importance, and I commend the Committee for its focus on these issues.

The Committee has heard from many witnesses who have identified a variety of initiatives within the Committee's jurisdiction which may promote much needed economic growth. Many of those suggestions have great merit, and are worthy of the Committee's consideration. However, rather than review all the proposals before the Committee, I wish to focus my testimony on a single issue which I believe can be of particular value in unlocking capital which may be used to create jobs and promote economic growth: the tax treatment of corporate capital losses. I believe that current law has greatly impeded the effective deployment of capital, particularly in the current economic crisis, and much needed reforms would do much to help our economy move forward.

Under current law, capital losses by corporate taxpayers are allowed in any tax year only to the extent of capital gains in that year. Capital losses which exceed capital gains generally may be carried back to each of the three years preceding the loss year, and carried forward to each of the five taxable years succeeding the loss year. (Section 1212(a)(1)(B)). In the case of a regulated investment company (as defined in Section 851), a capital loss carryover is permitted for each of the eight years succeeding the loss year. (Section 1212(a)(1)(C)(i)). To the extent a capital loss is attributable to a foreign expropriation capital loss, a capital loss carryover is permitted for each of the ten years succeeding the loss year. (Section 1212(a)(1)(C)(ii)).

The tax treatment of corporate capital losses under current law presents three fundamental problems.

First, the current tax treatment of corporate capital losses is far more restrictive than analogous provisions of the Internal Revenue Code. For example, Section 904 of the Code permits foreign tax credits to be carried forward up to ten years. Congress extended the carryover period for the foreign tax credit from five years to ten as part of the "American Jobs Creation Act of 2004". In doing so, Congress expressed its concern that limiting the carryover to five years too often denied taxpayers a legitimate tax benefit by disallowing a very real cost for no other reason than the passage of time, thus resulting in the payment of greater taxes than properly due. A similar concern has led Congress to extend the carryover period for net operating losses to twenty years. Individual taxpayers may carryover capital losses indefinitely.

Second, the current tax treatment of corporate capital losses does not comport with economic reality. A corporation's financial position may be assessed accurately only over the long term. Business decisions and market conditions may have short term consequences that do not reflect their longer term impact. The economic realities of a loss incurred in one year only may be gauged accurately in the context of a business's long term performance. Executives should be encouraged to make decisions that have the most beneficial impact on their business's long term prospects, not short term tax consequences. Sound tax policy should seek to conform the tax burden of a taxpayer, individual or corporate, to that taxpayer's economic reality. For that reason, there are no policy grounds for placing greater restrictions on carrying capital losses forward than, at a minimum, the ten years permitted foreign tax credits, or preventing the carryback of losses for a similar period. Corporations which incur capital losses, like taxpayers who pay foreign taxes, experience a real, quantifiable change in their financial position. Disallowing capital losses for cor-

porate taxpayers for no other reason than the passage of time would fail to account for the economic reality of those losses, and would arbitrarily increase their tax burden, a concern which led Congress to extend the carryover period for foreign tax credits.

Third, present law limitations on the carryforward and carryback of corporate capital losses unnecessarily impede investment, misdirect the allocation of capital from its most productive uses, and, in the end, cost jobs. Because aiding recovery, creating jobs, and promoting investment is the focus of this hearing, I would like to focus the remainder of my testimony on how the current tax treatment of corporate capital losses acts counter to those goals, and how those adverse policy results may be reversed.

Current law discourages corporate taxpayers from reallocating capital from less productive assets to more promising uses—that is, uses which would generate added revenues and job growth—because of a concern that losses incurred upon the sale of those assets ultimately would expire and thus be disallowed for tax purposes. Perhaps worse, current law also encourages taxpayers to sell valued and productive assets which would otherwise be retained in order to generate capital gains to "match" against soon-to-expire losses. For those reasons, current law violates the basic tenet of sound tax policy that the Tax Code should not distort taxpayer behavior; decisions should be made on the basis of their economic benefit, not their tax consequences.

The adverse effects of the current tax treatment of corporate capital losses are far more pronounced in the current distressed economic environment.

Because the unrealized losses on so many assets are now so great, and the economic outlook is so uncertain, corporate taxpayers quite rightly lack confidence that they will ever be able to utilize the tax benefits associated with sales of assets at depressed prices. As a consequence, whereas an individual, who may carryforward capital losses indefinitely, knows that if he or she sells at a loss, he or she may later recover as much as half of that loss (depending on then applicable Federal and state tax rates) by offsetting future gains, a corporate taxpayer risks losing that tax benefit, particularly if the loss is great and the intermediate term outlook for offsetting gains is poor. Simply put, given current economic conditions, the prospects are not at all clear that assets with little or no built-in gain will appreciate sufficiently over the next five years to provide gains sufficient to offset significant corporate capital losses. Under such circumstances, there is a very strong inducement for a corporate taxpayer to hold on to a devalued asset, thus further clogging already sluggish markets.

In addition to providing a disincentive for sellers, current law also reduces the pool of buyers—unless a corporation has the ability to make its current assets liquid through sale or financing, it lacks the means to purchase the assets of others. Reducing the pool of buyers at a time when prospective purchasers already are scarce merely exacerbates the impact of the current economic troubles. Moreover, because of the ongoing credit crisis, it is essential that existing capital losses, as well as losses that may be incurred in the future, be included in an extension of the carryforward period. Currently, potential buyers simply may not have access to the credit needed to purchase assets with unrealized gains, transactions that would enable sellers to manage the tax attributes of their existing capital losses. As a result, those losses continue to be carried forward, even if it means doing so beyond the current five year window, after which the losses no longer have value for tax purposes.

Restricting the carryback period of corporate capital losses to a mere three years also impedes economic activity and stifles job growth. A corporate taxpayer which has, or could realize, a loss now has only two options. It can apply those losses to very recent gains, or it can hope that it has enough intermediate term gains to offset those losses in the succeeding five years. By permitting taxpayers to carryback corporate capital losses over a longer period, Congress could greatly increase the capital immediately available to employers to invest in new plants, equipment, and jobs. Also, it would facilitate the productive allocation of capital by providing greater certainty about the tax consequences of those decisions, that is, executives would often know immediately about the tax impact of their decisions, rather than having to speculate about what will happen in the next several years.

The bottom line is that the cumulative effect of the current tax treatment of corporate capital gains is harmful to investment, harmful to job creation, and harmful to economic recovery. Fortunately, these adverse effects may be not just be remedied, but reversed, through conforming the provisions relating to corporate capital losses to analogous provisions in the Tax Code. In particular, Congress should, at a minimum, extend the capital loss carryover period from five to at least ten years, as it did with foreign tax credits in 2004, but which would still be less than that

afforded for capital losses realized by individual taxpayers. The carryover should be extended for all losses which have not yet lapsed as of the date of enactment, as also was done with respect to foreign tax credits.

In fact, the policy rationale for extending the capital loss carryforward period is even more compelling than that for foreign tax credits. As with foreign tax credits, limiting the carryover period to five years for capital losses could result in an excessive, and unjustifiable, tax burden. However, unlike the case of foreign tax credits, an overly restrictive carryover period for capital losses has the further adverse effect of impeding investment and promoting the misallocation of capital.

In addition, the carryback period should be similarly extended. Doing so would free up impaired assets, generate liquidity, and provide taxpayers with immediate capital to make needed investments and to create jobs.

Mr. Chairman, Ranking Member McCrery, and members of the Committee, I thank you again for conducting this important hearing, and for the opportunity to present my views. I believe that by acting on many of the ideas presented to the Committee in this hearing, including making critically needed changes to the tax treatment of corporate capital losses, the Committee can contribute in a very significant way to setting our country on course for a robust recovery that benefits all Americans.

ATTACHMENT: CLIENT AND WITNESS LIST

Hearing on Economic Recovery, Job Creation and Investment in America

Wednesday, October 29, 2008

WITNESS: Mr. Kenneth J. Kies
Managing Director
Federal Policy Group
101 Constitution Avenue, N.W.
Washington, D.C. 20001

CLIENT: Starwood Hotels and Resorts Worldwide, Inc.

Statement of Meg Torgerud

Economic Security and Economic Stimulus Legislation

This submission is to support reinstatement of funding for Child Support programs lost by the passing of the Deficit Reduction Act of 2004.

There are many statistics available that indicate it is sound public policy to invest in Child Support programs. Nationally, 25 percent of our nation's children are dependent on child support payments, which, when received, make up 30 percent of an average poverty-level family's total household income. Investing in child support enforcement, according to the current Administration, has returns of $4.73 to families for every dollar invested in the program. In Wisconsin, approximately $6.00 in child support is collected for every dollar spent on its child support program.

Child Support agencies provide a vital economic stimulus by virtue of the work we do every day and empowers families to be more self sufficient. There are additional benefits in reduced reliance on public assistance programs when families receive child support routinely. I urge you to reinstate child support funding in this legislation.

Statement of National Association of Home Builders

On behalf of the approximately 235,000 members of the National Association of Home Builders (NAHB), thank you for the opportunity to submit testimony for the hearing entitled, Economic Recovery, Job Creation and Investment in America. We applaud the Committee for continuing to investigate options for hastening the nation's recovery from the current economic downturn. As a federation of 850 state and local Home Builder Associations, NAHB appreciates the additional focus of the hearing on the situation at the state and local levels. Housing and home building play as critical of a role in the economic strength of state and local economies as they do for the national economy.

NAHB continues to believe that the housing crisis must be addressed head-on if there is any hope for a speedy national economic recovery. Whether it's the family facing foreclosure, the community bank on the verge of failure or the Wall Street investment house with plummeting asset values, the housing crisis is at the source. NAHB is not alone in this belief—Alan Greenspan, Warren Buffett, Glenn Hubbard (Dean of the Columbia School of Business), Treasury Secretary Henry Paulson and Federal Reserve Chairman Ben Bernanke all state unequivocally that challenges in the housing market are the root of the problem. NAHB is grateful for the work of the Committee and the Congress overall in crafting the Housing and Economic Recovery Act of 2008 (HERA), which took several important steps to addressing the crisis in the housing markets.

The HERA legislation provided for several critical tools to help mitigate the housing crisis, including creation of a temporary first-time home buyer tax credit, provision for additional tax-exempt bond authority for the states and modernization of the nation's central affordable housing production program. NAHB, and many other members of the housing community, have spent significant time and resources since the passage of HERA to promote these tools and get them implemented in the marketplace. Unfortunately, the effectiveness of these provisions seems to have been hindered by the dramatic decline in the financial markets both here and abroad. We believe that even more aggressive steps must be taken, building on the strong foundation of the HERA legislation, as other financial rescue plans are being implemented.

This statement is divided into four sections. First, it provides an update on the current state of the housing and mortgage markets. Second, it contains a recent analysis conducted by NAHB of the impacts of the contraction in housing and home building on state economies. Third, the statement describes NAHB's efforts to date in promoting the provisions of the Housing and Economic Recovery Act of 2008 (HERA), feedback received on specific provisions and impacts of the current financial crisis on their implementation. Our hope is that this is instructive as Congress crafts economic recovery/stimulus proposals, especially in regards to stabilizing the housing market. Finally, the statement offers several policy options for the Committee's consideration as it crafts an economic recovery package.

Current Housing Market and Economic Conditions

Housing is central to the economic crisis that now affects the world economy. The declines in house prices, the surge in foreclosures, and the reduction in home building activity are historic in scope and threaten to generate the most severe recession in decades. Policies that aim to improve the current economic environment must address conditions in the housing market. Indeed, in testimony before the House Budget Committee on October 21st, Federal Reserve Chairman Bernanke highlighted the importance of stimulating housing demand:

> Finally, in the ideal case, a fiscal package would not only boost overall spending and economic activity but would also be aimed at redressing specific factors that have the potential to extend or deepen the economic slowdown. As I discussed earlier, the extraordinary tightening in credit conditions has played a central role in the slowdown thus far and could be an important factor delaying the recovery. If the Congress proceeds with a fiscal package, it should consider including measures to help improve access to credit by consumers, homebuyers, businesses, and other borrowers. Such actions might be particularly effective at promoting economic growth and job creation.

A review of several key housing statistics reveals the historic nature of the downturn and its impacts on the overall economy.

Economic Impact

The impact of home building and housing in general, in good times and bad, on the national economy should not be underestimated. According to the Bureau of Economic Analysis, in 2004 home building was responsible for 5.4 percent of gross domestic product (GDP). Housing in general contributed another 10.2 percent, for a direct housing impact on GDP of 15.6 percent. When counting indirect effects, such as furniture, housing wares, and other related housing activities, housing's total share of the economy was equal to 25 percent in 2004.

Moreover, housing was responsible for 22.3 percent of the growth of GDP in 2004. While impressive, it pales in comparison to the role housing played in 2001—the year housing held strong while the rest of the economy was in recession. In 2001, housing was responsible for nearly 40 percent of the growth of GDP.

Likewise, as housing has slowed, so has the national economy. In recent quarters, the decline in home building activity has subtracted a percentage point or more

from annualized GDP growth. These facts suggest that the recovery from the current economic crisis must begin in the housing sector. Without addressing the crisis in home prices and residential construction, no recovery effort will be successful. Key to this effort is stimulating housing demand.

Home Sales

The reduction in housing demand can easily be seen in the decline of sales of new and existing homes. According to Census data, since July of 2004 sales of newly constructed homes have fallen from an annual rate of 1.389 million homes to a rate of 464,000, a decline of 66.6 percent. This is the most dramatic decline of new home sales since the Great Depression. In contrast, the decline in home sales from 1977 to 1980—a very severe downturn for the housing sector—resulted in a 57.6 percent decline from peak to trough.

For existing homes, the decline in single-family sales is masked by recent increases in foreclosure and short sales. According to National Association of Realtors (NAR) data, since September of 2004, existing home sales have declined 32.8 percent, from an annualized rate of 6.34 million units to 4.26 million.

Inventory

The historic increase in foreclosures, tightened mortgage qualifying criteria, and general declining economic conditions have significantly cut demand for housing. The result has been a surge in new and existing home for-sale inventories. According to Census data, newly-constructed home inventories increased to 572,000 in July of 2006. Since that time, inventories have fallen to 394,000. However, sales have fallen even more dramatically. Consequently, the months-supply measure (the number of months required to sell all inventory at current sales rates) has increased from 4.5 months-supply in August of 2004 to 10.4 months-supply in September of 2008. A healthy market has a months-supply measure of no more than 6.

A similar story has played out in the existing homes market, where according to NAR data inventories of homes-for-sale have increased from 2.8 million in August of 2004 to 4.3 million in August of 2008. The months-supply measure in the existing homes market is 10.4. These are historic levels of excess housing supply.

Home Prices

Relative to sales, the elevated levels of home inventories have placed strong downward pressure on prices. The Case-Shiller Composite 20 house price series indicates that house prices have declined by 20.3 percent since June of 2006. Some metropolitan areas have seen much more drastic declines. Phoenix and Las Vegas are down by 36 percent from the peak of their markets. Miami is down by 35 percent. San Diego is down 33 percent. Detroit is down by 27 percent. Washington, D.C. is down 22 percent.

While some price adjustment is healthy for the housing market to bring price-to-income ratios back to sustainable levels, an overshoot of prices on the downswing due to anemic housing demand will hurt not just those in the real estate industry but homeowners as well. According to Federal Reserve data, housing wealth constitutes approximately one-half of the median U.S. household's net worth. Declines in home prices necessarily produce a negative wealth shock for American families, which results in reduced consumption and investment, producing long-run negative impacts on economic growth.

Housing price declines are also clearly responsible for the vicious cycle taking place in financial markets. The slew of financial institution failures and bailouts is directly attributable to the decline in value of mortgage-backed securities. These assets have fallen in value, requiring aggressive reductions in the book values of their owners, because the expected revenues attributable to these assets are declining. This is due to the increasing level of foreclosures, which are increasing in no small part due to falling house values, which impede the ability of strapped homeowners to refinance problematic mortgages. The fallout from these interrelated impacts in the financial sector have caused a liquidity crisis for buyers and small business, including many home builders, which in turn place additional pressure on home prices, thus feeding the vicious cycle. Only an increase in housing demand can stop this downward spiral.

Housing Starts

Due to the need to bring housing supply and demand back into balance and restore health to the housing market, home builders have prudently, if painfully, significantly slowed construction of new homes. Since the peak of housing construction activity in January of 2006, Census data demonstrate that housing starts have declined from 2.3 million housing units (on an annual basis) to 817,000 housing units, a decline of 64 percent. This is the most dramatic decline in housing construction

activity since the end of World War II. Multifamily starts are down by 51% since the peak, and single-family starts are off 70 percent since that time. Given the impact of home building on the economy, this reduction in activity means lost jobs, reduced tax revenue for state and local governments, and lost economic activity for businesses that supply the home building sector. For example, NAHB analysis of Census data indicates that construction of an individual single-family home is tied to the creation of 3.04 jobs and the payment of $89,216 in Federal and state/local taxes.[1]

Employment

The decline in home building has had devastating consequences for builders and workers whose livelihood depends on construction activity. According to Bureau of Labor Statistics data, since the peak in industry employment in February of 2006, home builders and associated trades have experienced a loss of 575,000 jobs—16.6 percent of the total—with more expected as the slump continues. However, this estimate understates the impact because it does not count related industries whose economic activity has declined along with home building. This net impact can be seen in the national unemployment rate, which has increased from a low in December of 2006 of 4.4 percent to a current rate of 6.1 percent. Many economists expect this measure to increase in the coming months. NAHB's forecast is for it to increase to 7.4 percent by the fourth quarter of 2009. As with the vicious cycle noted before, increasing unemployment will make the situation worse by reducing housing demand, thus hurting the real estate sector, and producing more job losses.

This bleak picture of past, current and future economic events suggests that effective fiscal policy must stimulate the market at the center of the economic crisis: housing. Further, the rapid development of this crisis since the passage of the HERA legislation and the depth to which it is impacting the nation calls for even more robust housing stimulus measures.

Effects of Home Building Contraction of State Economies

It is important to also discuss the impacts of the housing and home building contraction on state economies in addition to the national effects, as the contagion of the financial crisis has flowed down to this level of government. A comprehensive measure of home building's effect on national and state economies is the contribution of residential investment to Gross Domestic Product (GDP) and Gross State Product (GSP).[2] At the peak of the housing boom in 2004, home building contributed more than $768 billion to the U.S. economy. In 2007 this contribution shrunk to $641 billion, a 16.6 percent decline, and the slide continued further in the first quarter of 2008. In real terms (*i.e.* adjusted for inflation) the decline from 2004 to 2007 was an even more dramatic 20.8 percent. When calculated from the peak final quarter of 2004 to first quarter of 2008, it registers an even more striking 33.9 percent decline. Clearly, the slump in home building has been and continues to be a major drag on U.S. economic growth.

Residential fixed investment (RFI) is a significant component of the U.S. economy and of GSP in each state. It includes construction of new single-family and multifamily structures, residential remodeling, production of manufactured homes, and brokers' fees. The contribution of home building to state economies decreased dramatically from 2004 to 2007. The estimated reduction in each state from 2004 to 2007 is based on the decline in real value of permits in each state.

All states, with the exception of Wyoming and Katrina-struck Louisiana and Mississippi, registered significant declines in residential fixed investment between 2004 and 2007. Some of the biggest declines showed up in previously overheated states like Florida, California and Arizona. Florida showed the steepest fall of all states, 38.1 percent. Declines like this translate into multibillion dollar losses for state economies. In California, shrinking residential construction subtracted more than $38 billion from the growth of state output over two years. In Florida, the decline exceeded $29 billion, and in Arizona it reached $6.5 billion. Michigan, Minnesota, Ohio—transition economies of the industrial Midwest—also registered steep declines in home building, 35.1, 29.5, and 26.0 percent respectively, by far exceeding the national average of 20.8 percent.

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[1] The Direct Impact of Home Building and Remodeling on the U.S. Economy. Helen Liu, Ph.D. and Paul Emrath, Ph.D. *Housing Economics Online*. October 2008. National Association of Home Builders.

http://www.nahb.org/generic.aspx?sectionID=734&genericContentID=103543&channelID=311

[2] The Effect of the Home Building Contraction on State Economies. Natalia Siniavskaia, Ph.D. *Housing Economics Online.* August 2008. National Association of Home Builders. http://www.nahb.org/generic.aspx?sectionID=734&genericContentID=99676&channelID=311.

Unfortunately, available data and forecasts indicate that unabated the contraction in home building activity will not only persist but get worse in 2008 and 2009, thus suppressing growth of state and national economies even further. NAHB forecasts that a residential construction decline will continue at a faster pace. The forecast shows a reduction in housing starts in all states in 2008, with no exceptions.

The results show that residential fixed investment in Arizona, Utah and Florida are expected to shrink by more than a third during 2008. Arizona is predicted to post the largest percent decline of all states, 35.4 percent. In the case of Utah, the decline is expected to be not only large, 34.2 percent, but also precipitous, exceeding the two-year 2004–07 drop more than three times and subtracting roughly $2.3 billion from the growth of the Utah economy.

There are three states where losses are expected to slow down in 2008 compared to the last two years. Home building in New York, Alaska and New Jersey is expected to continue contracting but at a slower pace.

It is worth mentioning that, even though the contribution of RFI is a reasonably comprehensive measure of the effect of home building, it does not capture all channels through which residential construction affects the economy of a particular state. A contraction in home building will also eliminate jobs in industries that are linked to home building, such as real estate, finance and insurance, lumber, wood, paint, cement, metal and other product manufacturing. Families that would have moved into these new homes will now not be spending money on new furniture and appliances. In addition, unemployed or underemployed workers will cut their spending on a broad range of goods and services produced within the state, triggering production cuts across various industries. The reduced economic activity means that state and local governments within the state will be collecting less in taxes and fees.

Experience Thus Far on Housing Stimulus

First-time Homebuyer Tax Credit

NAHB began promoting the Homebuyer Credit literally on the day HERA was signed into law with a consumer-targeted web site (in both English and Spanish)—www.federalhousingtaxcredit.com—that contains basic information on the credit, answers to frequently asked questions, quick summaries of other aspects of the HERA legislation and additional housing resources for homebuyers and homeowners. To date, 460,000 unique visitors have viewed the site. Additionally, NAHB ran a series of advertisements in various publications and online to promote the credit and the web site itself. Finally, NAHB continues to work with our 850 state and local Home Builder Associations to educate our members on the homebuyer credit so they in turn can promote it among potential homebuyers.

In addition to promoting the Homebuyer Credit, NAHB is surveying our members as to the state of the housing market including the impacts of higher foreclosure rates, higher energy costs, tighter mortgage lending standards and higher mortgage interest rates on sales. The latest of these comprehensive surveys was completed in September and also contained questions on the HERA legislation and the impact of the Homebuyer Credit.[3] The survey results are based upon 459 responses from builders from all regions of the country and included those who build for the first-time homebuyer market, the first-time move-up market (meaning those selling their first home to move into their second) and second-time and more move-up market. The survey itself consists of specific questions for the builder and an open-ended opportunity for anecdotal feedback.

Initial feedback from those responding to the survey was mixed as to the impact of the Homebuyer Credit on housing sales. When asked for their opinion as to the impact of the Homebuyer Credit on the builder's housing sales and the sales in their market area during the eligibility period, 32 percent felt it would have Some or a Significant impact on their sales and 48 percent felt it would have Some or a Significant impact on sales in the builder's market area. Of this group, 17 percent said they had already seen significant or some benefits already on their sales and 21 percent said benefits had already been seen on sales in the builder's market area. Forty-nine percent said it would have no impact on their housing sales while 25 percent felt it would have no impact on sales in their market area. Finally, 19 and 26 percent, respectively, said they did not know or were not sure if the Homebuyer Credit would have an impact on their sales or sales in their local market area.

Especially informative in the survey are the narrative comments provided by the respondents as to the HERA legislation; most of which were targeted at the Homebuyer Credit. Generally, they note a high level of initial interest in the credit by

[3] Builders Economic Council Survey: Special Analysis. Economics Group, National Association of Home Builders. September 2008.

potential home buyers which is not, however, followed up by an actual purchase. Many of the comments are revealing as to the reasons why this strong initial interest does not translate into home sales. They are also informative as to ways in which the credit could be enhanced as part of economic recovery legislation.

By far, the most often cited reason for the lack of positive impact of the credit thus far is the recapture provision. Many responses note that potential home buyers lose interest in the Homebuyer Credit once they realize that they have to pay it back. Some builders noted the inherent value of the credit as a zero-interest loan and felt that it should have a more positive impact, but potential homebuyers view this aspect of the credit negatively, regardless. Other reasons cited as hurdles to a more effective credit are a lack of clear process for turning the credit into downpayment resources (monetization), tighter mortgage lending requirements and fears about job losses and the state of the economy.

Low Income Housing Tax Credit Modernization

Another especially significant piece of the HERA legislation was that devoted to affordable multifamily housing developed via the Low Income Housing Tax Credit (LIHTC). This portion of the bill contains several important provisions that should make the LIHTC even more effective and efficient to the benefit of low- and moderate-income families around the country. To date, feedback on the utility of these provisions is very positive, although implementation is somewhat slower than initially hoped due to delays in regulatory guidance for some provisions. More importantly, however, in the intervening months since the passage of HERA, the troubles of the larger financial markets have spilled over into affordable housing where equity investment in the LIHTC has deteriorated significantly. This is a serious problem for the nation's only significant affordable housing production program.

Equity prices for LIHTC investment are declining to levels at which it is extremely difficult to finance new affordable housing properties. One primary reason for this is the departure from the tax credit investor market of Fannie Mae and Freddie Mac who at one time were almost 40 percent of the investor pool for tax credits. Taken together with the troubles in the banking and financial sectors (which also traditionally are the strongest source of equity financing through the LIHTC), the program's ability to produce affordable rental housing is significantly impaired. Additionally, should investors that currently hold credits, but are now unable to use them because of a lack of income to offset, decide to sell them at fire sale prices, the market for new credits will decline even further.

The LIHTC has been successful for many years in attracting investors and providing much needed housing for low- and moderate-income Americans. NAHB is confident the current environment is only a temporary condition. However, with the market not expected to improve for several years, and many people losing their homes to foreclosure, it is not a time to slow down the production of new affordable units. In short, the program needs a temporary stabilizer for investment to carry it through this economic crisis.

Policy Recommendations

NAHB recommends the following policies as effective ways to stimulate housing demand, stabilize home prices, buttress affordable housing production, provide security to financial markets, protect jobs, and begin an economic recovery.

Enhance the Home Buyer Tax Credit

- **Expand to all home buyers**
- **Increase credit amount**
- **Repeal recapture requirements**
- **Facilitate use at the closing table**

H.R. 3221 established a Homebuyer Credit that is in effect a no-interest loan. Based on feedback from the field, the provision is having a minimal impact on the housing market. While this can be explained in part by the ongoing financial turmoil, it is also due to structural characteristics of the Homebuyer Credit itself.

NAHB recommends perfecting the Homebuyer Credit established in the HERA legislation to provide an even greater incentive and speed the stabilization of the housing market. This would include making it available to all home buyers and increasing the credit amount, perhaps defined on a pro rata basis according to variations in local Federal Housing Administration (FHA) loan limits. We also believe a worthwhile enhancement would be to eliminate the recapture provision and reshape the incentive as a true tax credit. This will maximize the economic incentive for home buyers to enter the market.

Finally, the market has struggled to translate the credit into help for homebuyers at the time of purchase. NAHB recommends a change that allows the credit to be

transferred to the home seller (who could claim the refundable tax credit on their on tax return) in exchange for cash from the seller that may only be used for a downpayment in equity in the home. Doing so will increase the amount of "skin in the game" that home buyers have in their home.

Expand the Net Operating Loss Carryback

Small businesses, especially home builders, are struggling to keep their businesses afloat right now and are desperate for capital to weather the economic storm. Options are limited and running out quickly. In 2002, during the last economic crisis, Congress expanded the Net Operating Loss deduction carryback period from two-years to five-years to help businesses facing a similar crisis. This was effective policy in a time of economic recession because it allowed struggling businesses to claim future tax deductions for operating losses today, when they are most needed to meet payrolls, pay creditors, and conduct business. The need for this provision is critical given the on-going credit crunch for business loans. Further, Congress should include appropriate technical modifications to Alternative Minimum Tax and other business tax rules to ensure this fiscal policy tool benefits businesses large and small.

It is worth noting that an expansion of the NOL carryback is not a tax cut; rather, it is a change in the timing of tax deductions that is economically efficient during a downturn. If scored according to a 20-year budget window, an expanded NOL carryback proposal would have a negligible score.

Stabilize Low Income Housing Tax Credit Investment

Downturn in the financial markets severely effects on the nation's only affordable housing production program—the LIHTC. The conservatorship of Fannie Mae and Freddie Mac, along with increasing corporate losses, has reduced the financing available for purchasing Low-Income Housing Tax Credits in the syndication markets. This has produced a decline in credit prices, which results in less equity being invested into LIHTC projects.

To improve the financial health of this important program, NAHB recommends Congress take two actions. First, the carryback rule for Low-Income Housing Tax Credits is currently limited to one-year under the General Business Credit rules. Expanding this carryback to five-years will ease the downward pressure on LIHTC prices by ensuring that the credits can be claimed today. This is similar to the application of an expanded NOL carryback, as described above. Second, also similar to an expanded NOL carryback, Congress should temporarily accelerate the period under which LIHTCs are claimed from ten-years to five-years. Doing so will enhance the LIHTC market, attract new investors, and ensure investment in affordable housing.

Conclusion

NAHB once again thanks the Committee for the opportunity to comment on proposed economic recovery legislation. This past summer the Congress established critical tools in the HERA legislation to respond to the nation's housing crisis, however, since that time the state of the financial markets has declined precipitously. This new environment calls for an even more aggressive response by the Federal Government.

Despite the current weakness in the housing sector, the long-run prospects for housing and spillover benefits are strong. Due to population growth, an aging housing stock, and increased demand for multifamily properties, NAHB is forecasting long-run sustainable demand for home construction at 1.5 million units once our economy clears the current crisis. The recommendations outlined above are intended to get the nation through this current crisis. Housing and homeownership play a critical role in our society, one with enormous documented social and private benefits. NAHB looks forward to working with the Congress to ensure a speedy and effective near-term recovery as well as the long-run success of one of the most critical engines of the nation's economy.

Statement of National Black Chamber of Commerce

I am Harry C. Alford Jr., President and Chief Executive Officer of the National Black Chamber of Commerce ("NBCC"). The NBCC is a non-profit, non-partisan, non-sectarian organization dedicated to the economic empowerment of African American communities. Headquartered in Washington, DC, the NBCC is an organization that is on the leading edge of educating and training Black communities in

an effort to expand their knowledge base of government, quasi-government and private-sector business opportunities, respectively. The NBCC reaches 100,000 Black-owned businesses and their respective employees; many of whom are currently seeking affordable professional counsel and guidance in the midst of these uncertain financial times. I offer this written testimony in support of Employer-Paid Group Legal plans on behalf of working families.

This hearing exposes the unique new set of economic challenges facing American families today. Committee Chairman Rangel noted, in the hearing advisory notice, that "[t]his hearing will examine the growing challenges facing working families . . . to determine how we can best restore economic security throughout our nation."

Many families, especially African American families, have fallen victim to the predatory lending practices of certain financial institutions through their sub-prime loans and other exotic financing instruments. The end result is that many African American families are faced with foreclosure notices that threaten their economic stability. Unsure of their rights under the law, numerous African American families are spiralling into financial ruin. If only they had access to affordable legal counsel to whom they could turn when analyzing these often complex and sophisticated issues. This committee should be commended for fighting for the rights of working Americans. However, if this Committee fails to provide working Americans with all the tools (i.e., access to affordable legal counsel) necessary to understand and invoke their rights, this Committee's efforts may fall well short of its intended purpose.

One effective and inexpensive way to provide relief for working families should be the restoration of the tax exempt status of Employer-Paid Group Legal Services.

If a mortgage default has occurred, group legal plan lawyers can review the financial documents for compliance with existing laws and advise on workouts that allow reinstatement of the mortgages under **mutually** beneficial terms and conditions. The result is not only saving the family's place to live, but safeguarding the family's primary investment.

Group legal plans also provide employees with low or no-cost basic legal services, including assistance with the preparation of a will, probate, and domestic relations issues, such as child support collection. Most plans also cover:

- Addressing financial management and investment issues in the face of a decreased income
- Anticipating the need for long term care, as well as Medicare and Medicaid issues
- Informing medical professionals on how they want to be treated in the event of a serious illness or a life threatening accident
- Instructing family members on how an individual wants their property handled in the event of incapacitating illness or accident
- Educating clients on how to avoid identity theft and what steps to take if a client is a victim of this crime

Yet, when the need is at its greatest, fewer Americans have access to inexpensive, preventative legal assistance. Bills have been offered in the past several Congresses, including this year's bill, HR 1840, introduced by Congressmen Stark and Camp and co-sponsored by 40 members of Congress, 15 of whom are on the Ways and Means Committee. The identical senate version of the bill, S 1130, has similar bi-partisan support on the Finance Committee. Throughout the 110th Congress, language to reinstate Section 120 has been included or offered as amendments in 6 pieces of legislation in the House and Senate, demonstrating the strong bi-partisan support of the provision.[1] Section 120 passed the House as part of an earlier version of H.R. 6049 that failed in the Senate. Now is the time to reinstate Section 120. Reinstatement of the benefit's tax preference will provide direct and immediate tax relief to countless Americans while throwing them a legal life line when battling the hardships of life.

Across the country, other organizations have recognized the importance of group legal services to assist working Americans. For example, the National Association of Attorneys General strongly supports Group and Prepaid Legal Services as an important part of continuing access to justice. In August, the Oregon State Bar identi-

[1] H.R. 1540, S. 1689, Civil Rights Tax Relief Act of 2007; H.R. 6049, Energy and Tax Extenders Act of 2008 (reinstatement of the pre-tax status of group/prepaid legal services benefits); S. 3098, Alternative Minimum Tax and Extenders Tax Relief Act of 2008 (reinstatement of the pre-tax status of group/prepaid legal services benefits); S. 3125, Energy Independence and Tax Relief Act of 2008 (reinstatement of the pre-tax status of group/prepaid legal services benefits); S. 3335, Jobs, Energy, Families, and Disaster Relief Act of 2008 (reinstatement of the pre-tax status of group/prepaid legal services benefits

fied group legal services as a vital component of access to the justice system for persons of moderate means. The Center for Responsible Lending, in a recent presentation on the sub-prime mortgage crisis, called for increased accountability in the mortgage industry, stronger anti-predatory lending laws and increased funding for legal services. Belatedly, Congress has seen to the first two recommendations, and it would behoove Congress to enact the third. Just as medical insurance coverage for preventive care keeps sick Americans out of emergency rooms, preventive legal services can keep working Americans out of foreclosure, bankruptcy and economic ruin.

In conclusion, reinstating Section 120 would repeal a tax increase on working class Americans while demonstrating your committee's commitment to access to affordable legal counsel in these challenging times. We strongly support the inclusion of Section 120 in any legislative package addressing the economic problems of working families, especially the Second Stimulus package now under consideration.

Respectfully,

Harry C. Alford, Jr.

President & CEO, NBCC

Statement of National Child Support Enforcement Association

As representatives of national and regional child support associations listed below, we very much appreciate your leadership in working to ensure that America's economy recovers. We are very concerned that action taken by the Congress with regard to fiscal policy includes recognition of the importance of children to the continued health of our nation. We stand united in support of the Child Support Protection Act of 2007, HR 1386. This bill which is pending in your Committee will restore lost funding for the Child Support Enforcement program—a universally-acclaimed, cost-effective program that indisputably keeps thousands of families from slipping into greater poverty. We believe that repealing the provision of the Deficit Reduction Act (DRA) of 2004 that would end the ability of states to use performance incentives as match for Federal funds is critical. Since the Congress has been unable to act on HR 1386, we urge you to take a temporary action to restore the funding as a part of any economic recovery legislation.

In December 1974, Congress passed Title IV–D of the Social Security Act, creating the Federal/state/tribal child support program (IV–D program). Since then, Congress has nurtured this bipartisan program through the passage of numerous bills that strengthened the tools needed to establish legally-recognized fathers for children born out of wedlock and to ensure that children receive the support to which they are entitled.

The DRA provided important new tools to assist state and local government agencies to improve their collection rate, such as lowering the passport denial threshold, adding tax offsets for older children, simplifying distribution of support, and expanding medical support options. However, three funding provisions in DRA unmistakably undercut the IV–D program, offsetting much of the recent gains made by the child support agencies in the country. By far the most devastating reduction is the provision that repeals the long-standing authority to match the state-earned incentive dollars with Federal Financial Participation (FFP). Indeed this provision of DRA 2004 undercuts a covenant between the Federal Government and states to promote efficiency and success.

When Congress passed the Child Support Performance and Incentive Act of 1998 (CSPIA), it created an innovative incentive program that rewards efficient, results-oriented IV–D program efforts. Until October 2007, about one in four dollars that were used to fund the child support program come from CSPIA incentives and matched FFP dollars. The match alone represented about one of six program dollars. To suddenly reduce Federal support for the program while maintaining all of the current state program requirements constitutes an unfunded mandate. Congress made a pact with state and local child support agencies when it passed CSPIA. Congress agreed to invest in efficient, successful programs and in return the states agreed to accept a cap on annual incentive dollars, which did not exist before CSPIA. CSPIA led to remarkable improvements in performance as states compete for their fair share of the incentive pie. In fact, the Office of Management and Budg-

et recognized the IV–D program as the highest-rated social services and block-grant formula program, awarding the child support program a 90% score through its Program Assessment Rating Tool (PART). The great strides made in the years since Congress passed CSPIA are jeopardized by the DRA incentive match loss. While most states and local governments were able to appropriate funds to minimize the impact of the cut in their 2008 budgets, many states are unable to do so in 2009. In addition, the cycle of funding in local programs is such that we are just seeing the impact at the local level in the offices of prosecuting attorneys, sheriffs, courts, and social service agencies. Budget difficulties in states are leading to reductions in services to families, curtailment of programs which promote services for fathers which assist them in meeting their parental responsibilities, and a lessened availability of personnel to answer parents' questions, establish orders and enforce existing orders.

The facts are clear that the work of the child support community directly impacts the economy.

- **Income in the form of child support collections will decrease at the rate of $1 billion per year.** Child support collections are a major source of income to low income single parent families and loss of those collections will force those families to use other economic services of state Government such as Medicaid, TANF, Food Stamps, and housing assistance. Please note that 17 million children in low income, single parent families currently receive child support services. Child support is the second largest source of income for single parent families making up 31% of their total income.
- **The child support collections are quickly spent in the local economy for basic needs.** Data from states and financial institutions indicate that at least 97% of all support payments are spent within the month of collection. These dollars are typically spent on basic family needs, such as rent, food, child care, and clothing.
- **Programs that help fathers in securing employment and pay child support will be curtailed or eliminated.** The child support program is one of the few programs that connect low-income fathers to jobs. Without the employment assistance that child support programs offer, fathers are less likely to obtain a job, maintain their income, support their children, and pay their child support. taxes to Federal and state governments.
- **Expenditures in other programs will increase as the safety net is torn.** Research shows that the collection of child support actually reduces the expenditures in need-based programs such as Medicaid, Food Stamps, and housing assistance.
- **Reduced state and local government resources limit service delivery effectiveness.** Reduction in program resources will mean poorer outcomes for families, including a reduction in the number of orders established and enforced on time and slower implementation of family distribution options included in the DRA.
- **Reversing the child support cuts would produce a timely, well-targeted stimulus.** Economists agree that child support collections are a major contributor to the economy and the efforts of state and local agencies is highly efficient. Every dollar spent by the Federal Government produces $6.50 in collections for working families. State and county staff layoffs will worsen the economy overall.

Because of the drastic cuts mandated by the DRA, state and local agencies will no longer be able to provide the level of child support services that poor and near-poor parents and children deserve. The cuts mean a rollback in everyday services, a reduction of staff (especially in local office of the prosecutor, sheriff, child support agency and the courts) and fewer dollars available for initiatives involving automation improvements, hard-to-collect and large-arrearage cases, customer service and employer outreach. For the 17.2 million children who live apart from their non-custodial parents, the negative impacts will be enormous.

Today over 60,000 child support professionals assist families. We are committed to the success of our program and are very proud of the success the program has enjoyed the past few years as we have utilized the tools provided by Congress to improve outcomes for the nation's families. Estimates of the DRA impact made by the Congressional Budget Office and the Lewin Group study pre-dated the current drastic downturn in the economy. The well-being of families we currently serve, as well as those who may soon turn to us is more precarious now than ever before. The importance of a vigorous child support program to help them stay financially afloat is crucial.

We are very concerned that the impact of the funding reductions from the DRA will not only curtail new initiatives, but also the improvements we have been able to attain over the past few years and will likely in the end result in performance falling to levels we experienced in the early 1990's. The end result will be children lost in a system, no longer enabled to provide the critical services they need and deserve.

Respectfully submitted October 29, by:

National Child Support Enforcement Association
National Council of Child Support Directors
Eastern Regional Interstate Child Support Association
Western Interstate Child Support Enforcement Council

Statement of National Complete Streets Coalition

Building Complete Streets Aids Economic Recovery in Two Ways

Economists agree that investing in America's transportation infrastructure is a good way to start the nation on the path of economic recovery. The challenge is to invest wisely, in ways that will help American families who are hurting.

Unfortunately, we've learned in the last few months that our over-reliance on transportation investments that provide only for automobile travel has backed many Americans into a corner. The spike in gasoline prices this summer led many people to realize their options for cutting back on transportation expenses were severely limited: too many Americans live in places where they cannot walk because sidewalks are crumbling, they cannot ride a bicycle because roads are too fast and narrow, and they cannot take the bus because public transportation is inaccessible or infrequent. For too many, the only option is to drive and pay the going price for gasoline. The problem is even more acute for low income Americans who must come up with a minimum of $3,000 a year [1] to own a car.

The highway projects funded by this recovery package can do more to aid recovery than provide individual jobs: they can help create complete streets that provide Americans with transportation choices that are easier on their wallets. Complete streets are safe and comfortable for bicycle riders, transit patrons, and pedestrians of all ages and abilities, as well as for drivers.

Many projects in the highway funding pipeline date from the last century, when the primary concern was to simply move cars. But now that people are driving less—more than 67 billion miles less in 2008 than 2007, according to FHWA—a higher priority must be placed on investing in road projects that provide transportation options. This will help insulate Americans from future gas price shocks, help reduce our dependence on foreign oil, and help everyone from school children to older adults get where they are going safely.

For this recovery package, it only makes sense to direct state and local transportation agencies to prioritize projects that will help create complete streets to ease the burden of the economic slowdown on Americans. Many communities have ready-to-go projects aimed at retrofitting corridors for complete streets. Many of these projects are already in the pipeline as part of routine reconstruction and rehabilitation of formerly 'incomplete' streets. And these projects are often labor-intensive and small enough in scale to ramp up quickly.

Here are a few examples of the types of projects that could provide both jobs and low-cost travel options for Americans. Planners in Kalama and Longview, Washington are ready to begin construction on three streets that will provide sidewalks, better drainage, lighting, and other features to improve safety for those traveling by foot or bicycle. In Scottsdale Arizona, a project is ready to add bicycle lanes and wider sidewalks, as well as raised pedestrian safety medians and other streetscaping features to Scottsdale Road. In Livermore, California, the transit agency is ready to create Bus Rapid Transit service, with street features such as improved bus stops and new technology that gives buses priority at traffic signals. The State of Maryland is ready to retrofit pedestrian routes along state highways in three

[1] *Consumer Expenditures in 2006*, released in February of 2008 by the U.S. Department of Labor's U.S. Bureau of Labor Statistics

counties to provide for people with disabilities. Activities will include installing curb ramps, widening sidewalks, removing obstructions, and improving cross-slope.

While bicycling and walking infrastructure are often seen as 'local' concerns, they hold great potential for easing the transportation woes on a national scale. Forty-eight percent of metropolitan-area trips in the United States are three miles or less, and 28 percent are one mile or less[2]—easy distances for bicycling or walking or catching a shuttle bus. Yet two-thirds of these trips are now made by automobile. Safe infrastructure for pedestrians is also an integral part of every transit trip. It is in the national interest to promote travel by foot, bicycle, and public transportation. We know that these low-cost modes can help reduce our dependence on foreign oil and can reduce greenhouse gas emissions by millions of tons annually.[3] The Federal transportation program must do more to support these 'capillaries' of our transportation system.

States and local governments across the country are recognizing the importance of completing their streets for everyone. Governor Arnold Schwarzenegger signed the California Complete Streets Act of 2008 this September; last year Illinois joined Oregon, Florida, Maryland, and Massachusetts and more than 60 local jurisdictions with complete streets policies on their books. In Congress, HR 5951 and S 2686 call for adoption of complete streets policies at the state and metropolitan level. (For more information, visit www.completestreets.org.)

The National Complete Streets Coalition is a broad-based group working for the adoption and implementation of Complete Streets policies and practices at the Federal, state and local level. Members include the American Planning Association, American Public Transportation Association, America Bikes, America Walks, American Council of the Blind, the Institute of Transportation Engineers, and many more organizations.

Focusing economic stimulus funding on projects that build complete streets will help Americans in two ways: by creating immediate jobs and by building a transportation infrastructure that will give them more low-cost transportation options. Please consider asking states and regions receiving this funding to prioritize projects that create complete streets.

Barbara McCann
Coordinator
National Complete Streets Coalition

Statement of National Employment Opportunity Network

The National Employment Opportunity Network (NEON) wants to thank the Committee for this opportunity to submit testimony for its hearing on Economic Recovery, Job Creation, and Investment in America. NEON is comprised of service bureaus and tax professionals who work with employers to establish, and manage tax incentive programs such as the Work Opportunity Tax Credit, Indian Employment Credit, and Tax Incentives for the District of Columbia, Empowerment Zones, Renewal Communities and New Markets. Consequently, NEON members have a long history as well as an existing infrastructure which places them in a position to educate employers about hiring incentive programs and gives them the ability to quickly set up systems that will allow them to integrate such programs in their business plan.

Hiring tax incentives have been instrumental in the effort to revitalize inner city communities in New York City, Washington DC, Boston, Los Angeles, and Oklahoma City. Similarly, the Work Opportunity Tax Credit has helped approximately 5,000,000 people coming off public assistance to find gainful employment since its enactment in 1996. And more recently, the Katrina WOTC credit was very successful in encouraging local businesses in the impacted areas to make a special effort to hire individuals who lost their jobs in the wake of the Hurricane. Tens of thousands for New Orleans residents were able to secure a new job because employers in the area were informed that they would receive a tax credit if they hired someone who had lived in the impacted area when Katrina hit.

Today, the country is facing a new and all encompassing economic crisis. With, according to the Bureau of Labor Statistics, more then 1,000,000 people having lost their jobs this year alone and the prospect that many more will become unemployed

[2] FHWA, *National Household Travel Survey,* 2001.

[3] Rails to Trails Conservancy, *Active Transportation for America: the case for Increased Federal Investment in Bicycling and Walking,* 2008; American Public Transportation Association, *Public Transportation: Benefits for the 21st Century*, 2007.

as a result of what most economists now agree is a deepening recession, the need for Government action is clear. Currently unemployment is a little over 6% with some projections estimating unemployment going to 7.3% by May of 2009 and even more recent projections of its going as high as 8% before job growth begins again.

With many people out of work or at risk of losing their jobs, it only makes sense for Congress to consider corrective action in the near term rather then waiting. If we learned anything from the great depression of the 1930s, it was that President Herbert Hoover's inaction during the first three years of the crisis made it all the more difficult for the U.S. and world economy to recover. It was not until President Franklin Delano Roosevelt came into office in 1932 and tried many different public works and jobs programs that first America's confidence and then our economy began to recover. By taking action now, Congress need not see a repetition of the 1930s.

As in the 1930s, we can not be certain what will work and therefore should pursue numerous options from providing states and localities with financial aid, to building long over due infrastructure projects, to supporting green energy projects, to providing an expanded safety net through expanded food stamp benefits and providing extended UI benefits. Other then the sorely needed safety net UI and other safety net proposals, the one thing these initiatives all have in common is the realization that through such action jobs will be created. However, nothing in any of these proposals will help to insure that those who have lost their jobs because of the recession and end up having to rely on an expanded social safety net will be the ones who are hired as a result of an economic stimulus. If fact, while most of the proposals will in all likelihood help to shore up both the economy and state and local governments, there is little assurance that the jobs created will go to the unemployed.

NEON believes that one way of assuring that those who have lost their livelihood because of the recession would be to enact a one year temporary Work Opportunity Tax Credit Unemployment Insurance (WOTC–UI) initiative. In an effort to help those individuals who have lost their jobs as a result of the economic crisis, NEON would propose that anyone currently receiving unemployment insurance, extended unemployment insurance or who exhausted their UI benefits during the year prior to being hired would be eligible. As an added incentive for employers to hire from this pool and quickly employ these individuals, employers would receive a significantly higher wage tax credit then under the traditional WOTC program. The maximum credit would be claimed against a $9,000 wage base (vs. $6,000 under traditional WOTC) and the credit would be equal to 50% (vs. 40%) of the wages paid which would translate into a $4,500 credit vs. the traditional WOTC credit of $2,400. The advantage of this proposal is that it only costs to the extent that the eligible individual is actually working.

By reducing the cost of labor, employers would be in a position to do more hiring then they would have without such an incentive. To the degree that employer's can quickly apply the WOTC–UI hiring credits against their tax liability, the stimulative impact on the economy in terms of increased hiring and increasing employer's access to capital will be enhanced. To that end, NEON proposes that employers be given the option much as they had under Katrina WOTC to either seek a traditional WOTC certification of eligibility through the State Workforce Agency (SWA) or to claim the credit, without a certification if they can produce documentation that the worker being hired is receiving UI or has received it during the year prior to being hired.

Such documentation is currently issued by the SWA to the worker and his previous employer. For example, workers receive a letter telling them that they will begin receiving UI benefits as of a date certain as well as a letter telling them when their benefits have been exhausted. Similarly, the original employer who lay off or discharged the worker is notified by letter that the employee will be receiving UI. In addition, individual on UI often receive a document that informs them that the SWA has established a bank or debit card account for them on a date certain. If the new employer can secure a copy of any of those letters or notifications, it would provide them with a clear indication of whether the worker was eligible or not and entitle them to begin to take the credit when they calculated their quarterly Federal tax liability. Such documentation would have to be kept on file and be produced in case of audit as with many other credits such as the Federal Empowerment Zones, and Indian Employment Credits. This approach would greatly reduce the administrative burden on the already underfunded and backlogged SWAs and help to insure that the economic benefits of the hiring credit act as a true incentive by quickly becoming available to the employer.

As noted earlier, hiring tax incentives have worked and continue to successfully address areas of need for our labor force. Providing a safety net without added job

opportunities will not be enough. To make a significant difference, employers must incorporate screening and recruitment efforts to target those who have lost their jobs, find themselves on UI and will then need to move from UI to gainful employment. One way to help those who are or will become unemployed would be to utilize the private sector hiring infrastructure already in existence—WOTC to help match employers' needs with those unemployed workers who require assistance changing to new careers. The most effective implementation having the earliest impact on the economy of WOTC–UI will be through reduced involvement with SWAs using UI documents in lieu of WOTC Certification as was done with Katrina WOTC.

As President Roosevelt said in 1932, "The country needs and, unless I mistake its temper, the country demands bold, persistent experimentation. It is common sense to take a method and try it. If it fails, admit it frankly and try another. But above all, try something. The millions who are in want will not stand idly by silently forever while the things to satisfy their needs are within easy reach." NEON recognizes that the challenges we face today, while not as severe as the country faced in 1932, still are formidable but if we act quickly and are not afraid to try a number of solutions, we stand a good chance of coming out of this stronger then ever. NEON believes that a new WOTC–UI provision would be a cost effective way to encourage employers to hire those who have been hurt the most by the financial crisis—those who have lost their jobs and now are dependent upon Unemployment Insurance. We are ready to work with the Committee on a development of hiring tax incentives such as a WOTC–UI program.

Statement of National Retail Federation

The National Retail Federation (NRF) submits the following comments in support of the need for Congress to enact additional economic stimulus legislation this year. By way of background, NRF is the world's largest retail trade association, with membership that comprises all retail formats and channels of distribution including department, specialty, discount, catalog, Internet, independent stores, chain restaurants, drug stores and grocery stores as well as the industry's key trading partners of retail goods and services. NRF represents an industry with more than 1.6 million U.S. retail establishments, more than 25 million employees—about one in five American workers—and 2007 sales of $4.5 trillion. As the industry umbrella group, NRF also represents over 100 state, national and international retail associations.

Early this year, Congress and the Administration worked together in a bipartisan fashion to enact economic stimulus legislation to aid a slowing economy. The NRF commends the Congress for its quick action to address the nation's economic needs. Although our evidence shows that the taxpayer rebate payments helped consumer spending, additional stimulus is needed.

Today's hearing is part of an evaluative process to determine if further stimulus is needed, and, if so, what type of stimulus would be most effective. We believe further economic stimulus is needed. Economists are forecasting a weaker economy through the end of this year and well into 2009. In the retail industry, NRF is forecasting the worst holiday season since 2002. Yesterday, the Conference Board released its monthly survey of consumer confidence, finding that consumer confidence is at a record low. With consumer spending accounting for 70% of GDP, it is difficult to foresee an improvement in overall economic growth until consumer spending improves. Therefore, we urge you to include relief for the consumer as part of any economic stimulus package that is enacted.

Impact of Economic Stimulus Act of 2008 on Consumers

To assist the Committee in making a determination with respect to the type of stimulus that may be most helpful, we share the NRF's findings with respect to the impact of tax rebate payments distributed earlier this year.

Direct deposits of tax rebate payments began the last few days of April, followed by the mailing of rebate checks through July 11 for all eligible taxpayers who filed a tax return. After a decline in retail sales in March, there was a bump in retail sales of general merchandise[1] for April, May, June, and July, which we attribute to the distribution of the tax rebate checks. Although the amount that taxpayer rebate payments were used to make new purchases in the economy was somewhat diminished because of higher costs for gas and groceries, consumer spending in other areas still received a boost in the second quarter as a result of the tax rebates.

[1] Retail sales of general merchandise exclude automobiles, gas stations and restaurants.

The April bump in retail sales was.6 percent seasonally adjusted month-to-month, which was the largest month-to-month increase since November of 2007. The April bump accounted for an increase of 2.3% unadjusted year-over year.

With substantially more checks distributed in the month of May, amounting to more than $40 billion in rebates, retail industry sales increased by.9 percent on a seasonally adjusted month-to-month basis, and by 3.8% unadjusted year-over-year. Most of the May increase went to discounters and grocers, although some shoppers splurged on electronics and appliances.

The Treasury Department distributed almost $30 billion in rebate checks in the month of June, which accounted for an increase in retail sales of.3 percent on a seasonally adjusted month-to-month basis, and 1.3% unadjusted year-over-year. Most of this increase seemed to be focused on necessities.

Although only a small amount of the rebate money was distributed in July, it still helped retail sales for the month. Less than $12 billion was distributed, but retail sales of general merchandise increased.3% seasonally adjusted month-to-month and rose 4.7% unadjusted year-over-year[2] Most retail categories enjoyed gains in July, with the strongest gains enjoyed by general merchandise retailers, including discounters.

In August 2008 a consumer survey was conducted on behalf of the NRF to determine what recipients did with the tax rebate payments they received[3] 45.6% of survey respondents used their rebate checks to purchase something. This was an increase over the 40.6% of respondents that expected to use the rebate money to make purchases in a February 2008 survey,[4] prior to the distribution of the rebate checks. The August survey also showed that consumers spent less of their rebates on savings and investment and paying down debt than they predicted in the February survey. The most significant diversions in how the money was actually spent from the predictions made in February occurred with respect to purchases of gas and necessities.

Our surveying also showed that to some extent those taxpayers that initially saved their rebate money planned to use it for purchases in upcoming months. For example, the August survey showed that approximately $1 billion of the rebate money that was initially saved was expected to be used for the upcoming holiday season. Our Back-to-School Survey,[5] conducted in July, found that one-fifth of parents nationwide set aside a portion of their stimulus check for back-to-school purchases.

The Need for Additional Relief

Economic forces impacted the consumer in the second quarter of the year that were not foreseen when the economic stimulus package was first enacted, particularly the escalating costs of fuel and food. As a result, consumers used some of their rebate money to pay for the higher costs of these items, rather than increasing consumption of goods. Despite the modest rise in retail sales over the last few months, we believe the results are better than they would have been if Congress had not enacted the tax rebates.

With most economists predicting a weak economy into 2009 and consumer spending at record lows, the NRF believes that additional Congressional action would help the economy and soften the negative impact on the American people. We believe that an immediate stimulus that will put money into the pockets of consumers where it can have a ripple effect throughout the economy is needed. That stimulus could be accomplished in a number of different ways, including more rebate checks, a nationwide sales tax holiday, a payroll tax holiday or other alternatives.

We urge the Congress to work in the bipartisan and expeditious spirit of cooperation that enabled the first round of stimulus to be enacted so quickly. Over the next few months, consumers will be facing a challenging time. A new economic stimulus effort can help consumers and help the economy at the same time.

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[2] Total retail sales for July, which also include non-general merchandise categories such as autos, gasoline stations and restaurants, decreased by.1% seasonally adjusted from the previous month, but increased 4.5% year-over-year.

[3] Survey conducted by BIGresearch, 8/5–8/12/08.

[4] Survey conducted by BIGresearch, 2/5–2/12/08.

[5] Survey conducted by BIGresearch 7/1–7/8/08.

Statement of National Retail Federation

As the Ways & Means Committee convenes on October 29 to examine the impact of the current economic crisis on the nation during its hearing on Economic Recovery, Job Creation, and Investment in America, the National Retail Federation (NRF) wishes to reiterate our support for expeditious passage of H.R. 3934—the Affordable Footwear Act (AFA). The AFA relieves the American consumer of very high, regressive and outdated taxes on shoes.

The economic situation is hitting the retail industry particularly hard just before the critical holiday season, which is forecast to be the worst since just after the 9/11 terrorist attacks. Credit needed to run retail operations is increasingly difficult to obtain. Retail bankruptcies are on the increase, and tens of thousands of retail workers are losing their jobs. Meanwhile, the economic crisis is squeezing finances for retail customers—American families—so that many are now finding it increasingly difficult to afford even essential items like shoes and clothing.

The AFA is a modest, but extremely helpful step to assist one part of the struggling retail industry—footwear retailers—and their employees. Because of the keen competition in the U.S. footwear market, the AFA will also quickly put $4–5 billion in needed cash into the pockets of U.S. consumers, particularly low and middle-income Americans with children. Thus, the bill is pro-consumer, pro-worker, and pro-retailer.

With 158 cosponsors of H.R. 3934, the AFA has broad bipartisan support in the House. Since it exempts footwear products still produced in the United States, the AFA is also non-controversial and has the support of domestic footwear producers.

NRF is ready to assist the committee in any way we can to ensure expeditious passage of this important piece of legislation.

The **National Retail Federation** is the world's largest retail trade association, with membership that comprises all retail formats and channels of distribution including department, specialty, discount, catalog, Internet, independent stores, chain restaurants, drug stores and grocery stores as well as the industry's key trading partners of retail goods and services. NRF represents an industry with more than 1.6 million U.S. retail companies, more than 25 million employees—about one in five American workers—and 2007 sales of $4.5 trillion. As the industry umbrella group, NRF also represents over 100 state, national and international retail associations.

Statement of Ohio CSEA Directors

Chairman Rangel and Members of the Committee, the Ohio County Associations representing elected officials and professional human services staff thank you for the opportunity to provide testimony on the need for economic stimulus legislation to assist Ohio's families and the counties serving them.

Given the issues under your Committee's jurisdiction, this testimony focuses on the urgent need to restore the cuts made to the child support enforcement program in the Deficit Reduction Act of 2004 (DRA). Administered by Ohio's 88 counties, the child support program is a fundamental component of our State's human services system. Ohio's counties provide direct services to over 1.3 million children and their families. Given the tremendous budget pressures faced by our State and counties and the tenuous household budgets of an increasing number of Ohio families, restoring lost funding for a universally-acclaimed, cost-effective program that indisputably keeps thousands of families from slipping into greater poverty is needed now more than ever. Congress must act to restore the cut.

The DRA repealed the ability of states and counties to use earned Federal incentives for exemplary child support performance as local match. Repealed on October 1, 2007, the incentives match policy was for years a key element of a carefully crafted set of penalties and rewards created by Congress to spur improvements in program administration. All incentives earned are required to be reinvested in the program and states could not supplant other funds used for child support enforcement. The policy enacted under the DRA was never proposed by the Administration, nor was there ever separate legislation introduced to make this change.

We understand that Congress is considering an economic stimulus package containing a temporary increase in the Federal contribution to Medicaid, a boost in benefits under the Supplemental Nutrition Assistance Program (formerly known as food stamps) and an extension of unemployment insurance. Those measures are also critically important. Compared to the funding contemplated under those initiatives, however, restoring child support marks a modest reinvestment of Federal funds. Reinvestment in child support will place much-needed payments in the pockets of fam-

ilies who will spend those dollars quickly. Reinvestment in child support will stabilize the Federal, state and county financial partnership which collects $4.73 for every dollar invested in the program. Reinvestment in child support will also save jobs by assisting state and county governments facing human services staff cuts at the very time when service needs are rising. Without reinvestment, we will see a reversal of the substantial progress made in the program over the past decade.

Establishing and enforcing support orders is not only pro-family, it also makes economic sense by reducing demands on low-income programs. When the DRA was enacted, the Congressional Budget Office estimated that reducing incentives would reduce the amount of collections due families by $11 billion over ten years, while saving the Federal Government less than half that. That loss of funds due those families will affect their economic stability and will place pressure on other services.

An economic stimulus package should assist those most in need. Child support does just that. National in scope, support payments are received by one in four of our nation's children. Support payments constitute 30 percent of an average poverty-level family's income who receive such payments.

In Ohio, we collected over $2 billion for more than one million children. Our return on investment was $6.72. When the DRA cuts were enacted, it was estimated that collections for Ohio families would be reduced by over $197 million in the first five years alone. Not only is that money that would be spent quickly by needy families, it would help avoid costs in many other social service programs such as day care, food assistance, housing and utility assistance, and Temporary Assistance to Needy Families (TANF) services. These cuts have increased the economic vulnerability of over one-half of our low-income cases in Ohio. Currently, 13% are receiving TANF and 40% have received TANF assistance in the past. Child support collections and medical support enforcement assist these families in maintaining economic self-sufficiency.

Ohio's Governor and General Assembly recognized the importance of Ohio's Child Support program and initially filled almost the entire funding loss to Ohio counties administering the program. However, continued economic down turns in the State have begun limiting and reducing the funding available. We anticipate this trend to continue into the next budget cycle. In Ohio, the first year loss of Federal funding totaled $60 million, and represented approximately 28% of total county expenditures in FFY2007. Ohio collects approximately $600,000 per child support worker. Additional reductions will result in a very large loss of available staff to establish parentage, cash and medical support orders and enforce these orders, let alone the day-to-day impact on answering phones and pursuing new initiatives to continue improving our program.

Given Ohio's economic downturn, the Federal cuts to our markedly successful child support program could not have come at a worse time. Our total collections have ranked third nationally and we have been third in earning performance incentives. Due to the manner in which the incentive match is structured, Ohio is penalized disproportionately compared to other states. That funding has been reduced as budget reductions continue in Ohio. Currently, we have lost one-third of the restoration and there are fears that the losses will continue.

Restoration of the child support cuts makes sense not only for our nation's families, but it will also contribute to jump-starting the nation's economy. Federal child support investments will put more money in family households that will spend those dollars quickly and will help to maintain or restore jobs filled by those county employees who are key to establishing and enforcing support orders. These factors make a compelling case for including child support re-investment in the economic stimulus package.

Please feel free to contact any of our organizations directly for more information regarding this testimony and Ohio's Child Support Program or contact our Washington Representative Tom Joseph.

Statement of Pamela S. Pipkin

As Coordinator of the Monroe County Child Support Agency, Sparta, WI 54656 I am urging you to restore the Federal funding cuts that were made to the Child Support Enforcement Program under the 2004 Deficit Reduction Act (DRA).

That funding is needed for Wisconsin to continue to maintain their Standard of Excellence in collecting child support on behalf of the people of Wisconsin.

Statement of Patrick Smith

My name is Patrick Smith, I live in Corona, California (My rep is Ken Calvert). I, due to no fault of my own have been unemployed since January 11, 2008.

I have been working in my industry 31 years (Electronics), I have started from the bottom and worked my way to the top, after working for several years as a General Manager, I decided to step down to a less stressful career. I chose Purchasing as my new career. I very rapidly worked my way to a "Purchasing Manager" position, that was about 10 years ago. For a number of years I excelled in this position. At one point the company I worked for was sold and absorbed by a foreign company, so I was laid off on 10/15/2004. I put my resume out on the internet job boards. I had no less than 2 interviews a day for 4 weeks, than I was hired by another company.

Now that I have been laid off again, I am lucky to get an interview with the same resume I had 4 years ago. The few interviews I have had, a couple of employers had asked me how the "job market" is. I have answered their question with "soft". I had 2 employers inform me that I was 1 of 200+ applicants (a very high experience level was required for this position), another informed me that I was 1 of 400+++ (this was a position with moderate requirements) applicants.

I have gone from being a good find in my industry to being 1 of 400 applicants. One employer told me that I should feel honored that they called me because they only called "10 of the best" applicants in for an interview.

Well, needless to say, I don't feel honored. I feel cheated by my government. This Administration has sent so many jobs offshore that speaking Mandarin Chinese is now a requirement for a Purchasing Agent position. My business lunches have went from eating a normal American meal to eating things that I am not even sure what they are.

Now, after almost 10 months out of work, I have sold most of my personal belongings just to subsidize my unemployment so I don't lose my home and my car (I need the car in case I get a job).

I have 3 children, 1 in college (her work hours have been cut back to almost nothing and she can't even get an interview as a waitress with 3 years of waitressing experience). My 2 sons are still in high school, one is not old enough to work, the one that works has had his hours cut back so far he is having a hard time making his $100 a month car payment, let alone his $150 a month insurance payment. My wife is with the County Sheriff's office, where cuts are being threatened also.

I did not buy a home I could not afford, I did not send my kids to Ivy League and Private schools as I would liked to have and I don't drive a leased car I cannot afford, even when times were good, if I got a vacation, it was in the local Mountains by my home for less than $1000, not $100,000 like Wall Street has been enjoying.

Now I have to worry about my unemployment insurance running out when even a job for minimum wage is impossible to find (yes, I have applied for jobs much less then my customary wage for my trade).

Also, I see the Government is now bailing out the people that purchased houses for more than they could afford, driving cars and taking vacations they could not afford. They are getting rewarded for not acting responsibly, I will probably loose everything. I live down the street from the local High School, several years back I was wondering where all these kids got their high end cars, much better than I was able to afford, even in a high profile well paying job that I had. Now I know. I don't see those Hummers and Lexus any more.

My story is now my nightmare. I can't even fathom my family losing our home of 12 years. I pray nightly, but I think there are too many people that need help too.

Statement of Patti L. Worzalla

In December 2004 I received a notice that my child support payments will be drastically reduced by 59% in the next year. I have been known as the "driving force" as Congressman Paul Ryan has stated in the past with regards to the TANF bill he has coauthored in 2006 with Senator Herb Kohl and Congresswoman Gwen Moore. I am here to explain the lengths of why support for funding the Child Support Agencies and the jobs of collection, monitoring and disbursing funds are important to the Economic Stimulus of the below poverty level class of Americans.

In 2004 I myself was a single divorced stay at home mother of a child with a number of medical problems. I divorced my son's father just after our son's birth in 2001, at that point my son's father a District Manager at Circuit City withheld the paper-

work sent from the Kenosha Court house so that he would not have to have child support garnished from his wages. In 2002 I had to file a contempt charge to inform my former husband and his attorney that this is not acceptable or lawful in this state and that he needs to pay into the fund or risk a warrant for arrest. At this point he then agreed to pay his child support through direct wage assignment. In the years to follow my former husbands' employer decided they did not need to follow the lawful ways of collection and disbursement of child support. I needed the support of the Child Support Agency to assist me in my efforts to receive my child support in a timely manner. Which, the legal time line is 7 business day from the date of his payroll check to receive child support payments.

Why am I this mother sending this letter to the Hearing before the Ways and Means Committee? My reason is to inform all members of the Committee of how real persons, real custodial parents have it, how your rules affect what really happens to real parents in real America.

If Child Support did not instill laws and protect parents and process child support payments than my former husband and many other parents could just do exactly what they want to do with regards to Child Support. I believe that without the agency and trust fund systems I would still be waiting for payments, still waiting for my former husband to pay what the state laws require. I would be spending dollars on an attorney to fight for my rights as a parent but not really have a leg or agency to stand on or with. Is the agency expensive? Yes, but what agency is not expensive that can actually provide the exact service it claims to provide. Child Support Agency is a necessary step in keeping the non custodial parents paying, collection and disbursements, holding people accountable for the funds they are paying in or receiving. I am a parent that receives child support and believes that is a necessary step in keeping the funds in the right place at the right time. Monitoring is necessary and funding to monitor is important.

I fought with Congressman Paul Ryan and Senator Herb Kohl or the fundamental of Child Support, Child Support is for the child and those non-custodial parents that pay into the Child Support Agency like to know that the funds are directly sent to the child. I stayed at home so not to charge the taxpayers more money in skilled nursing care for our child. I could have gone back to work in Chicago making $98,000 yearly, however, I was asking for the $628per year for TANF (welfare) so I could stay home and care for all of my child's extensive medical needs. Like the 22 surgeries, or the Medical Port I have to infuse his medications through AM and PM. I was making it in Kenosha living in my own apartment, driving a used car and living on $854.00 in child support and $628.00 in welfare and $69.00 in food stamps per month to make our lives work. On December 5, 2004 I received a letter that funding had been cut and I would lose 59% of my income in the next 10 months. I ask you all WHO CAN LIVE WITH A 59% CUT IN YOUR FAMILIES INCOME IN THE NEXT 10MONTHS? This is when I petitioned Cong. Paul Ryan to hear me out. Let me explain my story and that repaying the Federal Government with child support dollars from any family but more importantly families all ready below the poverty level is obscene. So this is how and why we have the TANF bill before the Senate now and why I am here to express my concerns.

I am a college educated person, my son is still very medically challenged and I am no longer receiving help from any Welfare agencies. I am married and my child is on Social Security Disability and we have a very happy life. I receive my child support on time because we choose to have my former husband and his wife send the funds directly to the state agency which in turn pays me directly. Since I have started to use the agency back in 2002 I have seen many changes to the system to assist in families getting their funds quicker, this shows how efficient the organization is currently moving forward. I have relatives in Denver and the system they use is not nearly as efficient as the State of Wisconsin.

Please realize the help to the real American people that are below poverty getting child support need this funding to keep the money moving towards families in need. This will assist in less need for families pounding on the door of food stamp agencies, energy assistance and soup kitchens for the basics in life. The Economic Stimulus is necessary for the parents raising children of the Child Support Agencies across this great country. Economic Stimulus is able to help right now putting dollars back into the hands of the poverty stricken Americans that receive Child support. The Agency of Child Support is necessary for all parents. Please support the efforts of Jeff Witthun of the Wisconsin Child Support Agency and the Wisconsin TANF program for funding of the agencies patch from December 2004.

Statement of Pre-Paid Legal Services

I am Keri Prince, General Counsel to Pre-Paid Legal Services, Inc. ("Pre-Paid"). Pre-Paid is a publicly traded company (NYSE: PPD) that facilitates pre-paid legal services to more than 1.6 million households across North America. Headquartered in Ada, Oklahoma, Pre-Paid employs approximately 750 individuals and provides business opportunities to over 400,000 vested independent sales associates through the marketing and sale of various pre-paid legal plans on either an individual or group basis. Almost 100,000 sales associates will make at least one sale of a legal service plan in 2008. Pre-Paid's founder, current president, and chief executive officer, Harland Stonecipher, founded Pre-Paid on the belief that working class Americans, when faced with everyday life events and with hardship and/or tragedy, should not have to go bankrupt to pursue their legal rights in defense of their American dream. In sum, Pre-Paid seeks to, among other things, provide affordable access to the judicial system through competent legal counsel by charging customers a modest monthly fee.[1] I offer this written testimony in support of continued affordable pre-paid legal plans on behalf of working families.

This hearing addresses the unique new set of economic challenges facing American families today. Committee Chairman Rangel, in the advisory notice, noted that "[t]his hearing will examine the growing challenges facing working families . . . to determine how we can best restore economic security throughout our nation."

Americans, in the wake of the current foreclosure crisis, face tough decisions about their future. These decisions, often times, involve complex and sophisticated financial and legal issues where legal counsel would serve as a valuable resource in the decision-making process. Unfortunately, the costs associated with engaging legal counsel during challenging economic times can be quite prohibitive, and, indeed discouraging.

One effective and inexpensive way to provide relief for working families would be the permanent restoration of the tax-exempt status of employer-paid group legal services. This targeted tax relief works threefold:

- It reduces the tax burden on working families and businesses
- It provides assurances relative to long-term tax planning for families and businesses[2]
- It provides pre-paid legal services in the face of calamitous events that without legal assistance can quickly worsen

The need for access to legal services plans is seen most vividly against the current economic backdrop. When financial institutions and working class families convene to restructure mortgage provisions, group pre-paid legal plan lawyers can review those documents for compliance with existing laws and advise on workouts that allow reinstatement of the mortgages under fair and evenly negotiated terms and conditions.[3] Working families who are members of such pre-paid legal plans will generally not incur additional legal fees for such services. The result is not only saving the family's home, but safeguarding the family's primary investment without tapping into already strained financial resources.

Group legal plans also provide working class Americans with low or no-cost basic legal services, including assistance with the preparation of a will, probate, and domestic relations issues, such as child support collection. Most plans also cover:

- Legal advice and consultation addressing financial management and investment issues in the face of a decreased income
- Anticipating the need for long term care, as well as Medicare and Medicaid issues
- Living wills or advanced directives—informing family and medical professionals on how an individual wants to be treated in the event of a serious illness or a life threatening accident
- Wills—Instructing family members on how they want their property handled in the event of a death
- Educating clients on how to avoid identity theft and what steps to take if a client is a victim of this crime

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[1] The monthly cost of the family pre-paid legal plan is $26.00.

[2] We request that this Committee consider increasing the current $70.00 cap as enumerated in Section 120 so as to factor in cost of living increases.

[3] Industry colleagues have shared with Pre-Paid, anecdotally, that the foreclosure crisis is having a devastating effect upon their constituents. In New York City alone, the foreclosure unit of the pre-paid group legal service plan of DC 37 Municipal Employees has seen its caseload increase over 70% in the past 12 months, with no end in sight.

Bills have been offered in the past several Congresses, including this year's bill, H.R. 1840, introduced by Congressmen Stark and Camp and co-sponsored by 40 members of Congress, 15 of whom are on the Ways and Means Committee. The identical Senate version of this bill, S 1130, found similar bi-partisan support on the Finance Committee. Throughout the 110th Congress, language to reinstate Section 120 has been included or offered as amendments in 6 pieces of legislation in the House and Senate, demonstrating the strong bi-partisan support of the provision.[4] Section 120 passed the House as part of an earlier version of H.R. 6049 that failed in the Senate. Now is the time to reinstate Section 120.

Reinstatement of Section 120 will provide direct and immediate tax relief to working Americans while, simultaneously, providing working Americans with the means (*i.e.*, the tax-exempt pre-paid legal plans) to avail themselves of the rights enacted by Congress, *e.g.*, this proposed economic stimulus plan. When this exclusion expired, it triggered a tax increase, felt in the pocketbooks of millions of working Americans whose employers may otherwise contribute to such plans. Currently more than 2 million working families benefit from plans offered by such national companies as Caterpillar, J.I.Case, Mack Truck, John Deere, Ford Motor Company, and General Motors. Businesses, large and small, will gain direct and immediate tax relief. The American Prepaid Legal Services Institute reports that employees currently pay an additional 7.65 percent of every dollar devoted to a legal plan as part of its payroll tax. We deemed this an unnecessary burden upon employers when they simply seek to provide their employees with peace of mind.

Across the country, other organizations have recognized the importance of group legal services to assist working Americans. The National Association of Attorney Generals ("NAAG") strongly support group and pre-paid legal services and consider them as an important part of continuing access to justice. At the NAAG June 2008 meeting, this organization acknowledged that "those individuals who have access to pre-paid legal services plans are able to access an attorney in time of need and are further able to access the advice and counsel of an attorney in advance of need and thus are able to practice 'preventative law' in the same manner as 'preventative medicine'. . ."[5] In August, the Oregon State Bar identified group legal services as a vital component of access to the justice system for persons of moderate means. The Center for Responsible Lending, in a recent presentation on the sub-prime mortgage crisis, called for increased accountability in the mortgage industry, stronger anti-predatory lending laws and increased funding for legal services. Belatedly, Congress has seen to the first two recommendations, now is the time to enact the third. The group legal services industry already exists and can serve millions more, by creating the incentive for business to offer the benefit. Low cost and efficient group legal services can help prevent, as illustrated above, legal problems that result in disaster. Just as medical insurance coverage for preventive care keeps sick Americans out of emergency rooms, preventive legal services can keep working Americans out of foreclosure, bankruptcy and economic ruin.

In conclusion, permanently reinstating Section 120 would repeal a tax increase on working class Americans and businesses while providing working class Americans with the means to protect the fruits of their labor at a modest expense. We strongly support the inclusion of Section 120 in any legislative package addressing the economic problems of working families, especially the Second Stimulus package now under consideration.

Statement of Public Human Services Association

The American Public Human Services Association represents the nation's state and local administrators of health and human service programs, including Medicaid, the State Children's Health Insurance Programs, child welfare, and economic support programs among others. As those responsible for the day-to-day administration and delivery of these vital assistance and support programs, we know first-hand the growing economic distress that the nation's most vulnerable children and families

[4] H.R. 1540, S. 1689, Civil Rights Tax Relief Act of 2007; H.R. 6049, Energy and Tax Extenders Act of 2008 (reinstatement of the pre-tax status of group/prepaid legal services benefits); S. 3098, Alternative Minimum Tax and Extenders Tax Relief Act of 2008 (reinstatement of the pre-tax status of group/prepaid legal services benefits); S. 3125, Energy Independence and Tax Relief Act of 2008 (reinstatement of the pre-tax status of group/prepaid legal services benefits); S. 3335, Jobs, Energy, Families, and Disaster Relief Act of 2008 (reinstatement of the pre-tax status of group/prepaid legal services benefits

[5] Resolution adopted by the NAAG at it's summer meeting dated June 17–19, 2008.

are now experiencing. We applaud your continued commitment to an economic stimulus package, and urge you to quickly enact this important legislation. As you know, 49 states have constitutional mandates to balance their budgets each year, and in this time of increasingly severe economic stress, we require the support of the Federal Government to properly serve those who come to us in need.

We are aware of the many thoughtful ideas that are now being considered, but wish to especially highlight the following proposals that bear directly on the programs we administer.

Enhanced Medicaid FMAP—As urged in a previous letter from APHSA's affiliate, the National Association of State Medicaid Directors, we strongly support the proposal to provide states increased amounts of Federal Medical Assistance Percentage (FMAP) funds. While these funds will help all states, they will flow particularly to those experiencing the largest demand for Medicaid and thus will serve to target the states and regions in greatest economic need. Because of the nature of the Medicaid program, enrollment and costs increase at exactly the same time that state revenues decrease during difficult economic times. Also, because economic conditions tend to be cyclical, it is likely that the crucial need for more Federal revenues to maintain our Medicaid programs at current levels will be time-limited; when the economy improves, state revenues rebound, enrollment declines, and the need for additional Federal funds subsides.

Prevent the implementation of harmful Federal regulations—We urge Congress to halt the implementation of two proposed regulations:

The Centers for Medicare and Medicaid Services proposed outpatient hospital regulation—As detailed in an earlier NASMD letter, this regulation would significantly affect the Medicaid program in every state. As proposed, the rule places a limit on the amount states can pay for outpatient hospital services by limiting Medicaid reimbursement for outpatient hospital services to those costs reimbursed by Medicare. This limitation clearly does not recognize the inherent difference between the Medicare and Medicaid programs; Medicaid covers a younger population, but provides more extensive mental health and substance abuse than the Medicare program.

The Administration for Children and Families proposed regulation to end the excess TANF maintenance-of-effort option —This proposal would eliminate the incentive that states currently have to exceed their required Temporary Assistance for Needy Families MOE spending levels on services directed to children and families. This incentive has encouraged states to invest their own funds on services that help low-income families by rewarding them for spending above required minimum MOE level. Congress clearly intended that states should have this option and continue to be able to take advantage of it; in the current downturn, states need this option more than ever. Further, this proposal was issued after Administration's announcement this past May that it would henceforth issue only those regulations that were "absolutely necessary."

Supplemental Nutrition Assistance Program (formerly the Food Stamp Program)—We support an increase in SNAP benefit levels that can provide quick relief to participants in this critical nutrition support program. In addition, because of this program's rapidly growing caseloads and administrative complexities, we ask that Congress accompany the benefit increase with the following administrative relief:

- **Additional matching funds** to help states handle the accompanying administrative tasks, particularly the increased inquiries and applications that will come with announcement of the change. States are at a great disadvantage because of the lowered levels of Federal administrative support in this program; the 2008 farm bill made permanent the reductions in state SNAP match (first enacted in 1998) that have brought the average net match percentage for all states down to just 46 percent. This reduction comes on top of the absence of enhanced match for SNAP automation upgrades.
- **Adjustments and changes in a number of critical requirements**—time-limited, if necessary—that will ease state administrative burdens and enhance client access, including:
    - Lift the three-month participation limit on able bodied adults without dependents (ABAWDS) for at least two years;
    - Allow states (that have the ability) to provide 36-month certification periods to households receiving only Supplemental Security Income;
    - Let states process applications/recertifications with no interview under certain conditions (e.g., when the household's income can be verified

through electronic data matches), as is done in the Medicaid program, and allow other steps to reduce face-to-face interview requirements;

- Let states use community nonprofit partners to help applicants complete applications and offer other assistance without requiring such projects to be demonstration projects;
- Let states reinstate ineligible households under certain conditions without a new application/interview if they become eligible in the month following the month of ineligibility.

Child Support Enforcement Match—We strongly encourage Congress to repeal, either permanently or temporarily, the specific provision in the Deficit Reduction Act (P.L.109–171) that prohibits states from using incentive payments to draw down Federal funds for the purposes of enhancing the state agency's ability to collect child support and distribute the money collected to children and families. Child support generates an estimated $4.73 for every dollar spent in Federal funds; this money goes directly to the working families who need it.

Child Care and Development Fund—We support increased funding and flexibility in state administration of the Child Care and Development Fund block grant, which provides Federal child care funds to low-income working families. States are challenged in providing families with high-quality, adequate, and affordable child care—care that is an economic necessity and a critical support to the nation's workforce. The link between child care and our economy is clear: business leaders and economists calculate that every dollar invested in early childhood programs, including child care, results in a return on investment as high as $17. Such an investment yields immense benefits to children and the public, including reduced crime, abuse and neglect, and welfare dependency, while equipping workers with the skills and incomes they need to better withstand the type of economic stress we are now encountering.

Social Services Block Grant— The SSBG allows a community to build and sustain a strong social safety net through a broad range of health and human services. This Federal program is one of the few that focuses on the need for community collaboration to successfully serve clients. SSBG reinforces public child welfare's need to reach out to community partners, and funds services for low-income individuals and families; people in jeopardy of entering a nursing home or institution because of a lack of services and support; children and adults who have been abused or neglected; and other vulnerable populations. Providing support for these efforts is more vital than ever. We also strongly urge an increase in funding for this important program.

Low Income Home Energy Assistance Program —Sharp increases in energy costs are compounding the general economic distress so many vulnerable families are feeling. We urge an increase in LIHEAP funding to assist low-income families at risk of meeting their heating needs.

We appreciate your consideration of these proposals. If we can answer any questions, please contact me or Larry Goolsby, APHSA's Director of Legislative Affairs.

Statement of Richard L. McNeel

The Lord Corporation applauds your efforts on the Emergency Economic Stabilization Act, and we look forward to seeing your work on a second economic stimulus plan. As you contemplate options for a new economic stimulus bill to help prevent a protracted recession, we would like to make some suggestions that will help prevent further declines in the economy. Specifically, we would like to recommend changes to Defined Benefit Pension Plan regulations that would allow smoothing of assets and would expand the fair market corridor.

In 2006, legislation was passed to reform defined benefit pension plans (Pension Protection Act 2006). Prior to this legislation plan sponsors could smooth plan asset gains and losses over a maximum of five years, subject to a fair market corridor of 80% and 120%. This restricted the actuarial value of assets to no less than 80% and no more than 120% of the fair market value. The reason for five year smoothing of assets was intended to reduce the volatility in investments and increase stability in funding requirements. Smoothing prevented the temporary under or over-funding of defined benefit pension. The Pension Protection Act eliminated this smoothing of assets over five years and replaced it with an averaging of 24 months and narrowed the fair market corridor of no less than 90% and no more than 110%.

However, due to recent turmoil in the equity and bond markets, since smoothing is no longer allowed, many plan sponsors with defined benefit pension plans, will face staggering funding requirements in 2009 to fund their plans based on their 2008 plan year-end valuations using assets valued at fair market or a 24 month average. This excessive funding will either result in many companies diverting precious resources necessary to re-tool and develop new products, to fund these plans or it will result in many sponsors declaring bankruptcy, resulting in these plans turned over to the Pension Benefit Guarantee Corporation (PBGC). Either of these alternatives would significantly impact economic recovery and cause further job loss.

We have studied the impact the current legislation would have on our required pension contributions next year, and based on the current legislation and market conditions, it could require us to contribute over $27 million to our plans in 2009 alone. To put this in perspective, that would represent over ***60%*** of our needed capital spending on property, plant and equipment in 2009. Without changes to the current regulations, we will be forced to dramatically curtail capital investments, product development and potential job growth in 2009 and beyond.

As you review options for the next stimulus package, please consider allowing plan sponsors to return to a five year smoothing of pension assets and expanding the fair market corridor to no less than 80% and no more than 120% to avoid excessive funding of these plans and the diversion of funds away from business growth and job creation.

This legislative relief will cost zero dollars to the U.S. tax payers, while providing greater stability to U.S. industrial and manufacturing companies. In fact, if this change were enacted, it could save taxpayer money, by reducing the number of companies turning their pension liabilities over to the PBGC as a result of bankruptcy.

Statement of Rod R. Blagojevich

I want to thank the Committee for the opportunity to provide this written testimony about the impact of state child support programs on economic recovery, job retention and investment in America.

As the Governor of the great State of Illinois, strengthening families, providing healthcare access, and providing economic opportunities for working parents has been the centerpiece of my Administration. One of the many ways we in Illinois have addressed the needs of working families is through a dramatic turnaround in the child support program administered by the Illinois Department of Healthcare and Family Services. Recent comparisons indicate that the Illinois program is the 7th largest in caseload and 8th largest in collections in the country. We collected $1.33 billion in State Fiscal Year 2008 and provided enforcement services for more than a half-million families. Forty-three percent of the families served are former TANF families striving for financial self-sufficiency.

Since 2001, the Illinois program has experienced dramatic improvement in all areas of performance. In 2006, our program was recognized as the most improved child support program in the nation. From Federal Fiscal Year (FFY) 2000 to FFY 2007 we registered the following significant gains: 92% increase in collections for IV–D families from $393 million to more than $754 million; more than 100% increase in collections per full time employee from $200,000 in collections per FTE to more than $478,000; and 87% increase in cost effectiveness from $2.26 in collections for every dollar spent to $4.26.

Participants in the Illinois IV–D program have significantly fewer resources than the general population. Single custodial parents rely on regular payment of support to provide safe housing, safe day care, and adequate food to their children. The child support enforcement program helps working single parents meet their every day needs.

For low-income single-parent working families, there is a calculus of everyday living that includes counting on every possible source of income. Lack of child support may mean that the day care bill cannot be met, resulting in loss of a day's work and ultimately can mean the loss of the parent's job. Or the calculus may result in the parent leaving the child alone rather than risk the loss of a job—with possibly tragic consequences. Regular child support payments help low income families leave welfare and not return, keep their day care providers payments regular and help the parents keep their employment. Children are safer and healthier when the family has a level economic foundation.

Performance incentives earned by Illinois have doubled in the most recent five years. Moreover, Illinois has consistently reinvested every dollar of the Federal in-

centive payments in its child support enforcement efforts. Not only has this reinvestment paid off in the ongoing performance improvement of the Illinois program, but it has become a fundamental component of the annual financing of the program. Unfortunately, the cut in Federal financial support through the prohibition under the Deficit Reduction Act (DRA) of matching Federal funds for reinvested incentive payments will have the effect of punishing states who are engaged in successful performance improvement efforts, Illinois among them.

For Illinois, the loss of Federal incentive matching funds will have an impact on the financing of its child support program of at least $16 million annually. The Illinois state budget has absorbed some of this loss and implemented a partial gap funding for the program. Nevertheless, the budget constraints are affecting both the state program and the county level funding for legal representation and other services. Nearly forty percent of Illinois' program budget is redirected to counties through intergovernmental agreements with Clerks of Circuit Court and State's Attorneys. This funding shortfall will affect the Illinois' child support programs ability to meet performance goals at a time when working single heads of households most depend on regular child support payments.

A funding shortfall also means that we may no longer be able to develop new approaches for the most challenged families. Illinois has recently embarked on an arrearage compromise program—Project Clean Slate—that trades old, uncollectible debt owed by low-income non-custodial parents for current support payments paid now to their families—who are no longer on assistance. This program brings together mothers and fathers in support of their children, and allows low-income fathers to not only make a contribution to their family now but also to get out from under a crushing burden of debt that holds down their economic future. This is the kind of program that promises well for future self-reliance of families, and the kind that often are not funded when resources become unavailable.

Although the Illinois program has partial gap funding through scarce state general revenue funds, we have an interstate caseload that could suffer. More than 60,000 of the cases in the Illinois child support program's caseload have parents who live across the other 49 states, the District of Columbia, and the U.S. territories. Reduced Federal funding of child support programs in these other jurisdictions means that thousands of families whom we serve may not receive the child support they are due and urgently need. Interstate cases are among the most difficult of cases even without the added difficulties of working with other states whose lost funding has not been replaced and who are expected to reduce staff and services as a result. Additionally, the funding support recently provided here comes at the expense of other state-funded services. The additional funds provided to the child support program did not come from additional revenue, but instead required difficult decisions about funding other programs.

The great importance of the child support program lies not just in ensuring that families receive the support they are owed, but also in helping avoid additional costs in other programs. Many of our families would have to turn to income-support programs if they did not receive child support. In FY 2006, 17,000 families moved from assistance to former assistance after beginning to receive child support payments. In addition to collecting support and reducing state and Federal expenditures for public assistance, state child support programs provide children with the emotional support that comes through the legal establishment of paternity, and provide a range of programs to promote responsible parenting, including job referral services to low-income non-custodial parents and programs that promote the involvement of the non-custodial parent in their children's lives.

The child support enforcement program is a state-Federal partnership that has demonstrated its value many times over in helping families achieve and sustain financial well-being and in promoting the active and responsible involvement of both parents in the lives of their children, for the long-term benefit of their children.

Investing in a program that helps working families maintain their budgets and promotes parental involvement is an investment in America and supports the economic recovery we are all striving to achieve. I commend the Committee on its work and I urge you to include the restoration of the funding match for child support incentive funding in your deliberations.

Statement of Shirley Franklin

I want to thank you for holding a hearing October 29th on economic recovery, job creation and investment in America's infrastructure. As you may recall, I attended

Speaker Pelosi's Economic Summit earlier this year to discuss a second economic stimulus package, with my focus on assistance for cities—including infrastructure funding—which could create immediate jobs. I commend your continued leadership in addressing the challenges of our citizens and looking for ways to expedite our nation's economic recovery.

As Congress debates alternative approaches to stimulating the economy, I urge you to consider the following perspective of the City of Atlanta:

- Local governments are on the bleeding edge of the economic crisis facing the nation. The City of Atlanta's 1st quarter revenues (ending Sept. 30) are down 11% from our projections in June. And that is likely to be the best quarter we have this year.
- To accommodate this revenue shortfall, we are facing potentially additional layoffs, having already reduced payroll by 30% in non-public safety departments earlier this year. New York, Philadelphia, Phoenix, Chicago, and others have already announced the elimination of several thousand jobs.
- The lack of liquidity in the financial markets is forcing the suspension of billions of dollars of infrastructure investments that could otherwise help to offset the struggles in the private economy. We are estimating that 3,000 jobs are at risk at Hartsfield Jackson Atlanta International Airport alone due to an inability to issue bonds in this financial environment.

With the private sector hemorrhaging jobs, it makes no sense to add much-needed public sector workers to the ranks of the unemployed. Since private job creation of any magnitude will take significant time to take hold, it is imperative that government at all levels maintain their workforces and continue to deliver much-needed services. With that goal in mind, we need a comprehensive financial rescue package that attacks these economic issues across a broad front. We need:

- Direct Federal investments in local public infrastructure that will allow cities to keep their workforce employed and at the same time begin to carve away at the $1.6 trillion "infrastructure deficit" the nation faces. The City of Atlanta—despite a $4 billion investment in our water/sewer infrastructure and a $6 billion expansion underway at Hartsfield-Jackson Atlanta International Airport—faces a $750 million infrastructure deficit. And as the City of Atlanta is grows, this deficit widens. We have added 100,000 residents in the last eight years (nearly a 25% increase) and we expect that growth to continue for the foreseeable future. Based on a recently completed study of our future transportation needs, we have identified an additional $2.2 billion in new infrastructure that the City needs if it is to effectively accommodate the businesses and residents moving to our City. Federal dollars directed toward infrastructure would represent an investment in the long-term productivity of private economy while at the same time preserve jobs that are at immediate risk.
- Immediate injection of liquidity into the financial sector—through investment guarantees or other mechanisms—to jump start the market for public bond issuances. The waiving of the Alternative Minimum Tax related to airport bonds would be one effective method for stimulating the market for public bonds.
- Immediate investment of Federal funds into public safety operations. This might include direct funding for police and fire personnel (through COPS or Title II types of allocations).
- Immediate injection of Federal funds into job training and placement programs. It is imperative that people recently laid off be put back to work as quickly as possible. Programs such as those provided under the Workforce Act and other Department of Labor initiatives have been proven extremely effective in getting people placed in productive work.

Don't Spend, Invest Instead

The City of Atlanta could create 5,500 jobs in 18 months if Federal funding for maintenance and repair of essential public works infrastructure were available. Within 3–5 months we could implement $30 million worth of work and create 300 immediate jobs that would "seed" our longer term efforts. There is little question that targeted investments in public infrastructure will yield the immediate benefit of significant job creation. Perhaps just as important is the fact that high-quality public infrastructure drives the growth and productivity of the private economy. Since in a global economy access to high quality airports, roads, railways and ports is a critical driver of our competitiveness, our country's future economic prosperity is directly related to the level of investment we make in our public infrastructure.

In our short-term efforts to pull our economy out of recession, we should not miss this opportunity to make investments in infrastructure that will improve our economic prospects in the long run.

Bottom line: I urge you and your colleagues to look hard at what is happening to the municipal governments in your districts. They are facing the gravest threat to their financial future than in any time in the last 30 years. We ignore them at our peril. The future prosperity of this country is tied directly to our ability to provide basic services and quality infrastructure to our citizens. We are at serious risk in failing in that most basic public responsibility.

I urge you to support direct investments in our urban centers—through CDBG grants, Workforce Act funding and other direct support programs—that will create good jobs in the short term and stimulate sustainable job creation in the long term. I am eager to work with you and your colleague members to put in place a public infrastructure investment strategy that can truly transform our urban landscape and the future economic prospects of our nation.

Thank you again for your leadership.

CC: Congressman Jack Kingston
Congressman Sanford Bishop
Congressman Lynn Westmoreland
Congressman Hank Johnson
Congressman John Lewis
Congressman Tom Price
Congressman John Linder
Congressman Jim Marshall
Congressman Nathan Deal
Congressman Paul Broun
Congressman Phil Gingrey
Congressman John Barrow
Congressman David Scott
Council President Lisa Borders
Councilmember Carla Smith
Councilmember Kwanza Hall
Councilmember Ivory Lee Young, Jr.
Councilmember Cleta Winslow
Councilmember Natalyn Mosby Archibong
Councilmember Anne Fauver
Councilmember Howard Shook
Councilmember Clair Muller
Councilmember Felicia A. Moore
Councilmember C. T. Martin
Councilmember Jim Maddox
Councilmember Joyce Shepherd
Councilmember Ceasar C. Mitchell
Councilmember Mary Norwood
Councilmember H. Lamar Willis

Statement of Starwood Hotels

Starwood Hotels is grateful to the Committee on Ways and Means for this opportunity to submit testimony for its hearing on Economic Recovery, Job Creation, and Investment in America. Starwood is uniquely situated to understand the impact of the economic downturn on the hospitality and real estate industries and appreciates the Committee's interest in considering additional economic stimulus measures to assist in bringing about an economic recovery. There is no question that both of these industries have been negatively affected and are in need of economic stimulus.

We ask the Committee to consider extending the current law five year capital loss carryforward period from five years to ten years or longer. The five year carryforward period has been rendered essentially ineffective as a result of the decline in the markets. In effect, companies have very few appreciated assets currently with which to offset capital losses and values may not recover quickly enough for the losses to be absorbed on a carryforward basis in five years or less. And the frozen credit markets exacerbate this problem making it even more difficult for corporation currently to undertake capital transactions.

There is precedent for this type of extension of a tax benefit. In the American Jobs Creation Act of 2004 Congress extended the excess foreign tax credit carryforward period from five to ten years (section 417 of the Act). According to the Joint Committee on Taxation, one of the reasons Congress felt the extension was warranted was that "the purposes of the foreign tax credit would be better served by providing a larger window within which credits may be used, thereby reducing the likelihood that credits may expire." General Explanation of Tax Legislation in the 108th Congress, Joint Committee on Taxation p.301 (May 2004).

Congress has acted to help the banking industry by permitting certain capital losses to be taken as ordinary losses, and in addition to the proposal set forth above, Congress could permit all gross profit from homebuilding and timeshare sales to be treated as capital gain at the taxpayer's election. This proposal would permit taxpayers to elect to use their capital losses against current timeshare gains with the effect of providing taxpayers some immediate capital which could be used to create jobs or expand as the economy itself bottoms out. By infusing capital in the industry we could help accelerate an eventual economic recovery.

We urge the Committee to consider these proposals as a stimulus for an industry that is in a significant downturn. Both proposals would have the effect of reducing short term tax liabilities and in so doing, infuse these industries with badly needed capital.

We are eager to work with the Committee on these and other proposals to help bring about an economic recovery and we understand that Congressional Leaders have not decided whether to pursue a tax stimulus approach to the economy. However, given the depth of the economic downturn and the complexity of the American economy, we believe that Congress should try a variety of approaches; this is not a one size fits all economy, and any recovery plan should be diverse.

The real estate and hospitality industries are critical to the overall well being of the economy, and we hope that the Committee will recognize this in designing the next package of recovery proposals.

Statement of National Roofing Contractors Association

Mr. Chairman and distinguished members of the committee, the National Roofing Contractors Association (NRCA) commends you for holding a hearing entitled "Economic Recovery, Job Creation, and Investment in America." NRCA greatly appreciates the opportunity to submit a statement for the hearing record on this important topic.

Introduction

Established in 1886, NRCA is one of the nation's oldest trade associations and the voice of professional roofing contractors worldwide. It is an association of roofing, roof deck, and waterproofing contractors; industry-related associate members, including manufacturers, distributors, architects, consultants, engineers, and city, state, and Government agencies; and international members. NRCA has approximately 4,500 members from all 50 states and 54 countries and is affiliated with 104 local, state, regional and international roofing contractor associations.

NRCA believes that the roofing industry can play a significant role in quickly stimulating economic growth and job creation across the nation. In particular, NRCA believes that current trends toward the adoption of "green" buildings are key drivers of economic growth in our industry, and we are working to maximize the economic, environmental and energy conservation benefits of these trends. NRCA members are in the forefront of developing and installing a wide variety of green technologies, such as vegetative roofs that have numerous environmental benefits, "cool" roofs that reduce energy consumption by reflecting sunlight, and roofs that incorporate solar panels. Further development of green technologies in the roofing industry will provide opportunities to stimulate economic growth and job creation, while simultaneously reducing energy consumption and protecting the environment.

NRCA produces two technical publications aimed at educating roofing contractors and building owners about the availability and benefits of green roofing technologies. The NRCA Green Roof Systems Manual provides technical know-how to contractors on the installation and maintenance of vegetative roofs, and the NRCA Guidelines for the Design of Energy-Efficient Roof Systems is written for design professionals who want to incorporate energy-efficient roofs into their building designs. By providing these detailed technical publications to roofing contractors and other industry participants, NRCA hopes to facilitate and accelerate investment in energy-efficient buildings that provide for a sustainable environment.

The Roofing Energy Efficiency Tax Act (REETA)

NRCA believes enacting Federal policies that facilitate greater levels of investment in green technologies will spur economic growth within the construction industry. To help attain this objective, NRCA strongly urges Congress to pass the Roofing Energy Efficiency Tax Act of 2007 (H.R. 4126), bipartisan legislation sponsored by Rep. Bill Pascrell (D–NJ) and Rep. Ron Lewis (R–KY). REETA amends section 168 of the Internal Revenue Code to provide a realistic recovery period for the tax depreciation of commercial roof systems that meet a specific energy-efficiency standard. This legislation will immediately stimulate economic growth and job creation in the roofing industry by accelerating the installation of new energy-efficient, environmentally beneficial commercial roofing systems. In fact, it is estimated that REETA will stimulate over $1 billion in economic activity per year and create nearly 40,000 new "green" jobs in the roofing industry.

Between 1981 and 1993, the depreciation recovery schedule for nonresidential property was increased from 15 years to 39 years in order to, at least in theory, raise additional revenue for the Federal treasury. However, the current 39 year depreciation schedule is not a realistic measure of the average life span of a commercial roof. A study by Ducker Worldwide, a leading industrial research firm, determined the average life expectancy of a commercial roof to be 17.5 years.

The large disparity between the current 39-year depreciation schedule and the average life span of a commercial roof serves as a significant disincentive for building owners to replace failing roofs. This disincentive is slowing the adoption of more advanced energy-efficient and environmentally beneficial roofs, because an owner who replaces a roof before 39 years have elapsed must carry that roof on his or her books for tax purposes even though it no longer exists. A Treasury Department Report to Congress on Depreciation Recovery Periods and Methods (July, 2000) corroborated this quandary, finding ". . . a 'cascading' effect, where several roofs are being depreciated at the same time, even though only one is physically present." Given this situation, many building owners choose to do only piecemeal repairs, most often with older technology, rather than replace a failing roof in its entirety with a new, more energy-efficient product. Thus, the current unrealistic depreciation schedule for commercial roofs serves as a significant disincentive to new investment in green roofing systems for commercial buildings across the nation.

REETA would rectify this situation by reducing the tax depreciation schedule for commercial roof systems from 39 to 20 years for roofs that meet the energy efficiency requirements of Standard 90.1 of the American Society of Heating, Refrigerating, and Air Conditioning Engineers (ASHRAE). Enactment of this legislation will accelerate the adoption of energy-efficient commercial roof systems by eliminating the disincentive in the Tax Code for building owners to install such systems. This will have a positive impact on economy and job creation by spurring greater demand for energy efficient roofing systems that meet the ASHRAE 90.1 standard. REETA will also provide environmental benefits by reducing carbon emissions through enhanced energy conservation.

According to the Ducker Worldwide study, a more realistic depreciation schedule for commercial roofs, as provided by REETA, will have the following positive impacts on the U.S. economy and the environment:

- Add an additional 250 to 300 million square feet of roofing material installations annually;
- Create 40,000 new "green" manufacturing and contracting jobs;
- Add $1 billion of taxable annual revenue to the economy;
- Reduce U.S. energy consumption by 13.3 million kilowatt hours annually;
- Cut carbon dioxide emissions by 20 million lbs. per year; and,
- Provide millions in savings to small businesses through a simpler and more equitable system of taxation and lower energy costs.

Enactment of REETA also would benefit millions of small business owners by eliminating or mitigating the "cascading effect" of having to depreciate more than one roof in instances where a roof must be replaced before the 39-year depreciation

schedule has been completed. This tax simplification feature of REETA for commercial building owners that install energy efficient roofs is an even greater benefit for small businesses that own their building.

Given the many economic as well as environmental benefits of REETA, the legislation enjoys strong support among both business and organized labor. The bill is supported by the United Union of Roofers, Waterproofers and Allied Workers, the AFL–CIO's Building and Construction Trades Department and the Joint Roofing Industry Labor and Management Committee, as well as numerous organizations in the construction industry.

Conclusion

Approving the bipartisan REETA legislation is one way that Congress could take quick action to immediately stimulate the economy while also enhancing energy conservation and reducing carbon emissions. NRCA strongly urges the inclusion of H.R. 4126 in any economic stimulus legislation that Congress considers in the near future and looks forward to working with members of the committee and other members of Congress on this issue.

Statement of Transportation For America Coalition

The Transportation For America Coalition (see Attachment A) is pleased to submit written testimony on the important and related issues influencing our nation's ability to respond to the current economic crises in the financial markets and in our communities. Our coalition represents a broad diversity of national and local organizations focused on the important need to modernize and maintain our national transportation infrastructure. We believe that investments in transportation are critical to the health of the national economy.

When considering investments in transportation infrastructure as part of an economic recovery package, funding needs to go to investments that provide immediate economic benefits and ultimately help Americans compete and thrive in a globalized world. To better ensure the attainment of these goals, it is critical that language be included in the stimulus package that directs and prioritizes infrastructure dollars toward preserving and improving public transportation, fixing our crumbling bridges and aging highways, and begins to lay the groundwork for a clean, green recovery. We cannot afford to simply put more money into a system with poor accountability.

America's transportation system—the network of highways, railroads, public transportation, bikeways and walkways—serves as the backbone of our economy, connects our communities, and provides access to the American Dream of opportunity for all. Unfortunately, that system today is both broke and broken. The interstates have been built and need upkeep. Bridges badly need repair. Many Americans—young, old, rural, and suburban—are stranded without transportation options that are affordable, efficient, and convenient.

Build for America: Infrastructure Investments for Economic Recovery

Given the context of these challenges to our economy and the infrastructure that supports it, the Transportation for America Coalition believes Congress is warranted in looking at transportation investment as a core strategy for recovery. Such action could put millions of Americans to work in the near term, while building the cutting-edge transportation networks we need for the 21st century economy. However, to succeed, we must follow five core principles for transportation investment in the modern era:

- **BUILD TO COMPETE.** We must catch and pass competitors in China and Europe, who are far ahead in building comprehensive, resilient and sustainable transportation systems, by modernizing and expanding our rail and transit networks to reduce oil dependence, connect the metro regions that are the engines of the modern economy and improve freight connections.
- **INVEST FOR A CLEAN, GREEN RECOVERY.** Our nation's clean-energy future will require cleaner vehicles and new fuels, but it also must include support for the cleanest forms of transportation—modern public transit, walking and biking—and for energy-efficient, sustainable development.
- **FIX IT FIRST.** Before building new roads, that will themselves have to be maintained, we should restore our crumbling highways, bridges and transit systems and protect the investments we have made in existing communities.

- **Stop Wasteful Spending.** Although there are many transportation projects in the "pipeline", we must reevaluate them to eliminate wasteful spending on projects with little economic return, especially any that could deepen, rather than relieve, Americans' dependence on oil and gasoline.
- **SAVE AMERICANS MONEY.** We must provide more travel options that are cheap and efficient, while helping people to avoid high gas costs and traffic congestion, so that Americans can spend their money and time in economically productive ways. We also can save taxpayer dollars by asking the private developers who reap real estate rewards from new rail stations and transit lines to contribute toward that service.

Investing according to these principles will pay enormous dividends for the economy and American households in both the near and long term. In 2009, Congress will begin work on the authorization of the Federal surface transportation program, set to expire September 29, 2009. This will present an opportunity to consider substantial reforms in how we fund transportation, and what types of investments are in the national interest.

Congress earlier this summer passed an $8 billion emergency spending package to fill the current shortfall in the national highway trust fund, the primary mechanism for funding America's surface transportation system. Recognition of the need for an $8 billion filler should serve as a warning of the transportation fiscal crisis to come. Projections show that the Federal gas tax cannot keep pace with maintenance needs for highways and transit, much less provide capital for new investments to modernize and expand the system.

State and local governments also are finding it increasingly difficult to finance infrastructure. Borrowing costs and the ability to access private capital are challenging almost every state department of transportation and hundreds of local governments. Changes on Wall Street are severely impacting the potential rebuilding and preservation of Main Street. Strains on the capital market will likely generate more costly municipal financing and severely constrain bank financing driving down valuations and reducing the number and size of projects. The current credit crisis has created a crippling financial situation for a number of transit agencies. As an example, the collapse of insurance giant AIG has caused deals between banks and transit agencies to fall apart, allowing banks to demand billions of dollars from the agencies.

Transportation Infrastructure Impacts Personal Economic Security

At the same time, American households are feeling the pinch in their pocketbooks from increasing energy costs and access to few meaningful alternatives to automobile driving. Car dependency affects every aspect of family life. Personal economic security is closely linked to transportation options. On average, transportation accounts for the second highest annual household expenditure after the rent or mortgage. In auto-dependent regions such as Atlanta, GA and Detroit, MI, working families who make less than $50,000 a year now spend more on transportation than they do on housing. A recent report by the American Public Transportation Association found that people who use transit regularly can achieve average savings of $9,499 a year. This is the equivalent of paying for 75% of a health care policy or a sizable portion of a home mortgage each year. A 2007 study found that households living in neighborhoods near a transit station spend 16 percent less on transportation than families who live in auto-oriented communities.

The set of financing tools for the national transportation system has barely changed since the 1950s when gas was 20 cents a gallon and President Eisenhower launched the interstate highway system. We still rely primarily on the gasoline tax, making ourselves reliant upon oil consumption even as we take steps to reduce our oil dependence in the face of threats to our national security and economy. As cars attain higher MPG ratings and high prices at the pump and reduced economic activity depress miles driven, gas tax revenues have fallen.

At the same time, the demand on our transportation system and construction costs have risen dramatically. State departments of transportation, local governments, businesses who rely on transportation to ship goods and services, are feeling the resulting financial pinch. It is also hurting millions of Americans who have found themselves paying more at the gas pump and the fare box. Even as transit ridership has hit record levels in recent months, agencies are being forced to cut service because of rising fuel costs and falling tax receipts.

On the revenue side, we believe that all options must be on the table for consideration. First, however, Congress needs to establish a clear set of National Transportation Objectives to guide our investments and national transportation policy. Before we can answer the challenging question of how to finance our system, we need

a much improved statement of purpose and vision for what we are investing in as a nation. We must also ensure that these investments are being made wisely, and monitor this by improving reporting on how American taxpayer dollars are being used at both the state and local levels.

High gas prices can be particularly devastating to those living on a fixed income who live in neighborhoods where the existing transportation system fails them. A study of older Americans by AARP in August 2008 showed that due to high gas prices, 29 percent of respondents are walking, 16 percent were using transit and 15 percent are biking instead of driving for some trips. This is despite the fact that 40 percent said they did not have access to adequate sidewalks, 55 percent do not have access to bike lanes, and 48 percent do not have a comfortable place to wait for the bus.

The high cost of gas and lack of transportation options forces Americans to choose between breaking their budget or feeling unsafe on the roads. Sidewalks, bike lanes and trails are critical components of any transportation network by creating safe routes to schools, to work, to shopping and to transit. Including bicycling and walking projects in the recovery bill will not only create new jobs in the short term but also contribute to longer term economic recovery and growth.

Include Infrastructure Investments as part of an Economic Recovery Package

In the short term, the Transportation for America coalition supports additional infrastructure investments to stimulate an economic recovery. Including transportation investments in an economic recovery bill is a tremendous opportunity to get our economy moving again if we use the funds as a down payment to build a 21st Century transportation system. Already, transportation is the sixth largest Federal expenditure. Government, at all levels, spend over $85 billion a year, yet considerably more annual funding is needed. According to the U.S. DOT, $94.6 billion is needed annually through 2024 to maintain the current system and $153.5 billion to upgrade it.

There are many arguments for infrastructure investments as a tool for stimulating job creation and economic activity. While there may be debate over the size of the job creation bounce, most economists agree that infrastructure investments can yield positive employment and economic impacts.

Economic Recovery Funds Should Not be a Blank Check to State DOTs

Simply sending additional revenues out to state departments of transportation (DOTs) through traditional formula funding mechanisms, without a clear congressional mandate of priorities and provisions for states to report on how these funds were used, is not the route to take. It poorly serves our national interest. Far better to target economic recovery dollars to those investments that would reduce the enormous backlog of needed maintenance and also for rail and rapid bus projects that could support millions of jobs.

The Federal Highway Administration reports that over $512 billion (adjusted for inflation) is needed in the next five years to restore our nation's crumbling bridges, roadways and transit systems. According to the Association of Civil Engineers, more than 72,000 of the nation's bridges are structurally deficient. These are infrastructure investments that can usually be undertaken more quickly than new road construction and have the potential to yield higher job creation numbers, because they require less spending on acquiring land and completing impact studies. One 2004 study by the Surface Transportation and Policy Partnership of the U.S. DOT job-creation model estimated that road repair and bridge maintenance create 9 percent more jobs than construction of new road capacity. Congress should make system preservation, maintenance and improvement a priority in any transportation funds it allocates in an economic recovery bill.

Transportation for America believes that we cannot afford to wait to invest transportation as a way to enable our communities to better compete and thrive in a global marketplace. Given the credit crisis affecting almost every community seeking private funds, and tighter state and local public budgets, Federal support for transportation is urgently needed in the short term to help preserve current jobs in the transportation sector, and to make a down payment on new investments that could put additional people to work building for America.

A recent report by Reconnecting America identified more than $240 billion worth of new transit investments being planned across the country. Providing additional revenues to expedite some of these projects could help to reduce financing costs for transit agencies, put people to work in their construction, and ultimately provide more transportation choices and economic development opportunities around new transit lines.

Improvement projects should also include projects that create or improve access for biking and walking on our roadways. America Bikes has identified $500 million dollars worth of ready to go bike and pedestrian projects that will create jobs, as well as improve access for the millions of Americans who cannot or choose not to drive. These projects, which are often more labor intensive and less material intensive, not only increase transportation choices, but also improve safety for motorists, bicyclists and pedestrians. Many of these projects could be undertaken as roads are being repaired providing even greater job creation opportunity from these roadway investments.

As noted by Nobel laureate economist, Paul Krugman, "The usual argument against public works as economic stimulus is that they take too long: by the time you get around to repairing that bridge and upgrading that rail line, the slump is over and the stimulus isn't needed. Well, that argument has no force now, since the chances that this slump will be over anytime soon are virtually nil. So let's get those projects rolling."

Our coalition does not support earmarking these funds, but we do believe that the economic crisis and challenge for transit agencies and local governments to obtain loans or private bonding could be assisted through increased funding for the Section 5309, Title 49 program to fund new ready-to go fixed guideway capital transit projects. A relatively small portion of the overall Federal transit program funds new construction—roughly $1.6 billion annually. Over 300 projects are competing nationally for these funds, and a number of smaller scale bus rapid transit and streetcar projects could be expedited and jobs created in construction of these lines, and the manufacturing of vehicles and equipment. Transportation For America has identified over $2.4 billion worth of investment in new fixed-guideway transit service that could put people to work not only in the building of these projects, but also in the longer term provide new jobs in operating transit and in associated economic development opportunity around new transit lines.

To cite just one example of a ready-to-go transportation investment that could yield job creation and immediate economic impact, the proposed Portland Streetcar Loop project in Oregon is a $147 million project that includes $72 million of committed local funds and is awaiting approval of a $75 million Federal transit construction grant. If funded, expenditures would commence within weeks of the commitment. Over 100 new jobs would be created by a new U.S. manufacturer of streetcars, Oregon Ironworks. There are many other similar examples from across the country.

In short, the Transportation for America Coalition believes that for the maximum effect as a stimulus, infrastructure spending for transportation should be directed toward high-impact investments. We support efforts by Congress to include infrastructure investments in an economic recover bill, provided that these investments include the following:

1. Fixing What's Broken: Highway Repair and Maintenance

To keep our economy functioning smoothly, we need to maintain our existing infrastructure in good repair. These projects typically do not require complex and expensive impact analysis or purchase of right-of-way, and so most funds go directly toward putting people to work. An economic recovery bill should send clear direction to states that new money is to be prioritized for repair and preservation needs of the transportation system, and to investments that connect transportation networks, improve safety and provide least cost transportation options like bicycling and walking.

2. Preserving Existing Transit Jobs and Service

Agencies nationwide are faced with severe cutbacks as costs rise and local tax revenues fall—preserving service will save transit jobs and won't leave people who depend on transit without a way to get to work. Preserving current transit jobs is equally important as investment in new service to create additional economic activity and should be included in an economic recovery bill.

3. Creating a Clean, Green Infrastructure

Funds for ready-to-go rail projects that can put people to work and begin building the resilient, 21st-century infrastructure needed to reduce our oil dependence and get people where they need to go. We should invest equally in our transportation modes.

- $18 billion targeted to fixing crumbling bridges and preserving the national highway system to help erase the enormous backlog of ready to go maintenance projects.

- $500 million for ready to go bicycling and pedestrian facilities that connect transportation networks, improve safety, and provide least cost transportation options.
- $1.6 billion in energy assistance operating grants to assist transit operating grants like those contained in last month's economic stimulus package to preserve current jobs in transit and ensure that affordable transit options remain for those currently served by transit.
- $8 billion for improving existing transit infrastructure, including the purchase of clean energy public transportation vehicles and retrofitting existing public transportation vehicles and facilities with green technology to reduce GHG emissions and save money in the long term.
- $2.4 billion for Section 5309, Title 49 program to fund new ready to go transit capital investment to expand transit options to more communities and get people building these new systems.
- $500 million for Amtrak and state intercity rail corridor investments authorized in the recently passed Passenger Rail Investment and Improvement Act.

Infrastructure financing is in a crisis mode. This crisis is compounded and paralleled by the larger economic crisis impacting Wall Street, with profound implications for Main Street. State and local governments are facing funding challenges not previously witnessed as capital markets have seized, while debt on bonding and loan agreements continue to escalate, and previous agreements with institutions like AIG have unraveled. Federal revenues for transportation are not keeping pace with inflation, and have also been severely impacted by rising gasoline costs and changes in travel patterns. Congressional action is needed to help chart a new, more economically sustainable path for infrastructure investments to respond to current and future transportation challenges. America is running on empty and Americans are ready for a new direction.

Now is not the time to squander money on projects that do not help save Americans money, free us from oil dependence or create long-term jobs that are clean and green. Infrastructure investments as part of an economic recovery package should be viewed as a down payment on putting people to work quickly to begin creating a 21st Century transportation system.

Attachment A. Transportation For America Executive Committee Members

The Transportation for America is a broad coalition of housing, environmental, public health, business, urban planning, transportation, labor, real estate, local businesses, and other organizations. We're all seeking to align our national, state, and local transportation policies with an array of issues like economic opportunity, climate change, energy security, health, housing and community development. Our coalition includes over 85 national and local organizations that care about reforming national transportation to better serve our communities and economy. For a current list of partners and more information, please visit our website: ***www.america.org***

Executive Committee member organizations include:

- Action! For Regional Equity (Action!)
- America Bikes
- American Public Health Association (APHA)
- Apollo Alliance
- LOCUS—Responsible Real Estate Developers and Investors
- National Housing Conference
- National Association of City Transportation Officials (NACTO)
- National Association of Realtors
- Natural Resources Defense Council
- PolicyLink
- Reconnecting America
- Smart Growth America
- Surface Transportation Policy Partnership (STPP)
- Transit for Livable Communities (TLC)
- US PIRG

Statement of U.S. Chamber of Commerce

The U.S. Chamber of Commerce is the world's largest business federation, representing more than three million businesses and organizations of every size, sector and region.

More than 96 percent of the Chamber's members are small businesses with 100 or fewer employees, 71 percent of which have 10 or fewer employees. Yet, virtually all of the nation's largest companies are also active members. We are particularly cognizant of the problems of smaller businesses, as well as issues facing the business community at large.

Besides representing a cross-section of the American business community in terms of number of employees, the Chamber represents a wide management spectrum by type of business and location. Each major classification of American business—manufacturing, retailing, services, construction, wholesaling, and finance—numbers more than 10,000 members. Also, the Chamber has substantial membership in all 50 states.

The Chamber's international reach is substantial as well. We believe that global interdependence provides an opportunity, not a threat. In addition to the U.S. Chamber of Commerce's 101 American Chambers of Commerce abroad, an increasing number of members are engaged in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on national issues are developed by a cross-section of Chamber members serving on committees, subcommittees, and task forces. Currently, some 1,800 business people participate in this process.

The U.S. Chamber of Commerce would like to thank Chairman Rangel, Ranking Member McCrery, and members of the Committee for the opportunity to provide a statement for the record. The Chamber appreciates your efforts to explore ways to spur economic recovery, job creation, and investment in America—and a key aspect of such a task is addressing new challenges the economic downturn has presented to the retirement security of American workers. The U.S. Chamber of Commerce is the world's largest business federation, representing more than 3 million businesses and organizations of every size, sector, and region.

Many American employers proudly provide their employees with retirement benefits, including defined benefit plans. While workers with defined benefit pension benefits do not see the immediate effect of the current economic climate on their retirement security in the same way as workers with 401(k) plans, the problems are just as significant. Moreover, in order to meet the transition requirements for the new funding rules enacted in the Pension Protection Act of 2006 (the "PPA"), plan sponsors must contribute unexpectedly large sums into their plans. This may result in the loss of jobs, reduced enrollment in plans, and economic instability for plans.

The PPA was a landmark reform effort that required negotiation and compromise from all interested parties. As such, the rules created therein must be preserved. However, the drafters of the PPA could not have foreseen the current credit crisis, and temporary, targeted relief will go a long way toward helping plan sponsors navigate the crisis and minimize the negative impact on retirement plans.

As Congress explores ways to help combat the economic downturn, increase job creation and security, and promote investment in healthy American companies, we urge the passage of technical corrections that implement Congressional intent and specific, temporary provisions for both single employer and multiemployer plans.

Provisions Needed for Single Employer Plans

- **Permit smoothing of unexpected losses**. The PPA intended pension plans to be permitted to spread unexpected gains and losses (smooth) over a 24-month period. However, due to erroneous interpretations by the IRS, plans are effectively forced to use fair market value, which creates unexpectedly large funding obligations due to the current economic situation. Congress should clarify the rule pertaining to smoothing.
- **Remove restrictions on the extent of asset smoothing.** The so-called "smoothing corridor"—the maximum percentage of fair market value that gains and losses can be smoothed—is also overly constrictive. The PPA changed the corridor from a 20% to a 10% max. Unfortunately, due to the extreme volatility of today's markets, even going back to a 20% restriction would be insufficient relief—Congress should consider loosening the smoothing corridor even further.
- **Allow sufficient transition to new funding rules.** The PPA transition rule requires companies to meet the current funding benchmarks each year

in order to take advantage of measured funding targets, rather than having to aim for 100% funding. Unfortunately, the market has caused many plans such a large setback that they will be unable to meet next year's benchmark, and will thus lose the benefit. We recommend that the rule be modified to allow the transitional funding requirements to apply to companies below the current phase-in level.

- **Permit new funding election methods to keep plans viable.** Due to IRS rules, companies find it onerous to change funding methods. However, flexibility in this matter would greatly aid companies that seek to maintain their plans. Approval from the IRS should not be required in order to change funding methods.
- **Clarify end-of-year valuations.** Congress should grant the Treasury authority to write rules providing that the adjusted funding target attainment percentage ("AFTAP") for a year is based on the funded status as of the end of the preceding year. Small plans are currently operating with a great deal of uncertainty as to the date plan assets are valued for the purposes of applying current year benefit restriction rules.
- **Permit fixed interest rate for Code section 415 limits.** The current economic situation is causing interest rates to fluctuate unpredictably. Prior to enactment of the PPA, plans were permitted to use a fixed interest rate to calculate lump sum benefits. This included the limit on cash balance account accumulations. Although the PPA added a variable rate limitation, higher interest rates will create lower Code section 415 limits. Therefore, Congress should enact the 5.5% provision included in PPA technical corrections, and expand it to all plans.

Provisions Needed for Multiemployer Plans

- **Extend amortizations of plan gains and losses.** Under current law, plans may amortize gains and losses over a 15-year period. When ERISA was enacted, liabilities had a 40-year amortization schedule. Congress should extend the current period to at least 25 years temporarily, provided that plans match their gains to their losses.
- **Allow losses funding zone status to be frozen for a limited period.** If plans were permitted to freeze their current funding zone certification status, including funding improvement plans and rehabilitation plans, for a limited period, perhaps three years, it would greatly contribute to staving off the job loss and retirement security uncertainty.
- **Temporarily extend remedial periods.** Congress should consider extending the standard remedial periods for Seriously Endangered and Critical status plans to 20 and 15 years, respectively—and provide that each such plan that has a pre-PPA amortization extension is deemed to meet any requirement of that extension that is based in whole or part on the value of plan assets.
- **Expand IRS smoothing limit.** Allow limited recognition of current market losses and future market gains in plan status determinations. This necessitates amending the technical rules to require actuaries to base projections on the actuarial value of assets as used for plan funding, and temporarily expanding the IRS-mandated restriction on the extent to which the smoothed actuarial value of assets can deviate from market values.

The challenges facing defined benefit plans in the current economic downturn have progressed beyond a retirement policy issue—this is now a jobs and economic recovery issue. In order for the economy to make a sustainable recovery, American companies must be supported and given tools to make a sustained recovery. Without such tools, employers will be forced to make difficult decisions between providing benefits, maintaining and creating jobs, and business investment.

The Chamber looks forward to working with Congress on this and other initiatives that will help shore up the retirement security of American workers, and bring about the speediest possible economic recovery and stabilization.

Statement of William C. Daroff

On behalf of United Jewish Communities, I applaud the efforts of the Committee on Ways and Means (Committee) to address the economic downturn, in general, and

the impact on state and local government budget shortfalls, home foreclosures, and long-term unemployment, in particular. As the economy edges into recession, the economic crisis has clearly emerged as the top issue for Congress to address. The Jewish community and the broader nonprofit sector are tremendously impacted by the economic climate as the need for social services expands exponentially and philanthropic and state-government funding streams are reduced. United Jewish Communities (UJC) is the umbrella organization for 157 Jewish Federations and 400 independent communities across North America. Our network of federations, hospitals, aging and assisted living facilities, group homes, family service agencies and vocational training programs provide a full continuum of care for our nation's most vulnerable citizens. We encourage you to consider the following recommendations as the Committee formulates responses to the state and local government budget shortfalls, home foreclosures, and long-term unemployment. We submit this statement to the record for the Committee hearing held on October 29, 2008 on Economic Recovery, Job Creation and Investment in America.

Boosting the Federal Medical Assistance Percentage Rate for Medicaid

As a nationwide Jewish organization committed to protecting the most vulnerable in our communities, we urge you to consider a temporary increase in the Federal Medical Assistance Percentage ("FMAP"), the funding stream that supports the Medicaid program. This would benefit each state immediately and is the best kind of fiscal relief to help avert painful state budget cuts and tax increases. As an engine to encourage economic recovery, Congress last temporarily increased FMAP in 2003–04. It pumped needed funds into the economy over a 15 month period and played a vital role in helping to move us out of recession. Yet, the measure could have been even more effective had it been implemented sooner, when that economic downturn began. **Earned Income Tax Credit: Increase Refundable Dollars and Awareness** The Earned Income Tax Credit (EITC) for low-income working individuals and families is a proven tax policy tool that is especially important in times of economic turmoil. Since its introduction in 1975, the EITC has been essential in preventing low-income working families from slipping into poverty. It reduces the tax burden on low-income workers, supplements their wages, and assists in the welfare-to-work transition. As state and local governments struggle during this financial crisis, expansion in the scope of the Federal EITC will boost the economy at the local level. Surveys of low-income taxpayers show that most EITC recipients spend the funds, often the largest payment they receive all year long, to meet short-term needs such as purchasing clothes for children or catching up on rent or utility bills. We urge you to expand eligibility and the size of the EITC. Additional funding is needed to educate potential beneficiaries of their eligibility for the credit.

Strengthening the Nation's Non-profit Sector through Charitable Incentives

In addition to restoring and growing funds for various human service programs, we urge you to enhance charitable tax incentives. In addition to their primary role of providing critical services, charities comprise one of the fastest growing sectors of the economy, representing one of the nation's largest employers as well as large purchasers and consumers of goods and services. Expenditures in this arena will help grow the economy out of the recession. Examples of such charitable giving tax incentives can include: expansion of the current law IRA charitable rollover to include unlimited gifts to qualified charities, including donor advised funds; increasing or eliminating the adjusted gross income limitation on gifts to qualified charities; extending the carryover period for charitable deductions; increasing the volunteer auto expense reimbursement amount; providing an above-the-line deduction for charitable gifts for individuals who do not itemize, and considering a simplification or elimination of the excise taxes on private foundations.

Defined Benefit Obligations

We urge the Committee to consider providing relief to nonprofit organizations that sponsor defined benefit pension plans through an extension of the transition period to implement the funding obligations enacted as part of the Pension Protection Act of 2006 (PPA). Such organizations should be permitted flexibility in choosing funding election methods as well as allowing for smoothing of unexpected losses in sponsored defined benefit plans. This relief is essential for nonprofits that have experienced significant losses in plan balances as a result of market downturns. Unless such an extension is provided, nonprofit organizations will be forced to shift substantial financial resources away from vital community services to meet the new PPA funding requirements.We are grateful for your consideration of these recommendations. We feel that they are vital in shoring up America's social safety net and helping states, localities as well as businesses and nonprofit organizations re-

cover from economic catastrophe. We deeply appreciate the desire for Congressional action on these pressing matters and are glad to answer any questions that the Committee might have about our suggestions.

Statement of Wisconsin Board of Supervisors

We thank you for this opportunity to address the Committee on behalf of the citizens of Milwaukee County. Like many people across our nation, Milwaukeeans are experiencing financial hardship during this time of national economic instability. Investing in child support is similar to increasing the Federal contribution to Medicaid, boosting food stamp benefits and extending unemployment insurance. Therefore, such an investment should be a key component of legislation aimed at supporting families who face a tough economy. An inclusion of child support in the second economic stimulus package would demonstrate that Washington's interest in preserving this country's financial system is not limited to the concerns of wealthy investors who work on Wall Street but extends to families who live on Main Street. The time to reverse the cuts to child support made by the Deficit Reduction Act (DRA) of 2004 is now.

You can be assured that dollars invested in child support are well utilized in Milwaukee County. The Milwaukee County Department of Child Support operates effectively and efficiently, collecting approximately $6 of support for every dollar invested. The return of these support collections to families and children is an effective tool for increasing family spending power and raising the economic well being of households. Child support helps families become and remain self-sufficient while reducing dependency on other Government-funded benefit programs. These factors are especially important in Milwaukee where the U.S. Census Bureau estimates one in three children live in poverty.

According to the Congressional Budget Office, the DRA cuts to child support cost an estimated *$1 billion* in child support payments for each year that the cuts remain in effect. Declining child support collections in Milwaukee County—$1.8 million between 2004 and 2007—are the direct result of DRA. This reduction in collections is a direct loss of real dollars to Milwaukee County families. During this economic downturn, American families who rely on child support cannot afford these types of losses in household income. Putting families on sound economic ground should be prioritized because they are the backbone of this nation's economy. These are the people who will invest their dollars in our local communities, further supporting an economic turn-around for all.

Restoring the DRA cuts would help stabilize the Federal, state and county financial partnership that was envisioned when Congress created the national child support program. Since the implementation of the Federal DRA cuts, the Milwaukee County Child Support Office has lost 68 staff. Milwaukee County property taxpayers at the local level simply cannot fill the hole created by the DRA. On behalf of those we represent and serve, we urge you to make reinvestment in child support part of an economic stimulus package.

Thank you for this opportunity to submit this statement for the record.

Statement of Wisconsin Child Support Enforcement Association

The Wisconsin Child Support Enforcement Association, on behalf of all 71 Wisconsin county child support agencies, urges you to restore the Federal funding cuts that were made to the Child Support Enforcement Program under the 2004 Deficit Reduction Act (DRA).

Putting together an economic stimulus package which includes the restoration of pre-DRA funding levels for the nation's Child Support Program is critical, especially now, when America's children and families have been financially devastated by the country's recent economic downturn. The impact of the current economic crisis has not only been felt by corporations and banks on Wall Street, but even more so by parents and children on Main Street in trying to "just get by" as they navigate their family financial struggles each and every day.

According to the Congressional Budget Office, the DRA cuts to Federal child support funding result in an estimated decrease in child support collection of *$1 billion annually* for every year the cuts remain in effect. The affect of this on the strength, opportunity, and well-being of our nation's children and families is devastating.

It is important to note that the Child Support Enforcement Program is charged with establishing legal fatherhood for children outside of marriage (22,000 new paternity cases for non-marital children in 2007 in Wisconsin alone), as well as establishing and enforcing all child support obligations (affecting over 400,000 children in Wisconsin in 2007). The program also establishes and enforces the requirement that parents obtain private health insurance for their children, thereby reducing reliance on Medicaid, while the collection of child support by the program reduces reliance on other Federal benefit programs in addition to Medicaid, specifically Food Stamps, TANF, SSI and Housing. According to the Urban Institute, for every dollar of child support that is distributed to families for TANF cases, there is a forty-cent cost avoidance which benefits the Federal benefit assistance programs.

Nationally, 25 percent of our nation's children are dependent on child support payments, which, when received, make up 30 percent of an average poverty-level family's total household income. Investing in child support enforcement, according to the current Administration, has returns of $4.73 to families for every dollar invested in the program. In Wisconsin, approximately $6.00 in child support is collected for every dollar spent on its child support program.

It has been made clear in the past year that Congressional leaders have indicated a strong interest in protecting the nation's Child Support Enforcement Program, as is evidenced by the strong bipartisan support this year for H.R. 1386, The Child Support Protection Act.

Going forward with a second economic stimulus package as soon as possible gives Congress the opportunity to demonstrate to America's families that concerns about the future financial well-being of their children in this time of great economic uncertainty matter.

As President of the Wisconsin Child Support Enforcement Association, and on behalf of the 71 county child support agencies who run Wisconsin's Child Support Enforcement Program, I urge you to make reinvestment in child support a part of the next economic stimulus package. There is no question that it is those American families who have the ability to maintain economic stability within their households (in part through the assistance of child support), who make up the backbone of our economy. They are the people who invest their money in businesses in their local communities, which is the first step in helping this country out of its current economic crisis.

Thank you for this opportunity to submit this statement for the record, and thank you for your leadership on this important issue.