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WEATHERING THE STORM: CREATING JOBS IN THE RECESSION

HEARING

BEFORE THE

SUBCOMMITTEE ON
ECONOMIC POLICY

OF THE

COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

ON

EXAMINING POLICIES CONGRESS MIGHT CONSIDER IN DEVELOPING IMMEDIATE JOB CREATION, AS WELL AS MEDIUM AND LONGER-TERM POLICIES TO ACHIEVE SUSTAINABLE JOB GROWTH

DECEMBER 9, 2009

Printed for the use of the Committee on Banking, Housing, and Urban Affairs

Available at: http://www.access.gpo.gov/congress/senate/senate05sh.html

U.S. GOVERNMENT PRINTING OFFICE

57–095 PDF WASHINGTON : 2010

For sale by the Superintendent of Documents, U.S. Government Printing Office
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WEATHERING THE STORM: CREATING JOBS IN THE RECESSION

WEDNESDAY, DECEMBER 9, 2009

U.S. SENATE,
SUBCOMMITTEE ON ECONOMIC POLICY,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Subcommittee met at 2:08 p.m., in room SD–538, Dirksen Senate Office Building, Senator Sherrod Brown, Chairman of the Subcommittee, presiding.

OPENING STATEMENT OF CHAIRMAN SHERROD BROWN

Chairman BROWN. This hearing of the Economic Policy Subcommittee of the U.S. Senate Banking Committee will come to order. Thank you all for joining us, the four guests, witnesses, and others in the audience.

Few among us have ever witnessed the economic challenges facing this country today. We have avoided the collapse of our financial system. We were successful as a Nation with that and as a Senate and Congress and White House back a year ago. But millions of men and women, as we know too well, are still struggling to make ends meet, struggling with lower wages and depleted savings.

Our Nation is showing some signs of economic recovery, but working families shield their children as best they can from the financial and emotional costs of job losses. Big banks and financial institutions have recovered but are still wounded and, most unfortunately, too often hesitant to lend. Creditworthy businesses are cutting workers because they cannot get credit. They have the capacity, they have the customers, but too often cannot get credit to move forward.

Fear of the unknown is pervasive, whether it be fear of a parent's job security or health insecurity or fear of paying for a child's college education or fear of losing one's home—all persistent problems in Mr. Leach's and my part of the country, and really around this whole country.

Since 2008, we have been accustomed to the refrain "worst since the Great Depression," when unemployment reached 25 percent and economic output fell by 25 percent in the 3-plus-year period between 1929 and 1933. Earlier this year, this Subcommittee examined the lessons of the New Deal. What we heard was a range of perspectives in that hearing. One irrefutable conclusion was that the New Deal kept millions out of poverty and that investments in

our economic infrastructure paved the way for the most dynamic economic the world has ever since, beginning only 15 years later.

Similarly, President Obama and Congress have taken steps to rebuild our economy and reinvest in our workers. The American Recovery and Reinvestment Act has helped our Nation weather the economic storm. Last week, the Congressional Budget Office reported ARRA programs have sustained as many as 1.6 million jobs this year. The Congressional Budget Office report estimates that the unemployment rate would be somewhere between 0.3 and 0.9 percent higher without the ARRA. But there are concerns that demand will again fade. While last Friday's slight reduction in unemployment is encouraging, there is no reduction in urgency to create jobs.

Yesterday, the President outlined job creation proposals that his administration is considering. Congressional leaders are assembling ideas for job creation policies and will act in the coming weeks. I believe we need to help small business by making it easier to access credit. The Small Business Administration estimates that a new job will be created for every additional $23,000 lent to qualified borrowers. We need to encourage growth in manufacturing, the jobs that have, as we know, the strongest multiplier effect. One manufacturing jobs supports four other jobs throughout the economy.

As President Obama noted yesterday, job creation will ultimately depend on the real job creators—businesses across America, entrepreneurs in Youngstown and Dayton, students in our colleges and universities, workers in factories in every corner of our great land.

We have two proven job creators here with us today, alongside two forward-looking economic thinkers. Today we will hear our witnesses discuss what steps are necessary not just to weather the storm but to create new jobs. I thank each of you for your participation today and look forward to your thoughts on economic recovery, look forward to your comments on short- and long-term policies needed to truly jumpstart the hiring of more workers.

I will introduce each of the four witnesses, and Senator Dodd I think is coming along and will make an opening statement, the Chair of the full Committee, in a moment, but I will introduce each of the four of you. Then we will begin.

Dr. Heather Boushey is the Senior Economist at the Center for American Progress. Prior to joining the center, Dr. Boushey was a Senior Economist with the Joint Economic Committee of the U.S. Congress. She studies working families and trends in the U.S. labor market, has written extensively on labor issues, including tracking the recession and its impact on workers and their families, women's labor force participation trends and income inequality, and work/life policy issues. She has testified before Congress and given lectures nationwide. Dr. Boushey's research has been featured in major national and regional papers, television, and radio. She previously worked at the Center for Economic Policy Research and the Economic Policy Institute, where she co-authored "The State of Working America" and "Hardships in America." Dr. Boushey received her Ph.D. in economics from the New School for Social Research and her B.A. from Hampshire College.

Bruce Katz is Vice President of Brookings here in Washington. He is the founding director of the Brookings Metropolitan Policy Program. He regularly advised national, State, regional, and municipal leaders on policy reforms that aim to advance the competitiveness of metropolitan areas. He focuses particularly on reforms that promote the revitalization of central cities and older suburbs and enhance the ability of these places to attract, retain, and grow the middle class. He recently served on the Obama transition team and is a senior adviser to HUD Secretary Shaun Donovan. Before joining Brookings, he served as chief of staff to Henry Cisneros, the former Secretary of the U.S. Department of Housing and Urban Development. He has also served as staff director on the Senate Subcommittee on Housing and Urban Affairs. He is a visiting professor of social policy at the London School of Economics, a frequent writer, and commentator on urban and metropolitan issues. Welcome, Dr. Katz. Nice to see you.

Ray Leach, founder and CEO of JumpStart from Cleveland, from my States. Since 2003, Mr. Leach has led JumpStart, recognized recently by the Economic Development Administration as one of the most innovative venture development organizations in our Nation. JumpStart invests risk capital in early stage companies and provides entrepreneurs with business operation plans and guidance to help attract larger pools of capital and accelerate growth. My editorial comment: Prior to Mr. Leach coming to Cleveland with JumpStart in 2003, Cleveland had a reputation as one of the worst places to start a business in the Nation, and he has totally reversed that into Cleveland being one of the best places. His career began at IBM and has been principally focused on information technology companies. He is a Sloan fellow and earned his M.B.A. from MIT. He earned a B.A. in finance from the University of Akron in Akron, Ohio.

Rick Weddle is President and CEO of The Research Triangle Park in North Carolina. Under his leadership since 2004, The Research Triangle Park has generated successful development projects with capital investment of more than $800 million and the creation of more than 6,300 new high—quality jobs averaging $80,000 per year. The Research Triangle Foundation has assisted in recruiting 18 new firms and 4 expansions to The Research Triangle since 2004. Prior to 2004, for 5 years Mr. Weddle was President and CEO of the Greater Phoenix Economic Council, assisting 170 companies with expansions or relocations to Phoenix that created 26,000 jobs. He also spent 4 years in Toledo, Ohio, where he served as President and CEO of the Regional Growth Partnership, assisting 119 companies with expansions or relocations that created some 4,000 jobs. He recently received the Lifetime Achievement Award for Excellence in Economic Development from the International Economic Development Council. He is a native of Oklahoma.

Dr. Boushey, if you would begin, welcome to all four of you. Please keep your comments to close to 5, 6, 7 minutes, and we will begin the questions. Thank you.

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

Ms. BOUSHEY. Oh, there we go. All right. I will start over. So thank you, Chairman Brown, for inviting us to speak to you today about job creation. In my remarks, I am going to focus on a few key highlights from my written testimony, which goes into much more depth on the issues at hand.

Of course, the good news is that on Friday, we learned that the unemployment rate fell to 10 percent and only 11,000 workers lost their jobs in November. This is a clear indication that the steps that Congress and the administration have taken to get the economy back on track have been effective. The American Recovery and Reinvestment Act, signed into law last February, boosted economic growth in the third quarter and saved or created upwards of 1.6 million jobs. The act was a significant accomplishment, but the economic effects of the recovery package will start to diminish beginning in the middle of 2010, well before we are fully out of the woods. Economists now predict that economic growth will be only about 2 percent for 2010 given the policy efforts already in place. Without additional action on the part of Congress, the U.S. economy could easily slip into an extended jobless recovery—or see the recovery stall altogether.

There are a few key steps that Congress should take now to help boost jobs in the short- to medium-term.

First, Congress should move quickly to ensure that the extended unemployment benefits included in the Recovery Act do not expire as planned at the end of this month. These benefits go to the long-term unemployed who now account for a historically high share of unemployed workers. As the chart behind you shows, nearly four in ten workers have been out of work and searching for a job for at least 6 months.

Now, extending these subsidies to help the unemployed purchase health insurance or allowing States the option to put unemployed workers on Medicaid must also be done before the end of the year.

Second, Congress should provide another funding boost to the States. State and local governments have shed almost 160,000 jobs over the past year, with nearly 80 percent of local government jobs lost in just the past 4 months. So those layoffs are accelerating, and these layoffs are, of course, working against economic recovery at the local level. The aid to the States contained in the package put into place last February helped, but it only addressed about 30 to 40 percent of the gap faced by State governments.

Third, the Federal Government could spur the creation of millions of mostly private sector jobs by directing additional Federal money into youth and young adult employment—such as AmeriCorps, VISTA, YouthBuild, and the youth service and conservation corps—child care, after-school programs, and in-home health services for the elderly and disabled, as well as training for those serving America's youngsters, oldsters, and the disabled. Nonprofit groups and small businesses provide most of these jobs, although they are paid for by programs that are currently being cut by State and local governments. Funneling funds into these programs not only quickly gets people into jobs, but supports families and communities by providing much needed services. These pro-

grams often have long waiting lists, and any new funds will be able to meet pressing needs.

Fourth, the proposals that the President put forward yesterday that focus on promoting green jobs as a part of the overall recovery agenda are certainly the right way to go. Congress should establish a two-tier program to transform the market for energy efficiency—a "cash for caulkers" program. The first tier would promote immediate investment in energy efficiency, through super-efficient appliances and simple home improvements. The second tier, which should be implemented in parallel at the same time, would increase consumer awareness of comprehensive whole-home energy audits and retrofits. These will, of course, create substantial jobs, good jobs in the construction and manufacturing sectors.

So I want to close by noting that we should consider using the TARP funds for job creation. We should not let the American people be scared by tactics about the long-term Federal budget deficits and allow those to keep Congress from doing what we need to do to keep the economy moving back on track in the short term. The deficit will rise regardless of whether or not Congress approves additional spending if we do not get people back to work. Unemployed people do not pay income taxes; they do not pay sales taxes if they do not have any money to buy things; and if their home gets foreclosed on, then they are not paying real estate taxes. Over the last year, we have seen tax revenues fall by nearly as much as we have seen expenditures go up, so certainly if we fail to act, that, too, will increase the deficit.

The question is whether we will make the investments today to get the economy back on track or whether we will allow the scourge of unemployment to linger. If we do nothing, we risk not only missing an opportunity to get the 15.4 million unemployed workers back to work quickly, but also are harming our economy over the medium to long term.

Thank you.

Chairman BROWN. Thank you, Dr. Boushey.

Mr. Katz.

STATEMENT OF BRUCE KATZ, VICE PRESIDENT, BROOKINGS INSTITUTION, AND DIRECTOR, METROPOLITAN POLICY PROGRAM

Mr. KATZ. Thank you, Chairman Brown, for the opportunity to testify. I also will focus on the highlights from my written testimony. I am going to make three points that build on President Obama's presentation yesterday at Brookings that try to connect macroeconomic policy to metro-economic realities.

The first point is that the American economy, like most developed economies, is a network of metro economies which envelop not just cities and suburbs, but a good portion of our rural areas. The 366 metro areas in the United States house 83 percent of our population. They generate 88 percent of our GDP, and due to sprawl, about 50 percent of the U.S. rural population actually live in metropolitan areas because of the distension of economies. We are metro nation. We need to start acting like one, like China, like Germany, like Britain, with the kinds of smart policies and targeted investments that will enhance our competitiveness globally.

Second, the Great Recession has affected different metro economies in radically different ways. Metros like Austin, San Antonio, and Washington, D.C., have fared fairly well during this downturn, buoyed by strong health and education sectors and Government. By contrast, bubble real estate economies, such as Phoenix, Tampa, and Jacksonville, have continued to lose jobs at two or three times the rate of the United States as a whole over the last quarter. Motor metros, as you know, such as Youngstown and Akron, have shed jobs two and three times faster than the United States, respectively, over the last quarter. Bottom line, there is no single American economy. Even as economists talk about national recovery, a large number of our metro economies are still mired in recession.

Third, Federal efforts to bolster job creation need to connect "The Macro to the Metro." I will focus on two kinds of Federal responses.

First, metros need the Federal Government to intervene quickly to prevent further job losses from the collapse of general and specific tax revenues. One critical strategy is direct fiscal assistance to local governments, which employ 10 percent of the Nation's workforce. There is always a fiscal lag to recessions. The massive decline in property values has not yet shown up in local government budgets, which derive about 70 to 75 percent of their revenue from property taxes. By one calculus, property tax revenues for both local governments and school district could decline in the coming year by $35 billion. If the decline in State transfers to localities is as large as the decline in State revenue, local governments could lose another $74 billion.

In fiscal year 2009, about 70 percent of cities dealt with budget shortfalls through layoffs, furloughs, and hiring freezes. This will only get worse as revenues decline.

So fiscal aid to cities would keep municipal payrolls stable and also stall cuts in local spending on construction, procurement, and other areas. The simplest form is direct aid in a new program. It could be modeled, actually, on the old general revenue-sharing program we had in the 1970s. A second option would be to restructure the State Fiscal Stabilization Fund started in the Recovery Act to provide direct fiscal assistance to local governments through a passthrough. In my written testimony, I also focus on a second strategy for stopping job losses by enabling Federal resources to be used for transit operating subsidies. The Recovery Act provides a lot of funding for capital, none for operating.

Now, second, metros need the Federal Government's support in creating jobs that build the economy of the future, one that is low carbon, innovation fueled, export oriented. Investment in the next generation of infrastructure is critical here. I recommend that Congress expand funding for the U.S. DOT's Transportation Investment Generating Economic Recovery—TIGER—Discretionary Grants, originally funded at about $1.5 billion in the Recovery Act. TIGER uses job creation as a metric for evaluating applications, and TIGER-funded infrastructure, competitively awarded, has a powerful ability to create well-paying jobs now and a stronger economy in the future.

TIGER disbursements are not expected until February 2010, but the program is attracting substantial demand. Nearly 1,400 appli-

cations received so far by DOT total $57 billion—remember, just $1.5 billion appropriated—and come from every State. If even one-third of these applications are projects that adhere closely to the objectives of the program, that represents $20 billion in high-quality projects that are ready to start, but lack funding and, again, build the economy of the future.

So I believe that funding the qualified TIGER pipeline should be considered as part of any job creation effort. Congress should also consider making TIGER a permanent part of the DOT budget. My written testimony also recommends Federal support for the national infrastructure bank that Senator Dodd has sponsored, as well as industry clusters.

So, in conclusion, the time is long past due for national economic policy to align more closely with metropolitan economic realities, given the economic primacy of our metropolitan areas.

I thank you again for the opportunity to testify here today and welcome any questions. Thanks.

Chairman BROWN. Thank you, Mr. Katz.

We do not get our full Committee Chair here very often because he is so busy, so do you want to make a statement now before the other two panelists?

Chairman DODD. Well, that is very generous of you, and I will try and stay as long as I can.

Let me, first of all, thank my colleague from Ohio for chairing this work area, job creation, which is so important. And this Committee has a lot to say about it in terms of a lot of jurisdictional issues that we are involved in. So I find it exciting that there is some real attention being given to how we do this. This forward-leaning, I think all of us agree that obviously you want to do everything you can for those who have fallen through the cracks. Whether it is extension of unemployment benefits or insurance or COBRA extensions and the like, we have got to do that, obviously, for people.

Certainly I believe very strongly the best social program, I have often said, that anyone ever imagined or came up with is a decent-paying job. There is no better social program in terms of what it means to individuals, families, communities, and, obviously, it is our job to be honest enough with people to say that a lot of these jobs that are gone are not coming back, candidly. And so we have got to be thinking about what we can do to create that new level of jobs in the country where the opportunities are there.

A lot of basic research is being done in this country, and if we export the basic research and end up a lot of the very products which we have designed and created—plasma television is a classic example—the ingenuity that came up with that concept was created here. All the manufacturing occurs offshore. So we export our basic research and have to import the products that are produced as a result of our own technology.

So I am excited about the ideas of marshaling the general creativity, and obviously in high technologies, the empowerment zones I thought was a wonderful concept a few years ago, where we targeted resources to areas and to getting into sort of the green technology zones, in effect to reward industries into, one, developing ideas in green technologies or utilizing green technologies. To the

extent that benefits all of us I think is sort of a creative idea if you think of a cluster.

Obviously, small business, we all talk about it, and it is tremendously important, and we have got to be imaginative in how we support this. It is not just tax credits, and this is a difficult one that gets into the payroll tax area. But if you are going to encourage small businesses to keep employees they have or hire new ones, we have got to provide that incentive for them.

Now, you get into, obviously, some issues and payroll tax questions, but, nonetheless, I think that is the clear incentive that makes the most difference for people, things like the—I love the creative—I think it was John Doerr who came up with the title of "cash for caulkers," a sort of intriguing idea to put some people to work in that area. So there are any number of concepts.

I have got a long statement here, Mr. President, that I will ask to be included in the record. It goes through a number of these ideas, including, of course, setting up that lending facility utilizing some of these TARP resources that exist. Having been involved, deeply involved a year ago in the emergency economic stabilization bill, a highly criticized effort at the time, still highly criticized, I happen to believe we did exactly the right thing with it, and history I think will record it as such. And so I think we can honestly say we have stabilized the major financial institutions in the country, and clearly now, given the resources that are available, to at least use a substantial part of those resources to make a difference in job creation I think is tremendously well warranted and worthy of the kind of effort the President is putting into it, and those of us up here can help support with either our own ideas or getting behind these proposals.

So this is a very timely hearing to have on some of these ideas that are being kicked around here, and I thank my colleague. I thank all of our witnesses. You are all talented people who have thought about this long and hard for a long, long time, and any additional thoughts and ideas you have for all of us I know you are sharing with us, and we really welcome them. So thank you.

Chairman BROWN. Thank you, Senator Dodd. Thanks for joining us.

Mr. Leach, your testimony.

STATEMENT OF RAY LEACH, CHIEF EXECUTIVE OFFICER, JUMPSTART, INC.

Mr. LEACH. Senators Dodd and Brown, thank you for the opportunity for me to testify on behalf of nonprofit organizations located throughout the United States who work with and are supported by public, foundation, and private sector partners who are focused on the transformation of regional economies.

While all of us are encouraged by the recent news regarding a slight reduction in total U.S. unemployment, economists tell us that we are going to need to create at least 6 million new jobs in order to reach full employment in the United States. Economists also tell us that 70 percent of all new jobs in the U.S. economy are created by firms that are less than 5 years old.

With this being the case, now is the time for Congress to reconsider the Federal Government's role in the formation of new, highly

disruptive technology businesses that have the potential to create significant white, green, and blue collar jobs as well as completely new industries.

This being the case, I believe new ideas and actions are required in order to for the U.S. economy to not only get back on track for long-term economic growth, but to also allow the United States to remain the world's largest wealth- and job-creating economy in the decades to come.

Recent conversations regarding the expansion of small business loan guarantees, reducing loan fees, providing tax credits to small companies who hire new employees, are a start to help more established, typically lower-growth companies. However, I do not believe that these initiatives will have the ability to jump-start the U.S. economy in such a fashion where we can get back to full employment as quickly as we otherwise could if the Federal Government leveraged some new ideas and initiatives.

I appreciate the chance to share with you today an approach that has not been discussed to my knowledge to date with this Committee and how the Federal Government can partner with communities, States, and regions of the country to accelerate the formation of entrepreneurial ecosystems based on regional cluster collaborations and partnerships that have the potential to produce sustained, long-term economic transformation, growth, and wealth creation.

In order to illustrate this example, I would like to talk a little bit about my organization, JumpStart, a nonprofit located in northeast Ohio, headquartered in Cleveland and working in northeast Ohio.

It has been our mission over the last 4 years to recreate the entrepreneurial ecosystem which at one time was incredibly robust, particularly in the late 19th and early 20th centuries. As a result of JumpStart's work, we are working on—the origination of JumpStart and the foundation of our initial work was from 1990 to 2002, if you looked at the largest metropolitan economies across the United States, northeast Ohio was the worst-performing regional economy 10 out of 12 years between 1990 and 2002.

In 2003, the public, philanthropic, and private sector leadership of Greater Cleveland came together to build a strategic plan to build an organization ultimately that I am running today called JumpStart, which is a nonprofit entity that provides programs and access to capital, which is now recreating the entrepreneurial ecosystem to assist new innovators and entrepreneurs to realize the greatest economic outcomes that could result from the creation of new firms based on disruptive, globally competitive innovation that has the potential to create hundreds, thousands, and tens of thousands of new jobs in the coming decade.

I am encouraged to report that since this is collaboration of supporters was created, JumpStart has generated significant economic results to date and has been able to demonstrate the promise to help accelerate the economic transformation of the northeast Ohio economy. Over the last 4 years, again, starting with very brand-new one-, two-, three-people companies, JumpStart has been able to create 600 jobs, and the companies that we are focused on are expected to create at least 3,000 new positions in the next few

years, while at the same time JumpStart has been able to attract over $1 billion of private sector capital to northeast Ohio's startup firms.

JumpStart's venture development business model has recently been highlighted in the national media and has won multiple awards as a national best practice organization that has the potential to transform the economic future of our country.

With these thoughts in mind, Congress should take lessons from JumpStart's public, private, and foundation collaboration in order to leverage Federal resources to ensure that new and innovative businesses continue to be created by entrepreneurs across the United States via a new robust Federal program that focuses on accelerating technology commercialization, increasing access to technical assistance, education mentoring, and training for all entrepreneurs—of course, also improving access to risk capital and at the same time not significantly overlapping any significant Federal programs.

One of the examples that JumpStart has been able to benefit from in Ohio is something called the Ohio Third Frontier Project. This is a $1.6 billion public sector initiative that is focused on creating and accelerating the research- and technology-drive economy in Ohio. A recent assessment of this program was performed by SRI International and determined that after the State expenditures totaling $681 million over the last 7 years have generated over $6.6 billion of economic activity and over 41,300 jobs have been created in the last 7 years in Ohio, which has resulted in a $2.4 billion increase in employee wage and benefits.

So today I am recommending that Congress create a $2 billion 4-year initiative from currently available funds from ARRA in order to create the Federal Innovation, Commercialization, and Job Creation Network whereby existing proven nonprofit economic development organizations and higher educational institutions who have been able to demonstrate significant commercialization and economic outcomes could serve as individual regional centers which would manage technical assistance and capital access programs to benefit regional innovators and entrepreneurs who demonstrate the promise of launching wealth-creating new companies.

Expected results from this program would include: first, a doubling of resources provided by the Federal Government focused on commercialization and the creation of new high-potential, high-growth companies by leveraging Federal dollars to non-Federal public, private, and foundation partners that have an aligned vision. A special focus on the commercialization of innovation, as Senator Dodd commented, basic research is great, but if we are not creating jobs from that research, we are not getting the bang for the buck that the Federal Government is making such significant investments in, so focusing on commercialization, which has the promise to create a small number of jobs immediately but has the potential to create at least 25 new jobs in the next 36 months.

We could also realize from this program increased private sector investment of over $4 billion from investors across the globe within the next 4 years in brand-new firms that have been created or supported from this program.

Finally, with this program, the Federal Government could realize the creation of at least 260,000 brand-new jobs from brand-new firms within the next 6 years, an additional 1 million U.S. jobs to be created as a result of this work by the year 2020.

So I greatly appreciate the opportunity to share these thoughts, and I look forward to taking questions later.

Chairman BROWN. Thank you very much, Mr. Leach.

Mr. Weddle.

STATEMENT OF RICK L. WEDDLE, PRESIDENT AND CEO, THE RESEARCH TRIANGLE PARK, AND FIRST CHAIRMAN OF THE INTERNATIONAL ECONOMIC DEVELOPMENT COUNCIL

Mr. WEDDLE. Chairman Brown, Senator Dodd, thank you for the opportunity to testify today on the important topic of short-term policies Congress should consider or could consider in creating jobs. The American Recovery and Reinvestment Act has done much to help stimulate the economy and job growth during the downturn. However, with unemployment at 10 percent, continued action is needed.

As President and CEO of The Research Triangle Park, the nation's oldest and largest research park, RTP is one of the best examples of how the public and private policymakers can have a lasting impact on job creation and economic growth. Mr. Chairman, as you also noted in the introduction, for 4 years, I served as President and CEO of the Regional Growth Partnership in Toledo, Ohio, where in my work there I was able to experience and benefit from a number of—and operate under a number of challenges in the recovery manufacturing environment.

As past Chairman of the International Economic Development Council, my comments today also represent the viewpoints of the world's largest economic development organization, with more than 4,600 members, dedicated to creating high-quality jobs and vibrant communities.

My remarks today will address the following three points. What do the front-line economic developers see as best practices or revitalization programs that have worked well to create jobs? What specific recommendations can we offer to build on the success of the Recovery and Reinvestment Act in the short term? And what should we keep in mind to ensure that there is a balance between short-term immediate actions and the need to create long-term capacity for innovation and continued economic growth?

First, allow me to share some data for the survey conducted last week of the 4,600 members of the International Economic Development Council. The data provides firsthand feedback from the field regarding policies and best practices in their communities. With a 10-percent response rate, the data represents input from over 400 communities nationwide. Roughly a third of the practitioners believe the Recovery Act has already created new jobs in their community. Another 30 percent do not believe the jobs have been created in their communities yet. And a quarter are still unsure of the Act's effect on job creation. It is clear from these results that more needs to be done.

I have included a number of case studies in the written testimony that reflect initial analysis from around the country of what

can be done to address this ongoing need of job creation. Allow me to summarize some highlights and principles we found among them.

The first principle is to build on and use what we have in innovative ways. The case studies indicate we do not need to reinvent the wheel. Our communities have many assets upon which to build and we should leverage their work as much as possible. One way to do this is to bring jobs back home and directly incent the hiring of Americans now. Globalization has benefited many U.S. companies, yet offshoring of U.S. jobs is a gargantuan obstacle to economic development efforts. We need to place direct emphasis on hiring and retaining American workers.

We can offer incentives directly to companies willing to bring work from an offshore location to the U.S. location marked by high unemployment. According to the Information and Technology Innovation Foundation, who first surfaced this idea, a forgivable loan program administered by EDA would be a particularly efficient method for not only creating jobs, but doing so in areas where the need is greatest.

Second, we should expand the current Invest in America program housed in the Department of Commerce to become an internationally competitive marketing arm of the U.S. Government. The United States is the only developed country without such a national scale program. Most of the nations we compete with for investment have well-resourced programs to identify opportunities for foreign direct investment. To meet this market need, an initiative would require a $50 million annual investment at the Federal level complemented by another $50 million tranche in matching funds annually to U.S. States and regions specifically for attracting high-quality jobs and investments in the United States.

Third, we should evaluate and align trade and exchange rate policy with job creation goals. Many trade and exchange rate policies seem to have been working against our national job creation goals.

Another way to build on existing programs is to strengthen the innovation infrastructure in communities. This could be done with a combination of new ideas, like tax credits or direct incentives to redevelop vacant office space and retail space to provide much-needed wet labs and other spaces conducive to innovation and discovery.

The second principle is the idea of providing resources to those who are most agile and flexible. For individuals, the Committee could consider an out-of-the-box idea. Consider tax credits to spur talent mobility within the United States. Given the current housing situation, many talented individuals are stranded, if you will, in locations where they cannot sell their homes. It would not be unreasonable to formulate a business and individual tax credit to help some workers relocate to take a new job.

Other activities could target small business and entrepreneurs, the key drivers of economic recovery. The small firm that gains access to needed credit or cash will be more likely to hire additional workers to get the job done.

We should emphasize non-traditional financing entities, such as Certified Development Corporations, Community Development Financial Institutions, and Revolving Loan Funds.

And finally, for companies, we could look to build off success that are moving capital in the private sector. In particular, the reduction or elimination of fees on the current 504 and 7(a) loan programs have been very successful, as well as the Recovery Zone Facility Bonds.

Now, let me turn to the final principle that focuses on both short-term job creation as well as building our long-term innovation capacity. There is no doubt that the Federal Government's investment in research and development is a critical tool for stimulating innovation and building long-term competitiveness. We need to find ways to target and accelerate innovation by encouraging more R&D commercialization.

First, we should invest in innovation infrastructure, such as research parks, incubators, and others, as they marry short-term creation goals with the need to build strong, regional innovation ecosystems. The ideas posed in S. 583, Building a Stronger America Act, will directly incent the construction of new and expanded research parks.

Another suggestion to jump-start commercialization would be to offer a bonus R&D tax credit in 2010 and 2011 which companies could choose to take against their non-corporate income tax. This recommendation put forth by the Information and Technology Innovation Foundation would help companies maintain research during this challenging economic time.

The rationale for making such investments and incenting such programs is best illustrated perhaps by the story of Research Triangle Park. Fifty years ago, the leaders of North Carolina realized that our State was not well poised to be at the forefront of the post-war science and technology-based era. Based on the strengths of the State's universities, the University of North Carolina, Duke University, and North Carolina State University, they created a place where companies could take advantage of the region's intellectual assets with the physical infrastructure to support corporate R&D activities.

We need bold new thinking on how to replicate the RTP model in other locations. This can be done by directing investment toward retaining and growing critical industries that can support high-growth companies. We can harness the existing Federal infrastructure, such as the Economic Development Administration's University Program or the Manufacturing Extension Partnership Networks to reach out to competitive, innovative companies. These programs provide an important link between Federal goals and the private sector. Additionally, the Committee could consider steps to allow the Workforce Investment Act to support incumbent worker training. This strengthens competitiveness of existing businesses and allows them to retain critical jobs.

This recession is like none other that we have experienced. We are not just rebooting our system. We are likely moving to a new operating platform. As such, we should learn from these historical successes, but also realize that a different paradigm is needed. The actions taken under the initial Recovery Act and the ones this Committee and others recommend now are merely a downpayment. They are not the full solution, and even after the second or third round, more action may be needed.

We are at an inflection point in America today. As we emerge from this historic downturn and recalibrate the way we do things, now is a prime moment to consider what must be done to incent appropriate private sector behavior and move the Federal Government from just providing a few tools and helping the companies and communities in selected areas to becoming a full partner in the National Economic Recovery Strategy.

On behalf of the economic development practitioners around the country, working hard to create jobs every day in competitive communities, I want to thank you, the Chairman, Senator Dodd, for allowing me the opportunity to share these thoughts. I would be happy to respond to questions.

Chairman BROWN. Thank you, Mr. Weddle.

Dr. Boushey, a few weeks ago, I was speaking to the Findlay Rotary Club and the tone of the questions illustrated a real fear of deficits in our country. Talk to us—you mentioned that that shouldn't override what we need to do on creating jobs. Talk about that for us, if you would.

Ms. BOUSHEY. Talk? I mean, I think that is a really challenging question, especially for everyday Americans who tend to look at this in the same way that they do their household budget. Oh, I am spending too much on my credit card. Therefore, I am in deficit. That is just an unmitigated bad.

But it is not the same thing for government and I think we haven't done enough to really educate the public that there is a big difference there. One thing I don't think people hear enough about is that unemployment rises, you see tax revenues fall and you see demand for services go up. That in and of itself is going to raise the deficit. And so the rhetoric that we are hearing out there on the airwaves and the radio and television is all about we spend more and that is what raises the deficit. We don't hear enough about how what raises the deficit is the poor economy that we are in right now and the fact that if we don't get economic growth back on track, that problem will only continue to mount.

And I think this is a really pivotal moment, because we are talking about making investments in our long-term economic growth, the kinds of things that my colleagues up here have been talking about, and also getting, in the short-term, getting people back to work. The sooner that we can get the economy back on track, the better that will be for the deficit in the medium- to long-term. It will require some spending now, but those investments are going to pay off.

And just to add one thing, I mean, I think it is helpful when we are talking to—I find it is helpful when I am talking to sort of regular folks that we think about this in the same way that we do putting a child through college, that that is the kind of investment we are willing to take out loans for, to go into a household deficit, because we know it is going to pay off in the future. And that is the way we should be thinking about the challenges facing us right now. We will address them, but once we get the economy back on track.

Chairman BROWN. Thank you. One of the, I think, most important proposals in this body from the last couple of years is Senator Dodd's National Infrastructure Bank. I hear a lot about deficit, but

we don't talk all that much about the deficit we have in infrastructure that we are passing on to our children.

The Mayor of Columbus came to see me about a year ago and he said that unless we get more Federal help, like the Federal Government used to invest more in water and sewer, that every individual, every homeowner in Columbus will see double-digit percentage sewer and water bill increases for as far as he could see, and we know what that does to economic development.

Explore that with me, what these deficits—what this infrastructure deficit does to the sort of the job-creating efforts for manufacturing especially, but for anything else.

Ms. BOUSHEY. Well, there are so many different layers to it. I mean, just to start with manufacturing, if you are going to manufacture goods, you have to get them from point A to point B, and you certainly don't want the bridge to collapse on you as you are driving there, right? And we know that we have got this deficit in terms of roads and bridges and that big picture kind of stuff. Making those investments makes it easier to transport our goods. It makes it cheaper. It makes it more efficient. I mean, that would be the first thing I would think about.

Another piece that we need to think about in terms of infrastructure, thinking a little bit more broadly than just manufacturing, is, of course, our investments in education and our capacity to train the next generation, which is a vital component of our infrastructure that is related to our long-term economic growth. Are we creating the kind of workforce that can have those jobs of the future and are we making those investments today to do so.

I mean, it really is quite a tragedy when you think about us being the wealthiest country on the planet and we have—here in D.C. for a few years we had potholes that were exploding left and right, creating dangerous situations, but also making it challenging to convince people to make those kinds of investments to locate their companies and to see us as a place to grow.

Chairman BROWN. Let me ask one other slightly related question for you before moving on. The Treasury Department reported Monday it expects to have some $200 billion back for TARP. What is your sentiment about how we should reprogram TARP money, move TARP money in whatever ways toward economic development? How would you structure that?

Ms. BOUSHEY. Well, I think that at the time that you all did TARP, that was the right thing to do. That was the right way to spend that money. I think it is very fortunate and speaks to the foresight that Congress and the administration had when those funds were allocated, to allocate that much money and to do what you did to stop the financial crisis in its tracks.

But, fortunately, it appears we don't need all that money. But we do need the money for the reverberations of that financial crisis on Main Street and what has happened with jobs and what is going on in the economy nationwide. We know that this recession was caused by the financial crisis and we allocated those funds to deal with that. That problem appears to be sort of on its path toward recovery, so let us reallocate those funds to the aftershocks of that crisis in terms of job creation and making the investments that we need to make to get the whole economy back on track.

I would add to that that, again, it is looking at the economy as a whole dynamic, that if we don't get people back to work, we are going to see even more folks having their homes foreclosed because they can't pay their mortgages, which in turn affects the financial system. So those investments that we make in job creation or in small business loans or whatever pieces we want to allocate to certainly will feed back into helping the financial sector over the medium- to long-term.

Chairman BROWN. Thank you, Dr. Boushey.

Senator Dodd, questions?

Chairman DODD. No, no, just to thank you. I appreciate those comments. One of the difficulties, and I appreciate Senator Brown raising the issue of the Infrastructure Bank—the only hearing I have ever had here in the two-and-a-half years on this Committee on an issue where I saw this kind of unanimity of thought is when I had the President of the AFL–CIO and the Chairman of the Business Roundtable as well as the Chairman of the Chamber of Commerce all in agreement on a proposal was this long-term bank, the Infrastructure Bank concept, and there are a lot of different variations on how you do this.

The motivation behind it is because I don't see any of the means by which we can do this—we certainly don't have the resources, even if you are in balanced budget, the idea that we could draw down through an appropriations process to build the kind of national or regional—we are not talking about the local infrastructure needs, I mean, those are important, obviously—and so there are a number of different ideas.

This is not unique. Other nations have done this, and you have got to do it with some success. Sovereign wealth funds, I mean, people get nervous about the possibility they could pick up and take their investments and go home. It is very difficult to pick up and leave—take a high-speed rail system back to wherever you are from initially. So the idea of tapping into those resources is one way.

And you have to do this. Arnold Schwarzenegger, Ed Rendell, two Governors who are very knowledgeable and thoughtful—Ed Rendell has worked on these issues for years—are strong supporters of this, as well. Chuck Hagel was my cosponsor, Republican cosponsor of this idea for many years.

In fact, I often tell the anecdote that we put the bill together and we were trying to decide when to announce it, our latest version of it, anyway. And I thought we ought to wait until September and Chuck Hagel said, no, let us do it in August. And I said, August is a dreadful month to announce a new idea. No one will come. No one will pay attention to us. But he kept on pressing and I said, fine, we will do it in August.

And so we held the press conference, and, of course, I was right. The only camera that showed up to cover it was the one in the room when we walked in. They wouldn't have shown up on their own anyway. And no one paid any attention at 10 that morning. At 5 in the afternoon, Chuck Hagel and I were on every TV screen in America, because at 4 in the afternoon, the bridge in Minneapolis collapsed. And so all of a sudden, the issue of infrastructure became this huge theme across the country.

Chuck was clairvoyant, because had we done it a week later, of course, we would have been accused of pandering rather than having an idea to deal with some of these issues ahead of time.

So I have been trying—the administration has been somewhat supportive of it, but you cannot find a period of economic growth in our country, I don't believe, where we did not make investments in infrastructure. You just have to do this. Your point about the local, the sewage and water system and direct bearing on what that means to local taxpayers, not to mention economic growth that can go forward. It is the Panama Canal, or if you want to talk about the Lewis and Clark expedition, or you want to talk about the Federal Highway System.

I mean, there is a wonderful book out by Felix Rohatyn that was just published recently, and he and I have done a lot of work together on this, identifying historically the investments in infrastructure that led directly to the economic growth of the United States.

So I appreciate the comments. It doesn't produce the kind of jobs immediately, and the topic of this hearing is, of course, in this moment of crisis, what can you do. So I acknowledge the fact that this kind of an idea doesn't produce the kind of results in the short-term, but we have got to start thinking beyond just short-term or we are going to be lurching from one crisis to the next in this area.

And I happen to believe that one of the major important functions, and I will raise this as a question with you and you can all respond, if you would like, is the rebuilding, if you will, of the level of confidence and optimism among American investors, the consuming public generally. And while this idea may not generate the kind of jobs in the short-term, to the extent it can generate a level of excitement about the United States once again moving in the 21st century forward leaning, I think has its own desired impact economically.

If our country and the people see us not only coming out of a recession, but far more importantly, leaning forward and anticipating the future, I think that has a huge positive impact among people in terms of their habits, what they do, how they feel about themselves, their country, and their community.

So I don't know if you have any comments or thoughts on that subject matter, but we are having an awful time trying to convince people of the value of this. And again, it doesn't take a lot of public monies to leverage an awful lot of private capital. That is the great beauty of it. Any comments you want to make on that point? Yes?

Chairman BROWN. I would like to first make one. I understand the infrastructure with the Interstate System and the canals and the railroads, but what was the infrastructure for Lewis and Clark? I missed that part, Mr. Chairman.

Chairman DODD. Well, thank God that——

Chairman BROWN. Did something come out of that that I didn't know about?

Chairman DODD. Sure, called Manifest Destiny.

[Laughter.]

Chairman BROWN. All right, fair enough. Never mind. We will proceed.

Chairman DODD. Well, I want to just make one point, by the way. Had Thomas Jefferson had the Congressional Budget Office around——

Chairman BROWN. He wouldn't have gone.

Chairman DODD.——he wouldn't have gone. If they had scored the Lewis and Clark expedition or the Louisiana Purchase, we would still be 13 colonies running around. I mean, the scoring on that, Jefferson smuggled through, both in the Lewis and Clark expedition and the Louisiana Purchase. The Louisiana Purchase was the entire budget of the country for 1 year, the entire budget, that one acquisition. And you can imagine CBO, poor Doug Elmendorf having to score that at that time.

[Laughter.]

Chairman BROWN. All right. Any comments on Chairman Dodd? Mr. Katz, yes?

Mr. KATZ. I want to focus on one aspect of the Infrastructure Bank, because it is not just about investment and it is not just about long-term sustainable productive growth. It is about reform of how we allocate resources.

When the American Recovery and Reinvestment Act, the funding of about $27 billion for highway funding was sent down to the States, most States tend to allocate transportation spending according really to a political logic. You have 33 Senate districts and 66 House districts, which I think is the number in Ohio——

Chairman BROWN. Thirty-three and 99. That was pretty good.

Mr. KATZ. Let us just spread it around, as opposed to a market logic as to where are we going to get the highest return on investment and how do we make decisions based on evidence, based on data, whether it is high-speed rail, whether it is transit, whether it is new highway expansion, whether it is smart grid, *et cetera.*

I think where the United States has gone awry over the past 15, 20, 25 years compared particularly to our European competitors is that we are not making infrastructure investments with a view toward the long-term and as a means toward economic competitiveness and sustainable growth. We are making it really pursuant to an old-style log-rolling exercise, particularly at the State level.

So my view about the Infrastructure Bank, it is invest and reform, and let us make decisions again based on merit and evidence rather than the politics.

Chairman DODD. I would like you to look, as well—I didn't mention this—at what I call our Livable Communities Act. It doesn't have many cosponsors here, but it has attracted tremendous attention nationwide because it, again, does exactly what you are talking about. It goes to the issue of how then land use issues, providing grants to States to kind of make that intelligent plan, much as North Carolina did with the Triangle 50 years ago. Terry Sanford, who I loved serving with here, when he was Governor of North Carolina was brilliant in that regard.

Kay Bailey Hutchison, our colleague on this Committee, she and I have had long conversations. In Texas, the idea of a high-speed rail system between Dallas, Houston, and San Antonio, that triangle, and then having the sustainable development occur within that triangle in terms of intelligent land use and livable community

development in that State makes all the sense in the world. But it is the transit system that begins to try it together.

Charlotte, North Carolina, a classic example of how a light-rail system has transformed that city economically, that investment. Now, the highest real estate values are along that light-rail system, contrary to what we grew up with. Of course, living near the railroad tracks was going to be reducing the value of properties. Today, it increases the value of properties. Just examples.

Chairman BROWN. Thank you.

Yes, Mr. Leach.

Mr. LEACH. Sure. I wanted to make a comment on the forward leaning. I embrace and encourage the forward leaning idea and the fact that the country and existing and future partners with the Federal Government want to lean forward along with you, certainly in regards to some of my commentary.

A great example of this is the Foundation Community in Ohio and Michigan that collectively have pulled together about $170 million of philanthropic resources to be completely focused on transformative economic development initiatives in those two regions. So those two communities, certainly in the philanthropy in those communities, are forward leaning, for sure. This is an initiative that these kinds of entities have never seriously considered and pursued, at least at this scale.

So again, the opportunity to engage, of course, with philanthropy, but also with the corporate community in partnership with the Federal Government. Now is the time to build these partnerships, aggregate this level of resources to create the scale of opportunities that we have before us.

Chairman BROWN. Thank you.

I want to go back to Mr. Katz. You said something in your testimony about we are a metro nation. You mentioned real estate metros and you mentioned motor metros, others. You said, we are a metro nation. We should act like one. What do you mean by that?

Mr. KATZ. Well, when you look at what drives prosperity and productivity, I think it comes down to innovation, and I think this really builds on what everyone has been saying here. Innovation, human capital, education and skills, infrastructure, and, let us say, the quality of place. Those assets are not uniformly distributed across the American landscape. They tend to concentrate in pretty intense ways in a relatively small number of places, here, as in Europe, as in China, as in India, as elsewhere. There is an agglomeration effect, essentially, where two plus two equals five. The benefits of density.

So if you look at the top 100 U.S. metros alone, they sit in only 12 percent of the land mass of the country. They are very energy efficient. They house two-thirds of the population. They generate three-quarters of the GDP. But what comes to those key assets is about 78 percent of patents, 94 percent of venture capital and innovation, about three-quarters of our knowledge workers when you talk about human capital. When you talk about infrastructure, these are the air hubs. They are the freight hubs. They are the seaports. And obviously when you talk about quality of place, they tend to have the transit, the cultural institutions, and so forth.

So the world may be flat, as Tom Friedman says, but the assets that drive national economies forward tend to concentrate at hyper levels in a relatively small number of places. So when nations want to get smart about growth and productivity and sustainability, what they have to do is to help their major metros leverage their own assets in the pursuit of national goals. It is a different kind of way of looking at national economic policy.

Chairman BROWN. Thank you.

Chairman Dodd was talking about the innovation that you talked about and how innovation—what innovation can do with job creation. I was, a month or so ago, I was meeting with a group of Silicon Valley executives that are very interested in the climate change bill, you know, John Doerr's comment that if you price carbon, large amounts of capital will be unleashed. As I was talking to these executives, some of them were already wealthy. All of them, I think, expected to become wealthy because of the climate change legislation, which I appreciate and I am fine with.

But what I wasn't so fine with was any plans they really had to take this innovation and make sure that those jobs stay in this country. What are your thoughts on not necessarily climate change, but as several of you said and Chairman Dodd said, so much innovation has come about by great minds in our country coming out of great universities, coming out of great university settings, incubators, all kinds of venture capital firms, all the kinds of things that have happened, but the manufacturing then goes overseas. What do we do here, particularly coming out of climate change, that these jobs, these manufacturing jobs stay here?

Mr. KATZ. I think there are a lot of examples from abroad that we really need to adopt in the United States, and really for about 30 years, we have basically said we are not going to have industrial policy in the United States because we don't want to pick winners and losers.

I think there are a whole set of policies that are really general in nature that don't sort of bear the burden of prior mistakes. So if you look to Germany, if you look to some of the European countries, they are investing heavily in vocational education, in education and skills that directly relate to the clusters of innovation that emerge in their major metros like Stuttgart or Hamburg or elsewhere. They are investing in institutions that have really a Federalist relationship—Federal government, State government, cities and metros, and nonprofits, because Germany pretty much looks like us in terms of its governance system. They are investing in institutions, both public and nonprofit, whose job it is to really help extend innovation to the marketplace and commercialize products for domestic production.

So the United States sort of decided it is going to be a *laissez faire* activity here. We will invest in advance R&D, but we won't simultaneously invest in the kinds of institutions, intermediaries, that can provide not just the capital, but the skills training, the marketing efforts for domestic and global markets. So we have been basically tying one or two hands behind our back as we proceed.

So I think there is a lot to learn here, and the good news is we are the most innovative economy in the world and we are about to

see a step change in innovation with clean energy, with infrastructure, with a whole set of other emerging sectors. So now what we have to do is sort of finish the conversation, extend out the policy envelope, and in a Federalist way, really leveraging up local nonprofit private sector energy and discipline, create the new ideas and inventions and processes, but then create the jobs at home.

Chairman BROWN. So, Mr. Weddle, if taking off on what Mr. Katz said, in your comments about the new clean energy economy holding the promise of a manufacturing renaissance, a lot of us are deeply disturbed about the Texas wind farm, that we put tens and tens and tens and tens of millions of dollars, of taxpayer dollars for this wind farm. Yet, some 2,000 jobs probably, unless we can stop it, will be created—unless we can change and redirect it, will be created in China to make those wind turbines.

How do we assure that we are not creating more demand as we do this, for China-made wind turbines? Or am I just wrong? Is that not a problem?

Mr. WEDDLE. Well, I would agree with—first of all, I would agree with everything that Bruce just said about the whole idea of deliberating taking some steps to make sure that we benefit from the innovation that we get. I think we have been too hands-off for too long. Maybe that worked when we were the only game on the planet, when we could drive everything according to our own design. I do not think it works in a world where there is more parity.

We are at the cusp right now of the first era in humankind where we have unbundled profitability and prosperity. There was a time when you, if you had profitable companies, you had prosperous people and communities, and that does not necessarily work because of the globalization that has occurred.

So I think we have to review our trade policies and review our tax policies. I do not have all the answers to that, but I think well-intentioned, well-minded, thoughtful people can figure out how to make sure that we do harvest some of the value that comes from innovation.

Look only right now at the advance, the funding that has gone into basic research in the last two or 3 years, which was a sea change from the 5 years before that, but it has gone in there without thinking through how are we going to harvest that intellectual property. Are we going to put in place the innovation infrastructure in our communities, so that our community leaders can harvest that IP?

I think it is just a question of setting some goals and then reverse engineering those goals and looking at the policies that make that happen. Other countries do this, and it is not rocket science. So I think we have to.

I do not think we have to take for granted that you have to just accept that as a policy from our corporate leaders because we have to ask the question, are our interests aligned and are our interests bundled together, and I think that is a good starting point for discussion.

Chairman BROWN. You had talked about a cluster strategy. I think of the city you used to live in, that Ray knows a lot about too, Toledo. Toledo has the largest number of solar energy manu-

facturing jobs of any city in America. It is a bit of a cluster. It is potentially that, certainly.

What do you advise to a city like that, so that they really can have that sort of cluster strategy for economic development? Where do they go?

Mr. WEDDLE. Well, in my oral and in my written remarks, I said it is time for the Federal Government to move from just providing tools and assistance to a few communities, a few places, and become a full partner in these strategies. There is no harmonization of economic strategy from Federal to State to community to metro level.

Toledo, with all due respect, they are having to do all that by themselves. And region by region by region in America today, we are competing with countries. We are not just competing with other cities or other areas. So the Federal Government needs to be more of a full partner to help, I think, move some of the resources down to the metropolitan level, so that these cluster strategies can be well resourced in that regard.

I am sure you have a similar comment on that, Bruce, in that regard.

Everything that Toledo has done they have done on their own, fundamentally, in saying that they wanted to develop these technologies and try to do it. But they have an aging infrastructure, their resources are constrained, and it is difficult to make those local investment decisions at scale, I guess is what I am saying.

Chairman BROWN. Mr. Leach, would your Federal Innovation, Commercialization and Job Creation Network play into that?

Mr. LEACH. It would. In fact, I think one of the realities, especially the role that the Federal Government has played historically and looking forward, is the resources they are providing are extremely precious for basic research, and they would be very precious and incredibly powerful and make a significant impact in the vision that I shared today.

I think one of the things that we are struggling with as a Country, which relates to many of the comments here, is the practice of accelerating technology and commercialization. We have the ability to do that now, at least at the beginning stages, with nonprofits and with intermediaries that exist across the United States. It does not need to go from the basic lab directly to the private sector, and that there are partners with the Federal Government, or could be, are today and could be increasing partners with the Federal Government who care very much about economic transformation, commercialization and place and want to make sure that those jobs and the economic wealth that is created through that transformation has resonance and can make an impact.

I think one of the things we are struggling with to some degree as a Country is this is especially in the trenches with these innovators and entrepreneurs. We have relied on the private sector to assist entrepreneurs, to move their companies forward. When we do that, you are immediately giving it to the private sector, and you would have less influence in that construct in terms of where the ultimate jobs are created.

So this incremental movement of a stronger industrial point of view from the Federal Government, I think, will more significantly

benefit the Country, but it is an evolution. And this program that I have envisioned would very much put that in place.

Rick commented about Toledo having a vision and being alone, and, certainly from the University of Toledo point of view and the regional growth partnership, they have provided significant leadership. Having said that, the State of Ohio has also. The public sector has made very, very large investments in their vision, in that region's vision, as they have in northeast Ohio, central Ohio and other parts of the State.

So the State of Ohio's Department of Development gets this. I mean they have built a strategy around this approach. There is no reason why the Federal Government could not partner and piggyback on that strategy and bring resources, as Rick shared, also as a full partner.

Chairman BROWN. Tell me how, Mr. Leach, in Ohio—and I am sorry for the parochialism, to the other three of you—that there is discussion that Ohio would be the site of the first, just off the coast of Cleveland, Lake Erie could be the first site of wind turbines, a field of wind turbines anywhere on fresh water in the world? There are fields of wind turbines in salt water with a different set of issues, of course.

How does the Third Frontier and how do your efforts lead to that happening? Talk through the scenario of how you sort of capitalized that.

Ohio is the site now of a number of wind turbine manufacturing, component manufacturers. There is little assembly of wind turbines in the United States, ergo, the China field in Texas. Talk about the process of how that happens and how you helped to make that happen and how Third Frontier, how the State can help make that happen.

Mr. LEACH. Sure. Well, the Third Frontier does have a particular focus on energy. Historically, they have had a very large focus in the fuel cell space, and over time they have had an increasing focus in wind.

The way the structure works in Ohio is the private sector shares ideas and collaborates with the public sector and other supporters of these types of initiatives, and they roundtable around what are the most important things we could work on collectively that could generate not just innovation but ultimately commercialization and jobs in Ohio.

There is a private sector commission. It is called the Ohio Third Frontier Commission, which there is certainly some public leadership on the commission, but there are six members of a nine-panel commission that bring the private sector judgment and influence to these projects.

So they look at the opportunities. They post RFPs and provide opportunities to stakeholders in the State and also outside the State that like to make investments in these projects, and they rate them. They leverage the National Science Foundation experts in these particular technologies and industries, to rate what is the total economic impact of such projects, not just in relationship to attraction of private sector investment, but also what is the ultimate job impact on these kinds of projects.

So they are bringing very, very significant private sector due diligence and analysis to these projects, or rating them, and therefore then funding them based on the commercialization impact in Ohio, obviously, and that is how they are rated.

So they are bringing, again, very significant private sector discipline. The State is not picking winners and losers. The State is bringing resources, certainly leveraging on a 10 to 1 basis the private sector resources in these projects, but they have a very, very disciplined process.

There is no reason why the Federal Government could not rely on a parallel process or provide resources to the States and have the States add that to their existing resources in order to make larger impacts.

Chairman BROWN. Thank you.

Mr. Weddle, you, in your written testimony, talked about the role of incubators in North Carolina, Ohio, and the National Association of Incubators—I am not sure that is the right term—is located in Athens, Ohio. There are incubators in Ohio that have played a significant role but particularly a fairly unheralded role because people do not know a lot about them because they start very small businesses and many of them grow.

What are the keys to building a successful network of business incubators? And go especially to the Federal role, out of EDA or whatever you think the Federal role should be in stimulating the growth of incubators.

Then the numbers are pretty stunning, how little Federal investment leveraged properly, locally, translates into a significant number of jobs. But talk that through for us.

Mr. WEDDLE. Most incubators operate on a shoestring because they are underresourced, and the whole idea is they do not make a lot of money. If anything, they require subsidy or some operating expense in that regard. We have a successful network of incubators in Research Triangle Park, but they all have their own set of parameters with which they were started and funded.

I think the Federal Government could play an important role in providing funds for either acquiring the space, setting up the space, outfitting the space, making it so that it would be able to be provided for startups, spinoffs out of universities or out of companies. We have to remember that not all startups come out of universities. The history of the 1,600 startups in Research Triangle Park is that more came out of the companies and the park than out of the universities, in terms of that growth pattern.

But it is really hard to get the space reserved, to get it outfitted, so that you can provide very, very flexible terms and mentoring activities for the companies. I think the Federal Government could be a good partner in providing direct grants to nonprofits, to establish those kinds of activities.

Chairman BROWN. Thank you.

Mr. Katz and Dr. Boushey, I will ask them a question. Then I would like you all to think about the last question I am going to ask and have all four of you answer that, about what is the one or what are the two things that you think are most important for this Congress to do to help create jobs in a sort of medium range, not just short term, but obviously the crisis is now.

So think through that as I ask Mr. Katz and Dr. Boushey this question first. What in the Recovery Act was the most important thing for industrial States? What did we do in the Recovery Act that mattered most in States like Ohio, Michigan, Wisconsin, western Pennsylvania, those States?

California and Texas are the largest manufacturing States, but they do not necessarily think of themselves that way. The States that really were industrial States, what were a couple of things the Recovery Act did?

Mr. Katz, you first, then Dr. Boushey.

Mr. KATZ. Well, the jury is still in a sense.

So, first, fiscal stabilization; about $48.6 billion was in the Recovery Act to help State Governments. A large portion of that went to education. Other parts went to general government aid. So, again, it gets to this general issue of as we think about creating jobs through the front door, you should not be losing jobs through the back window. In the early phase of the Recovery Act, I think fiscal stabilization has played a very big role.

There are other bonding mechanisms, like the Build America bonds which have really been taken up by the market in a substantial way, that both help on the capital side, but also reduce debt service. That has been of help.

I think the jury is out about what is going to happen in the next six to twelve months because we have substantial funding coming down the pike in not old-style infrastructure—you know, filling potholes on freeways and county roads—but really the next generation infrastructure, when we talk about high-speed, when we talk about smart grid, when we talk about health care information technology.

I think the question will be not just whether the States, but these metropolitan areas, this sort of interesting mix of nonprofits, universities, private sector firms, cluster associations, local government have had the vision to take advantage of the Federal funding. So we are going to see an uneven application of the Recovery because the capacity across the Country is quite different.

Chairman BROWN. Dr. Boushey?

Dr. BOUSHEY. Yes, my answer is going to echo Bruce's. I mean I think when you look at where we spent the funds, of course, a third of it was on tax cuts. Some of that was good spending. Some of it, we would have done anyway, the extension of the AMT, for example.

But you know the biggest bang for the buck was the money that we spent on unemployment insurance. That was 16 percent of the Recovery Act dollars, the aid for the least among us, those hit hardest, and that I am sure had some of the biggest bang in those hard-hit industrial States with the super high unemployment rates. So, when I think of Michigan, I think of the UI program, not necessarily helping the kinds of things we have been talking about here today, in terms of the innovation or specific companies, but certainly helping the whole landscape and providing the biggest local dollars. People have money in their pocket.

And then the aid to the States, I think I would put as the second most important one because it really was, again, big bang for the buck, lots of money.

I do not think that is to discount all of the other kinds of programs here, but in terms of the largest ones that is what I would say.

Chairman BROWN. Thank you.

I will start with Mr. Weddle and move to your right. Just give us the one or two most important things you think Congress should do in the next 3 months for job creation.

Mr. WEDDLE. Thank you. I am happy to make a couple of comments, and I think I agree with most everything everybody else says. This is a pretty well-aligned panel, I think, today.

I think restoring or providing additional funding to States and cities is going to be vital because their revenue base is really going to show some wear and tear about the middle of this next year, but I would require two things in that.

One, I would require that we find some way to align the Federal Government and State strategies and plans together a little bit better, rather than just throwing money, and I would also make sure there was an economic development component to that. There was no economic development component to earlier stimulus plans.

And then second, I think, because I think it is an out-of-the-box and an innovative idea, the expanding the Invest in America Now program to a $100 million scale, nationally drives a stake in the ground and says we are going to compete on this planet for new jobs and investment from everywhere.

And I think those would be two interesting things to try to do.

Chairman BROWN. Thank you. On the Invest in America, could you, in writing for us, contrast? That was going to be one of my questions, and we were kind of running out of time for you specifically. But contrast what other countries do that is so much more inventive or thorough than we do on this. They sort of invest, and you said there was something in the Commerce Department or somewhere that we could do.

Mr. WEDDLE. For example, we have a half a million dollar budget for the whole Country.

Chairman BROWN. Right, right. See what other countries do.

Mr. WEDDLE. We will be happy to do that.

Chairman BROWN. I would be very interested to see that.

Mr. Leach, thank you.

Mr. LEACH. I would say to equip the EDA, the SBA and other Federal agencies in the absence of larger, more robust, something new program as I talked about earlier, to have additional significant resources that are focused on the commercialization of new technologies and equally, if not more importantly, require these agencies and their partners to reach out to non-Federal sources who have aligned interests and very significant resources, who will aggressively partner with these Federal agencies.

Chairman BROWN. Thank you.

Mr. Katz.

Mr. KATZ. I will answer less programmatic, more at the paradigm level. I think what we need is a narrative about what the next American economy looks like that could really galvanize State, local, metro action, private and public.

So Larry Summers gave a speech in July. About 80 percent of his speech was focused on the retrospect of what was done to pre-

vent the collapse. A very small portion focused on what comes next. But what he said is we will be export-oriented, less consumption-oriented. We will be focused on innovating in what matters, not financial engineering. We will be low-carbon, and, hopefully, we will be opportunity-rich.

If you take those four pillars of the next economy—export-oriented, innovation-fueled, low-carbon and opportunity-rich—that is the ticket around which to organize a whole set of policies, innovation policies, human capital policies, infrastructure policies, not just at the Federal level but in a Federalist system.

I think we have lacked that clear, coherent direction and vision from the national government, frankly, for decades. And I think now we need to have it, and then the programs will follow. They are almost derivative of that vision.

Chairman BROWN. Thank you, Mr. Katz.

Dr. Boushey?

Dr. BOUSHEY. Yes, again, I am going to follow Bruce and agree with him. I mean I think there are a couple things. First of all, in the medium term, passing that UI extension has just got to be critical, and I know that is coming up next week, but I think that is super important. Second, making sure that we continue to provide more funding to the States is an important piece.

A couple other points, I mean one is that I think we should not be afraid of deficits. We should spend that TARP money on some of these job creation programs, but we need to make sure that we are focused on a strategy that does not waste it, that is about long-term investments.

You know we have talked a lot. I mean there has been a kind of disconnect here this afternoon, with the short term and the long term in the sense that it is as though these things that we are talking about on the long term, the more innovation front, are not really also about short-term job creation. But we need to sort of remember that economists think that the unemployment rate is not going to come down to a full employment level until 2014, 2015, and it could be even longer than that.

So I do not think that those are in any way in conflict as long as your time horizon is not like 20 years. As long as we can do some of these things in like 2 to 6 years, I think that is all consistent.

Then finally, I want to just tap into what Bruce said about this notion of galvanizing, and what Senator Dodd said about optimism. I think that focusing especially on the alternative energy piece, which has this sort of very sexy, new ideas, that we are going to get our economy on a better path, that both helps manufacturing, that can create a strong U.S. manufacturing base, but also deal with the very important issues of climate which are being discussed right now.

And finally, I had one more piece which is that on this notion of less consumer-driven economy, we also need to be really focusing hard on the kind of financial regulation that is going to be happening over the next few months, that you guys are going to be doing here in the Senate and the House. Focus on getting Wall Street back where it belongs, which is in service of our productive economy, not the other way around.

I mean for too long we have allowed this economy built on financial bubbles to be the so-called creator of growth, and we can see that that has just been a house of cards. The focus of the financial sector should be to provide capital for productive investments, and thinking about financial regulation that gets us back on that track has to be a key component of the backdrop for a lot of what we have been talking about here this afternoon.

Chairman BROWN. Well said, thank you. Thank you all.

The record will remain open for 7 days—so, anything that you want to add, including my request to you, Mr. Weddle, anything you want to expand on. All your testimony, of course, is entered in the record, as were the comments you made.

Thank you very much. I appreciate all of your joining us here today.

Subcommittee adjourned.

[Whereupon, at 3:30 p.m., the hearing was adjourned.]

[Prepared statements supplied for the record follow:]

PREPARED STATEMENT OF HEATHER BOUSHEY

SENIOR ECONOMIST, CENTER FOR AMERICAN PROGRESS ACTION FUND

DECEMBER 9, 2009

Thank you, Chairman Brown and Ranking Member DeMint, and Chairman Dodd and Ranking Member Shelby, for inviting me to speak to you today about the recession, the nascent recovery, and job creation. My name is Heather Boushey and I'm a Senior Economist at the Center for American Progress Action Fund.

I'd like to start with the good news. On Friday, we learned that the unemployment rate fell to 10.0 percent and only 11,000 workers lost their jobs in November, both numbers were better than had been expected. This is unambiguous good news for workers and their families.

This data provides an indication that the steps that Congress and the Obama administration have taken to get the economy back on track have been effective. The American Recovery and Reinvestment Act signed into law last February has worked its magic and injected momentum into the economy, boosting economic growth in the third quarter and saving or creating upwards of 1 million to 1.5 million jobs.[1] Recovery dollars will continue to pump up demand and add jobs to the economy as the remaining $553 billion is spent in 2012.[2]

But we are by no means fully out of the woods. There are indications that employers are beginning to need to ramp up hiring, but have yet to actually do so. We need Congress to be vigilant in continuing to promote job creation and reducing the hardships among those hardest hit by the recession.

The economic effects of ARRA dollars will start to diminish beginning in the middle of 2010—well before we will be fully out of the woods. Economists now predict economic growth of only about 2 percent for 2010 given the policy efforts already in place. This is a clear indication that without additional action on the part of Congress and the Obama administration, the U.S. economy could easily slip into an extended jobless recovery—or see the recovery stall altogether.

The economic recovery could result in a longer period of job losses and slower job creation compared to the past two recessions. The nearly 2-year-long Great Recession began with the collapse of the U.S. housing bubble and ensuing financial crisis, which led to a recession that was deeper and more protracted than other kinds of recessions.[3] Even now, we continue to see global financial markets subject to debt-related shocks that could potentially upend this economic recovery by hampering access to credit. On top of this, the massive deleveraging going on in households across the United States is putting sharp limits on the potential for consumption to grow quickly.

Further, those without a job continue to face extremely daunting challenges in finding new work. The typical unemployed worker has been searching for work for 20.1 weeks, and a record 5.9 million of those workers have been searching for work for at least 6 months, 38.3 percent of the total unemployed. We need to ensure that we do not leave any demographic groups behind during economic recovery. The unemployment rate among teens is 26.7 percent, it is 15.6 percent among African Americans, and 12.7 percent among Hispanics, and 15.0 percent among those without a high school diploma.

Combined, this suggests a need for additional actions, even though it will contribute to Federal budget deficits. However, government spending in 2010 that gets people back to work would be the best thing for restoring fiscal balance in the coming decade.[4] High unemployment adds to government expenses as more families need assistance from all levels of government, including unemployment benefits and food stamps, help with health care bills, and help coping with a home mortgage foreclosure. And unemployed workers do not have earnings on which they owe taxes,

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[1] Deborah Solomon, "U.S. Economy Gets Lift From Stimulus," *The Wall Street Journal,* September 2, 2009, available at *http://online.wsj.com/article/SB125185379218478087.html;* Josh Bivens, "How We Know the Recovery Package is Helping" (Washington, D.C.: Economic Policy Institute, October 2009) available at *http://epi.3cdn.net/bb4f1bd7339f12b9a3_4im6bxb5c.pdf.*

[2] *Recovery.gov.*

[3] Carmen M. Reinhart and Kenneth S. Rogoff, "What Other Financial Crises Tell Us," *The Wall Street Journal,* February 3, 2009, available at *http://online.wsj.com/article/SB123362438683541945.html.*

[4] Michael Ettlinger and Michael Linden, "Deal with It: A Guide to the Federal Deficit and Debt" (Washington, D.C.: Center for American Progress, September 2009) available at *http://www.americanprogress.org/issues/2009/09/pdf/deal_with_it.pdf.*

a trend which has contributed to this year's rise in the deficit. While tax revenues fell by 17 percent in 2009, spending increased only a bit more—18 percent.[5]

One way to address the long-term deficit concerns is to legislate the ways we will pay for job creation as we legislate job-creation provisions. Yesterday, President Barack Obama put on the table using unallocated funds from the Troubled Asset Relief Program to pay for job creation. Alternatively, Congress could establish a tax on the U.S. financial services industry to raise an additional $150 billion a year.

In my testimony below, I focus on two issues. First, an outline of what we can learn from the implementation of the recovery package so far. Overall, the recovery package boosted economic growth, but the elements of the package were not uniformly effective. As we debate the challenges of a slow-growing economy, focusing on the elements that provided the biggest bang for the buck is the best way forward. Tax cuts, in particular, have relatively small "multipliers," that is, for every dollar of Federal spending, the effect on the overall economy is small than for other kinds of spending, such as that targeted to those hit hardest by the recession and aid to the States that are highly budget-constrained due to falling tax revenues and growing demand for services.

Congress's approval of a 2-year recovery package continues to look like it was the right decision. The effect of the Recovery dollars will not peak until mid-2010, but the economy will need a steady infusion of demand. Now is the time to consider whether further job creation measures are the right course of action. Given the challenges of a slow-growth economy, and continued high unemployment and State fiscal problems, both of which work against the nascent economic recovery, focusing on job creation is the right path. Below, I present a menu of the best options for creating jobs in the short- to medium-term based on the Center for American Progress report released last week, "Meeting the Jobs Challenge: How to Avoid Another Jobless-or Job-Loss-Economic Recovery." Below, I summarize our recommendations that report goes into in greater detail. There are a few key steps, however, that Congress should take now to help boost jobs in the short- to medium-term:

- **Continue to help those hurt most by the recession.** Congress should ensure that the extended unemployment benefits and COBRA subsidies passed in the recovery act do not expire as planned at the end of December. These benefits go to the long-term unemployed, who now account for an historically high share—more than one-third-of unemployed workers. Extending the subsidies to help the unemployed purchase health insurance—or, better yet, allowing States the option to put unemployed workers on Medicaid—must also be done before the end of the year.
- **Support State and local governments.** The Federal Government should provide another funding boost to the States. State and local governments have shed almost 160,000 jobs over the past year (November to November), with nearly 80 percent of the job losses at the local level occurring in just the last 4 months. These lay-offs are working against economic recovery at the local level. All but two States had or still have shortfalls for fiscal year 2010, totaling $190 billion. The aid to States contained in the recovery package was clearly helpful, but it only addressed only about 30 to 40 percent of the gap faced by State governments.
- **Expand national service and provide support for needed services.** The Federal Government could spur the creation of millions of mostly private-sector jobs by directing additional Federal money into youth and young adult employment (such as AmeriCorps, VISTA, YouthBuild, and the youth service and conservation corps), child care, after-school programs, and in-home health services for the elderly and disabled as well as training for those serving America's youngsters, oldsters and disabled. Nonprofit groups and small businesses provide most of these jobs, although they are paid for by programs that are currently being cut by State and local governments. Funneling funds into these programs not only quickly gets people into jobs, but supports families and communities by providing much-needed services. These programs often have long waiting lists and any new funds will be able to meet pressing needs.
- **Promote sustainable growth and green jobs.** To promote new green jobs, Congress could establish a two-tier program to transform the market for energy efficiency—a "cash for caulkers" program. The first tier would promote imme-

[5] Michael Ettlinger and Michael Linden, "Who's to Blame for the Deficit Numbers?" (Washington, D.C.: Center for American Progress, August 2009) available at *http://www.americanprogress.org/issues/2009/08/pdf/deficit_blame.pdf.*

diate investment in energy efficiency, through super-efficient appliances and simple home improvements. The second tier implemented in parallel would increase consumer awareness of comprehensive whole-home energy audits and retrofits, which create substantial and sustained numbers of good jobs in the construction and manufacturing sectors.

- **A tax cut to spur spending.** To promote spending by those who have income, Congress could offer a partial tax moratorium to taxpayers with adjusted gross income below $150,000 for a married couple or $75,000 for an individual. Personal income taxpayers could be offered the opportunity to pay $2,000 less in their 2009 Federal income taxes but would be required to pay the sum back over the next 3 years. This idea has the virtue of costing very little overall for Federal budget purposes since it is simply deferred taxes and would be likely to be spent quickly by taxpayers who choose that option.

If we do nothing, we risk not only missing an opportunity to get the nearly 16 million unemployed back to work quickly, but also harming our economy over the medium to long term. The deficit will rise regardless of whether Congress approves additional spending; the question is whether we will make the investments today to get the economy back on track or whether we will allow the scourge of unemployment to linger.

The American Recovery and Reinvestment Act

The recovery package pumped $787 billion into the U.S. economy and included a variety of mechanisms for getting the economy back on track, among them:[6]

- Aid to the unemployed, which boasts the biggest bang for the buck in terms of spurring economic demand (16 percent of the total package). The multiplier for this kind of spending is between 0.8 and 2.2.
- Aid to State and local governments to help them avoid layoffs and maintain services (11 percent). The multiplier for this kind of spending is between 0.5 and 1.7.
- Tax cuts for most families, which help to boost spending (32 percent). The multiplier for this kind of spending is between 0.7 and 1.9.
- Investments in infrastructure, which are still ramping up and coming on line, as these projects take longer to get up and running (23 percent). The multiplier for this kind of spending is between 1.0 and 2.5.
- Investments in a green economy, which not only creates jobs but also paves the way for long-term economic sustainability (18 percent). The multiplier for this kind of spending is between 1.0 and 2.5.[7]

These recovery dollars were a key factor in the economy seeing positive economic growth in the third quarter, rather than no growth at all. The Wall Street Journal quotes Jan Hatzius, chief U.S. economist for Goldman Sachs & Co. predicting that the U.S. economy would grow by 3.3 in the third quarter and that, "'Without that extra stimulus, we would be somewhere around zero,'"[8]

This is consistent with the Administration's own findings. The Council of Economic Advisors shows that the nearly $200 billion in recovery dollars pumped into the economy as of the end of October added roughly 2.3 percentage points to real GDP growth in the second quarter of 2009 and most likely added even more in the third quarter.[9] They estimate that without the recovery package, the economy would have shed over a million more jobs than it actually did.

The Recovery dollars have been spent on a wide variety of projects around the country. Here's a sample of some of the projects:

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[6] Center for American Progress, "Recovery and Reinvestment 101 Update," (Washington, D.C.: Center for American Progress, August 2009) February 27, 2009, available at *http://www.americanprogress.org/issues/2009/03/pdf/recovery_reinvestment_101.pdf;* Congressional Budget Office, "Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output as of September 2009" (November 2009), available at *http://www.cbo.gov/ftpdocs/106xx/doc10682/11-30-ARRA.pdf.*

[7] Center for American Progress, "Meeting the Jobs Challenge: How to Avoid Another Jobless—or Job-Loss—Economic Recovery," December 2009, available at *http://www.americanprogress.org/issues/2009/12/pdf/job_options.pdf.* Mark Zandi says that increased infrastructure spending has a multiplier of 1.57.

[8] Deborah Solomon, "U.S. Economy Gets Lift From Stimulus."

[9] Executive Office of the President, "The Economic Impact of the American Recovery and Reinvestment Act of 2009: First Quarterly Report," September 10, 2009, available at *http://www.whitehouse.gov/assets/documents/CEA_ARRA_Report_Final.pdf; Recovery.gov.*

Education. Grants in education have saved or created valuable education programs, improved access to higher education, and helped prevent a decline in education quality. The Department of Education has found that the American Recovery and Reinvestment Act provided a total of $48.6 billion for the State Fiscal Stabilization Fund, or SFSF, to be administered by the Department of Education to help sustain and create jobs and advance education reforms.[10] As of early November, 2009, $35.4 billion of the SFSF allotment had been obligated by the Department of Education to States and $13.2 billion is expected to be obligated in the coming months. SFSF funds were able to restore nearly 100 percent of the 2008–2009 budget gaps and a significant portion of the 2009–2010 shortfalls.[11] The Congressional Budget Office estimates that the money distributed to SFSF has an estimated output multiplier of 0.7 to 1.9.[12]

Examples of saved or created programs:[13]

- Stimulus money helped Alabama budget maintain the funding level for the heralded Alabama Reading Initiative, a "shining star of modern-day education in the State."
- In Arkansas, Little Rock School Board opted to spend a bulk of its received stimulus money on "reading recovery" programs, after-school tutoring, and math and literacy coaches. Most of the special-education funds would be spent on classroom materials and equipment, professional, development, and summer reading programs.
- In Maryland, Gov. O'Malley announced that he would provide more support community colleges to keep up with increased enrollment.
- Leominster High School in Fitchburg, MA, started an Alternative Education Program. Officials had discussed creating the program for over 2 years, but "the School Committee decided to move forward with the idea earlier this year, after learning that the district would receive around $900,000 in Federal stimulus money for special education. A portion of the money was used to cover the cost of starting the program."
- Stimulus funds also provided the prize for the Race to the Top program, a $4 billion contest incentivizing State innovation in education reform.

Recovery dollars have also improved access to higher education:[14]

- ARRA funds were used to mitigate tuition increases at public universities in at least 31 States.
- University of Massachusetts was able to rebate a $1,500 fee increase and instead employ the standard annual increase to cover the cost of inflation.
- At the University of Minnesota, an expected tuition increase was cut by about half. The Minnesota State College and University System, which includes the State's community colleges, reduced a planned tuition increase from 5 percent to 2 percent.
- In Virginia, ARRA funds kept tuition increases to the lowest rate since 2002.
- SFSF has allowed Auburn University in Alabama to mitigate tuition increases that would have been required to bridge the gap created by reduced State appropriations.

Infrastructure investments. Investments in roads are crucial to supporting business and building infrastructure. Federal Highway Administrator Victor Mendez has predicted that "[b]y addressing many long-overdue repairs to America's roads and bridges," we are "improving the economy and local quality of life while strengthening the nation's infrastructure."[15] Of the $26.6 billion available for Federal highway and bridge projects under the American Recovery and Reinvestment Act, more than 75 percent has now been obligated. To date, nearly 8,500 highway

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[10] U.S. Department of Education, "U.S. Department of Education American Recovery and Reinvestment Act Report: Summary of Programs and State-by-State Data" (November 2, 2009) available at *http://www.ed.gov/policy/gen/leg/recovery/spending/arra-program-summary.doc.*

[11] Ibid.

[12] Congressional Budget Office, "Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output as of September 2009" (November, 2009), available at *http://www.cbo.gov/ftpdocs/106xx/doc10682/11-30-ARRA.pdf.*

[13] U.S. Department of Education, "U.S. Department of Education American Recovery and Reinvestment Act Report: Summary of Programs and State-by-State Data."

[14] Ibid.

[15] U.S. Department of Transportation, Office of Public Affairs, "Highway Investment Hits $20 Billion: Recovery Putting People to work on Investments with Long-Term Benefit," Press Release, November 3, 2009, available at *http://www.dot.gov/affairs/2009/fhwa3409.htm.*

projects have been approved and nearly 5,000 are underway. In early November, the Federal Highway Administration crossed the $20 billion mark in approved obligations for highway, road and bridge projects.[16]

Examples:[17]

- In August, construction began on the $26.2 million I–279/Fort Duquesne Bridge preservation project in Pittsburgh, PA, designed to improve the safety of the bridge that serves an estimated 81,000 drivers each day.
- In September, work got underway in San Bernardino, CA, on a massive billion-dollar project, using $128 million in ARRA funds for additional lanes on I–215 to reduce traffic congestion that had been crippling the local economy.
- Also in September, work began on the three-mile extension of Minneapolis' Trunk Highway 610 to I–94. When completed, this project will reduce traffic congestion and improve area residents' quality of life with sound walls and a pedestrian bridge.
- Last month in Nelsonville, OH, construction started on the 8.5-mile, four-lane highway to divert interstate traffic from local streets. The project is using $138 million in ARRA funds and is the largest Recovery Act underway in Ohio to date.
- The New Mexico Department of Transportation has broken ground on a major highway and interchange reconstruction project on Interstate 40. On May 21, 2009, Albuquerque-based Mountain States Constructors Inc. was awarded a $24 million contract—$14.8 million of which comes from Recovery funds—to build one overpass and four ramps, and to reconstruct Paseo del Volcan and Central Avenue just west of Albuquerque. When the project is completed in May 2010, the existing climbing lane will extend seven-tenths of a mile further to better accommodate the trucks and heavy vehicles that frequently travel through the area. The I–40 project has created 78 Recovery jobs so far.

Tax cuts. In total, Treasury estimates that $62.5 billion in tax relief was available through ARRA tax provisions by the end of August 2009.[18] The Making Work Pay provision accounts for 37 percent of this total.[19] In 2009 and 2010, the Making Work Pay will provide a refundable tax credit of up to $400 for working individuals and up to $800 for married taxpayers filing joint returns. This tax credit will be calculated at a rate of 6.2 percent of earned income and will phaseout for taxpayers with modified adjusted gross income in excess of $75,000, or $150,000 for married couples filing jointly.[20]

Other individual Credits account for 19 percent of the dollars available through ARRA tax provisions.[21] Among these, the American Opportunity Credit will allow more parents and students to qualify for help paying for college expenses over the next 2 years. The AOC modifies the existing Hope Credit for 2009 and 2010 so that it includes more Americans, including many with higher incomes and those who owe no tax. It also adds required course materials to the list of qualifying expenses and expands coverage to 4 years of post-secondary education instead of two. Many of those eligible will qualify for the maximum annual credit of $2,500 per student.[22] The full credit is available to individuals who have modified adjusted gross income of $80,000 or less, or $160,000 or less for married couples filing a joint return. The credit is phased out for taxpayers with incomes above these levels. These income limits are higher than under the existing Hope and Lifetime Learning Credits.[23]

Energy. The ARRA includes a program launched in late October 2009 which allocates $3.4 billion program for 100 Smart Grid Investment Grant awards. Federal funds will be matched by industry funding for a total of public-private investments worth more than $8 billion. These grants represent the largest single grid modernization investment in U.S. history. The Department of labor announced at the

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[16] Ibid.

[17] Ibid; *Recovery.gov,* "Featured Stories: Stretch of I–40 Gets Needed Makeover in Albuquerque Area," September 24, 2009, available at *http://www.recovery.gov/News/featured/Pages/NMI40.aspx.*

[18] "$62.5B in Tax Relief," *Recovery.gov,* September 27, 2009, available at *http://www.recovery.gov/News/featured/Pages/Estimated$625BinTaxReliefFromtheRecoveryAct.aspx.*

[19] Ibid.

[20] Internal Revenue Service, "The Making Work Pay Tax Credit," accessed on December 7, 2009, available at *http://www.irs.gov/newsroom/article/0,id=204447,00.html.*

[21] "$62.5B in Tax Relief."

[22] Internal Revenue Service, "American Opportunity Credit," accessed on December 7, 2009, available at *http://www.irs.gov/newsroom/article/0,id=205674,00.html.*

[23] Ibid.

end of October that applicants from 49 States have been selected to receive awards and are expected to create tens of thousands of jobs.[24]

Of these funds, approximately $1 billion will build infrastructure and expand access to smart meters in order to provide consumers access to dynamic pricing information, which would enable them to program smart appliances when rates and demand are at their lowest such as late at night, *et cetera.*[25] Another $2 billion will go to projects that integrate various components of a smart grid in a single system, or cut across project areas. These include smart meters, smart thermostats and appliances, syncrophasors, automated substations, plug in hybrid electric vehicles, renewable energy sources, *etc.* Another $400 million will fund grid modernization projects to reduce the amount of power wasted in transit from power plants to homes, and $25 million will enlarge the manufacturing base for components of smart grid systems.[26]

An analysis by the Electric Power Research Institute estimates that smart grid technologies could reduce electricity use by more than 4 percent by 2030. That would mean a savings of $20.4 billion for businesses and consumers around the country, and $1.6 billion for the State of Florida alone—or $56 in utility savings per person.[27]

Examples of Smart Grid Technology Grants:

- $138 million was awarded to NV Energy for smart grid technology. Matching funds increase the value of this project to $298 million. This statewide project will link 1.45 million electric and gas meters across 54,600 square miles of service territory, delivering more than $65 million in benefits annually to 2.4 million Nevadans.[28]
- $15.7 million was awarded to Rappahannock Electric Cooperative in Fredericksburg, Virginia. To improve overall system reliability, the funds will assist in implementing digital improvements and upgrades to communication infrastructure, advanced meters, cyber security equipment, and digital automation.[29]
- The Detroit Edison Company was awarded $83,828,878 to fund its SmartCurrents program. The program includes the deployment of a large-scale network of 660,000 smart electricity meters and will implement the Smart Home program, which will provide customer benefits such as dynamic pricing to 5,000 customers and smart appliances to 300 customers.[30]
- The Whirlpool Corporation in Benton Harbor, Michigan received $19,330,000. The funds will support the manufacturing of smart appliances to accelerate the commercialization of residential appliances capable of communicating over a home network with other smart technologies. These appliances will allow customers to defer or schedule their energy use, which can lower consumer costs and reduce peak electricity demand.[31]
- $127.5 million was awarded to the Sacramento Municipal Utility District. The smart grid stimulus Federal grant program of Sacramento, California's capital city, will explore how to design, run and manage an urban smart grid utility system with different types and sizes of clients. California will match the stimulus subsidy with funds to improve building automation systems, energy efficiency and retrofitting projects that are already in schedule, including several buildings in downtown Sacramento.[32]

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[24] U.S. Department of Labor, "U.S. Secretary of Labor Hilda L. Solis Announce $138 Million for Smart Grid Technology," Press Release, October 28, 2009, available at *http://www.dol.gov/opa/media/press/opa/opa20091326.htm.*

[25] The White House, "President Obama Announces $3.4 Billion Investment to Spur Transition to Smart Energy Grid," Press Release, October 27, 2009, available at *http://www.whitehouse.gov/the-press-office/president-obama-announces-34-billion-investment-spur-transition-smart-energy-grid.*

[26] Ibid.

[27] Ibid.

[28] U.S. Department of Labor, "U.S. Secretary of Labor Hilda L. Solis Announces $138 Million for Smart Grid Technology."

[29] "Webb and Warner Announce Nearly $15.7M in Stimulus Funds for Investments in Fredericksburg's Smart Grid Technology," Press Release, October 28, 2009, available at *http://webb.senate.gov/newsroom/pressreleases/2009-10-28-01.cfm.*

[30] "Stabenow, Levin Praise More Than $103 Million in Smart Grid Grants for Michigan," Press Release, October 27, 2009, available at *http://stabenow.senate.gov/press/2009/102709LevinStabenowPraiseMoreThan103MillioninSmartGridGrantsforMichigan.htm.*

[31] Ibid.

[32] Jen Balboa, Sacramento Municipal Utility District, "SMUD and regional partners win $127.5 million in Federal grant money," News Release, October 27, 2009, available at *http://*

National Security. President Obama committed $3.5 billion for the Department of Homeland Security in the ARRA. These funds will go to guarding against terrorism; securing our borders; smart and tough enforcement of immigration laws and improving immigration services; preparing for, responding to, and recovering from natural disasters; and unifying and maturing the Department of Homeland Security. The Coast Guard received the largest proportion of these funds at $1.4 billion, Transportation Security Administration $1 billion, the U.S. Customs and Border Protection was budgeted close to $1 billion, FEMA $615 million, and the DHS Management Directorate received $200 million, and Immigration and Customs Enforcement received $20 million.[33]

Examples of recent awards by programs:[34]

- **U.S. Coast Guard** funding received from the Recovery Act will support multiple operational communities and accommodate the dynamic state of mission needs related to alteration of bridges, shore facility construction, and vessel repair acquisition. The Recovery Act funds will allow for completion of four bridge alteration construction projects. Additionally, shore facility construction and vessel repairs will be performed to preserve existing capabilities. Completion of these projects will facilitate safe and efficient navigation along the Nation's waterways, create jobs in the construction sector, and create a $240 million stimulative impact on the construction industry.
- **Transportation Security Administration** funding received from the Recovery Act will support two programs: the procurement and installation of checkpoint explosives detection equipment; and the procurement and installation of checked baggage explosives detection systems. TSA developed its $1 billion plan with a risk based approach that accelerates deployment of in-line baggage handling systems and enhances detection of liquid threats in carry-on baggage.
- **U.S. Customs and Border Protection** funding received from the Recovery Act will help CBP meet its mission of keeping terrorists and their weapons out of the United States, and securing and facilitating trade and travel, while enforcing immigration and drug laws. In addition to helping support the multi-year modernization strategy that includes reconstruction of up to 23 existing CBP-owned land ports of entry as well as repairs and alterations at a minimum of an additional 10 locations primarily along the northern border of the United States, the Recovery Act also provides resources needed for CBP to continue deploying cutting edge imaging technologies that allow safe and efficient inspection of cargo and vehicles entering the United States.
- **Federal Emergency Management Agency** funding received from the Recovery Act will provide funding for grants to help those in greatest need, thereby reducing the loss of life and property and protect the Nation from all hazards. This includes $100 million for the Emergency Food and Shelter National Board Program; $150 million for Public Transportation and Railroad Security Assistance; $150 million for Port Security Grants; $210 million for Assistance to Firefighters Grants for modifying, upgrading, or constructing non-Federal fire stations; and $5 million expansion in authority for Community Disaster Loans.

Maintaining the Focus on Job Creation

Job creation must remain our top priority. The Jobs Summit that President Obama held last week was important as it focused directly on this most pressing problem. There are three ways to think about the goal of job creation:

- Policies that directly boost employment and reduce unemployment;
- Policies that help to those most in need, which often have the largest bang for the buck in terms of impact on economic stimulus; and
- Policies that create jobs while laying the foundation for a strong and sustained economic recovery.

Directly boosting employment and reducing unemployment

The options that would create jobs the most quickly and reliably involve the most direct public policy tools available to Congress and the Obama administration to

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www.smud.org/en/news/Documents/09archive/stimulus-10-27-09.pdf; EcoSeed, "Sacramento reaps $127.5 million from smart grid stimulus," EcoSeed, November 16, 2009, available at *http://www.ecoseed.org/en/general-green-news/green-business-news/green-business-news/5145.*

[33] Office of the Secretary, U.S. Department of Homeland Security, "Creating Jobs While Making America Safer U.S. Department of Homeland Security Recovery Act Plan" (2009) available at *http://www.exercise.dhs.gov/xlibrary/assets/recovery/DHS_Recovery_Plan_Final_2009-05-15.pdf.*

[34] Ibid.

preserve public employment, increase private employment closely associated with public spending, and create incentives in public programs to reduce the numbers of unemployed. They include:

- Providing Federal funds to States, localities, and schools to reduce job losses and maintain valuable services.

  The aid to States contained in the ARRA was clearly helpful, but it only addressed about 30 to 40 percent of the gap faced by State governments. As a result, at least 42 States cut services and 30 States raised taxes in 2009. These actions are not helpful as the private sector tries to build on today's nascent economic recovery.

  Additional aid to State and local governments and school districts boasts clear advantages over many of the alternatives. First, the added resources will immediately and directly boost employment in a very hard hit sector. Distinct from the private sector, job cuts are being forced exclusively by impossible budget situations, not by a lack of demand for services. Ameliorating those budget dilemmas will result in more jobs. Second, additional aid will prevent further cuts to State and local education systems-investments that will pay dividends far beyond the current recovery.
- Targeting new job creation in sectors with special investment needs, including national service employment, private- and public-sector employment in child care, and after-school programs, and elderly and disabled care, alongside more training for health professionals.

  These jobs, which are largely provided by nonprofit groups and small businesses, are paid for by programs that are currently being cut by State and local governments. These programs also serve needs where there is almost always more demand than supply. Indeed, the Bureau of Labor Statistics projects that these kinds of jobs will be among the fastest growing in the years to come. Investing in these jobs will help pave the way for long-term economic growth by saving and then creating new jobs with long-term career paths and steady personal income growth.
- Creating community jobs such as those undertaken by nonprofit groups to help distressed individuals or communities.
- Creating jobs in needed infrastructure investment, including foreclosed homes and schools.
- Reducing the numbers of unemployed by encouraging early retirement to reduce unemployment through social security, job sharing, and saving primary- and secondary-school teachers' jobs by offering early retirement.

Support for those hardest hit

Helping those who are most in need is both the right thing to do and good for the economy. Channeling funds to the unemployed has a direct impact on communities as unemployed workers spend these funds. This not only helps the unemployed and their families, but helps the overall economy since without aid, unemployed workers who are rendered destitute, have no income, and no assistance from the government are not active consumers contributing to economic recovery.

The economic hardships faced by communities hit hardest during the Great Recession also threaten long-term social and economic damage. They threaten the cohesiveness of neighborhoods and institutions such as schools and churches. These things matter from an economic perspective—saving a neighborhood is less costly than restoring it both financial and social terms.

Doing more to ensure that families in need get the assistance they need not only boosts local economies by pumping money into them and helps the national economy by spurring economic demand, but also helps families until job creation starts back up. So in the second section of the report we recommend the following options to spur support for those hit hardest by the Great Recession:

- Extend the unemployment compensation provisions for the long-term unemployed contained in the ARRA recovery package, which are set to expire at the end of 2009, to at least the end of 2010.
- Ensure that the unemployed have access to health care by extending the Federal program that subsidizes health insurance coverage for the unemployed.

Creating the conditions for a strong and sustained economic recovery

The economic recovery following the recession in 2001 was the weakest in the post-World War II era in terms of job gains and income growth, leaving the typical family worse off in terms of income in 2007—the year the most recent recovery

peaked—than they were in 2000, at the prior economic peak following the 1990s expansion. The reason: the George W. Bush administration and a conservative-led Congress pushed through tax cuts for the exceedingly wealthy that did not trickle down to create broad-based economic growth and job creation while also failing to supervise our financial sector amid an explosion of ill-considered lending.

This time, a progressive administration and Congress understand that health care reform, prudent regulation of the financial sector, improving education, and addressing the long-term issue of climate change and energy independence will, together, pave the way for a more vibrant economy in the medium to long run. Integrating these goals into our short-term goals of job creation where possible should continue to be a priority.

This third section of the report presents two options that focus on one of those pillars of our future economic growth, the clean-energy transformation of our economy, through:

- A "green bank," or more specifically a Clean Energy Deployment Administration that would finance new green-energy projects and home and building green retrofits to boost energy savings and job creation.
- A new $30 billion Federal revolving loan fund, as outlined in the Investments for Manufacturing Progress and Clean Technology Act now before Congress, to help small and midsized component parts manufacturers retool their plants and retrain workers to serve the growing global market for low-carbon energy technology.

Tax provisions to spur job creation

Tax cuts are not as direct, fast-acting, or reliable a way to create jobs or spur growth as the other options presented above. Nevertheless, as a politically viable means of encouraging job creation in the private sector with a minimum of administrative overhead, they are sometimes the best option. They also can, in some cases, be designed to pay for themselves over a period of time.

There are some tax cuts that are more likely to spur private-sector jobs growth, specifically:

- A deficit-neutral partial tax moratorium on income taxes in 2009.
- A two-tier residential and commercial building retrofit program featuring a "cash for clunkers" program for household appliances and a "home star" certification program for deep energy efficiency retrofits for entire residential and commercial buildings.
- An expansion of currently effective industrial retrofit measures that provide tax credits for investment in clean energy manufacturing.
- A 1-year extension of the current fix to the Production Tax Credit for renewable energy to ensure that this important tax credit continues to have impact, and that includes manufacturers of significant components such as wind turbines and blades to extend its benefits to cover domestic manufacturing supply chains.
- A job-sharing tax credit that would encourage employers to reduce hours rather than laying off workers.
- Changes to the Low-Income Housing Tax Credit to revive the stalled credit market and spur investment in shovel-ready and much needed affordable housing projects.

Conclusion

The recovery package has pumped billions of dollars into communities across the nation. As expected, it took quite a few months for the effects to start to be seen, but now we know that these funds had positive impact on economic growth in the third quarter and the economy lost only 11,000 jobs last month, after losing more than twice as many every day last January as President Obama took office.

But, we cannot stop focusing on job creation. Unemployment remains excruciatingly high, especially among young workers, workers of color, and older and displaced workers. The last two recessions led to "jobless recoveries" and the unemployment rate did not peak for about a year and a half after the recession was declared officially over by the National Bureau of Economic Research. We run a grave risk of not creating sufficient jobs this time around as well; projections are now that we will not get back to "normal" rates unemployment until far into the mid-teens of the next decade.

PREPARED STATEMENT OF BRUCE KATZ

VICE PRESIDENT, THE BROOKINGS INSTITUTION, AND
DIRECTOR, METROPOLITAN POLICY PROGRAM

DECEMBER 9, 2009

Thank you Senator Brown and members of the Subcommittee for the opportunity to testify before you this afternoon. I am Bruce Katz, Vice President and Director of the Metropolitan Policy Program at the Brookings Institution.

Yesterday at Brookings, President Obama laid out three priorities for new investments to create jobs, including bolstering small business growth, added investments in transportation and communications infrastructure, and rebates for home energy efficiency retrofits. These are important steps, but, as the president himself noted, there is no silver bullet or single law that will address our current situation. There is more to be done on several fronts, and my testimony will address some complimentary and overlapping issues.

I will make three main points today.

First, the American economy, like most developed economies worldwide, is a network of metropolitan economies, which envelop not just cities and suburbs but a good portion of our rural areas. Because the American economy is metro-led, Congress and the Administration must understand that national recovery will also be metro-led, and so will depend on restoring economic health and vitality in our metropolitan engines.

Second, the Great Recession has affected different metro economies in radically different ways. The bubble-led economies in the Sun Belt and the auto-dominated industrial economies in the Great Lakes have borne the brunt of this downturn. It is important to recognize that, even as economists talk about national recovery and unemployment numbers improve, a large number of our metropolitan economies are still mired in recession.

Third, Federal efforts to bolster job creation need to connect "The Macro to the Metro." Our research shows that metros need two kinds of Federal responses.

They need the Federal Government to intervene quickly to prevent further job losses from the collapse of general and specific tax revenues. It would be the height of folly to focus on creating new jobs in the near term while ignoring the fact that metropolitan areas are on the verge of losing municipal jobs due to a steep and foreseeable drop in tax revenues.

Metros also need the Federal Government's support in creating jobs that build a balanced, productive future economy, which is low carbon, innovation-fueled and export-oriented. There can be no return to normal after this recession since what preceded it was anything but normal.

So let me start with the broader metropolitan frame.

Our research and that of others shows that our nation's metropolitan areas, which encompass cities, suburbs, exurbs, and a large portion of our rural communities, are the engines of the national economy. As Harvard Business School Professor Michael Porter notes, there is really no such thing as the "U.S. economy," but rather a network of interlinked metropolitan economies across the country.

There are 366 metro areas in the United States, housing 83 percent of our population and generating 88 percent of our GDP.

The top 100 metros alone sit on only 12 percent of our land mass but house two-thirds of our population, generate three quarters of our GDP and concentrate the advanced research institutions, innovative firms, talented workers and sophisticated infrastructure that are needed to compete globally.

The majority of the GDP of 44 of our 50 States is generated by their metropolitan areas. Ohio is a quintessential metro State since the largest seven metropolitan areas alone generate 80 percent of State GDP. South Carolina's five largest metropolitan areas are responsible for 60 percent of State GDP, and its full complement of 10 metros contribute 82 percent of State GDP. In Oregon, the Portland metro by itself generates 59 percent of State GDP.

We are a Metro Nation, and we need to start acting like one.

Second, metros vary considerably in size, assets, economy, and in how hard they have been hit by the recession. Some specialize in finance and real estate, others in manufacturing and production, still others in advanced services. Some act as hubs for the movement of goods; others for the development and commercialization of ideas.

Since April of this year, Brookings has made a quarterly assessment of the impact of the downturn on each of the top 100 metros. Our latest Monitor, to be released December 15, shows what the recession looks like from the ground up.

We find that every metro is struggling to convert GDP growth into new jobs. Employment continued to decline in 87 of the nation's top 100 metros through the third quarter of this year, and unemployment varies dramatically from metropolitan region to metropolitan region, ranging from a high of 16.7 percent in Detroit to a low of 4.8 percent in Omaha.

The metro focus shows that how long the road to recovery will be. Only six metro areas in the top 100 (Albuquerque, Austin, McAllen, San Antonio, Virginia Beach, and Washington DC) have exceeded their peak pre-recession output. Only one metro area (McAllen) has exceeded its peak pre-recession employment.

We have also seen intense variation in economic pain. The housing collapse has been felt in the sun-drenched, bubble real estate economies such as metros like Phoenix, Tampa and Jacksonville, which have continued to lose jobs at two to three times the rate of the United States as a whole over the last quarter. The auto collapse has devastated the "motor metros" concentrated around the Great Lakes. Detroit, which has been hemorrhaging jobs throughout this decade, has had more than twice the rate of job loss as the Nation as a whole since the beginning of the recession in December 2007. Youngstown and Akron, which have also outpaced the national rate of job loss throughout the recession, have shed jobs two and three times faster than the United States, respectively, over the last quarter.

By contrast, metros I mentioned earlier like Austin, San Antonio and Washington, D.C. have fared fairly well during this downturn, buoyed by strong health and education sectors and government.

This variation reinforces the point: there is no single American economy.

Finally, any further Federal response on job creation and economic recovery must connect "The Macro to the Metro" if it is to be successful. More specifically, the Federal Government must address the needs of metros and their contribution to the economy in two ways.

In the immediate term, the Federal Government must act quickly to stop additional job losses that are large and foreseeable. We must not overlook the importance of job retention in a rush to job creation.

Thinking more broadly, the Federal Government must catalyze job creation that helps build the next economy and sets the country on the path toward long term, sustainable growth. We cannot return to the unbalanced, consumption-led growth of the past decade, driven by unsustainable, speculative increases in housing values and reckless engineering of new loan products and secondary market vehicles. True economic recovery will depend on the Nation finding a different economic path, one that is more productive, sustainable and inclusive. Given this framework, we recommend that this Subcommittee and the Administration and Congress consider five discrete interventions that prevent further job losses and help build the next economy.

Stop Additional Job Losses

While the recently released unemployment numbers indicate that hemorrhaging of jobs has been staunched somewhat, the brutal fact is, because of the delayed effects of the recession on local budgets and its continuing effects on the ready availability of capital, our metros will see significant job losses absent Federal intervention. It does no good to bring in new jobs through the front door if we're losing them out the back window.

Strategy 1: Direct assistance to cities and towns

One critical strategy for job retention is direct fiscal assistance to local governments, which employ 10 percent of the nation's workforce.

Local government finances, local government employment, and private sector jobs that depend on local projects are on the verge of a crisis. Local government finances typically feel the full impact of larger macro trends 18–24 months after their onset because property tax assessments lag the real-time decline in property values. For fiscal year 2006–2007, local governments generated $370 billion in revenue from property taxes, according to U.S. Census data. Property values have fallen 9.5 percent since then, meaning that the local budget gap may be as large as $35 billion—and this excludes declines in sales and income taxes, which have dropped by $3 billion, according to Census data. Brookings research projects another $15 billion in total revenue declines over the third and fourth quarters of this year.[1] Roughly 70 to 75 percent of that should be from property tax losses.

[1] Using quarterly census data from 1997 to present, we estimated this by regressing annual growth rates in local revenue on growth rates in housing prices, the unemployment rate, holding the quarterly level of revenue constant. For every 1 percentage point increase in national unem-

Continued

At least $50 billion would be required to make up for these local revenue shortfalls, but that would do nothing to address the massive losses in transfer payments from States, which make up one third of local government budgets. If the decline in State transfers is as large as the decline in State revenue, local governments could lose another $74 billion, for a total local government shortfall of $124 billion.

A National League of Cities survey found that in FY2009, 67 percent of cities dealt with budget shortfalls through layoffs, furloughs, and hiring freezes—a response that might be expected to continue without some sort of intervention, possibly leading to massive reductions in jobs and vital services.[2]

But fiscal aid to cities would not just keep municipal payrolls stable. It would also stall cuts in local spending on construction, procurement, and other areas that directly affect private sector firms that provide construction, printing, and other services. NLC reports that 62 percents of cities delayed capital projects in FY2009 due to budget shortfalls.[3] Bringing these back online would provide jobs in site management, planning, and technical assistance, as well as construction. This local spending also advances national priorities such as infrastructure improvements, retrofits and other "green jobs."

Fiscal assistance to cities and towns could take several forms. The simplest is probably direct aid, in a new program that is separate from but analogous to the State Fiscal Stabilization Fund in ARRA. A model could be the general revenue sharing program (GRS) that was in place from 1972 to 1986. This system had the obvious benefit of providing a fast-moving response to local government liquidity crises. But it also had the virtue of targeting aid where it was most needed, through a formula that took into account localities' tax effort, population, and per capita income. If re-enacted for a short term today, the program would address the coming local government fiscal crisis and help keep municipalities and counties from cutting back in ways that could place a significant drag on the nation's nascent recovery just as the Recovery Act spending trails off late next near.

A second option would be to restructure SFSF to provide direct fiscal assistance to local governments that are entitlement communities. This approach would allow a local pass through to be carved out of an extended or expanded SFSF program. Using SFSF in its current form would not be a particularly effective vehicle for providing relief to local governments. SFSF did not have any straight pass-through to local governments, so funds were not directly used by cities and towns. SFSF did probably forestall cuts that State governments would have made in local aid, so probably provided indirect benefit. However, a direct benefit is needed now.

Strategy 2: Transit system operating subsidies

Perhaps the best example of the folly of focusing exclusively on job creation and ignoring job preservation comes from our nation's transit systems. As the Federal Government's Recovery Act funds aimed to create so-called shovel-ready, temporary construction jobs, transit agencies are facing the likelihood of laying people off from stable, permanent positions.

No fewer than 51 transit agencies around the country are facing some combination of service cuts, fare increases, and layoffs.[4] Transit systems that are vitally important for moving workers in major metros like New York, Washington, Philadelphia, and Atlanta have all recently considered job and service cuts as well as far increases to close millions of dollars in deficits. St. Louis had to suspend nearly half of its bus service and one-third of its rail service, and laid off nearly one-quarter of its staff, even though in 2008 ridership on the region's buses grew by almost 9 percent, one of the largest gains in the Nation over that time.

While the Recovery Act provides $8.4 billion to be spent on transit this year, Federal rules stipulate that this money can be spent only on capital improvement projects and not to finance gaps in day-to-day operating expenses for transit agencies in urbanized areas with populations greater than 200,000. While capital is of course critical to transit service, operating costs are also vital to cover the salaries of the workers who keep the system running, as well as the debt contracted to pay for capital projects, and are generally about twice as high as capital expenses for the largest transit agencies.

The Federal Government should step in and change the rules so that transit agencies can spend transit capital stimulus dollars on operating expenses. Certainly,

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ployment, local revenue is predicted to fall by 0.35 percentage points. Likewise, a 1-percentage point decrease in housing prices is associated with a 0.38 percentage point decrease in revenue.

[2] Christopher Hoene and Michael Pagano, "City Fiscal Conditions in 2009" (Washington: National League of Cities, 2009).

[3] Ibid.

[4] Transportation Equity Network and Transportation for America, "Stranded at the Station: The Impact of the Financial Crisis on Public Transportation," Washington: 2009.

agencies have capital needs as well, but particularly in these stressful economic times they should have the short-term flexibility to use those Federal dollars to meet their immediate problems.

These two strategies—direct municipal aid and transit operating subsidies—would provide a Federal finger in the dike, keeping jobs in sectors that are being battered by forces that are not entirely within their control. They would stop the hemorrhaging of jobs.

They will not, however, be sufficient to address the hyper-unemployment levels among some categories of metropolitan workers, particularly Hispanic and African Americans, younger people, and people with less education. These groups will only experience real relief with the implementation of focused job-creation strategies through proven programs like the Community Development Block Grant. CDBG is a well-understood program that provides communities with flexible, easily deployed resources to address local development priorities.

In the current recession, CDBG funds have been a tremendously efficient source of job creation.[5] If program rules were relaxed to allow more funding for jobs and job creation, CDBG could a potent way to deliver public sector employment jobs relatively quickly. Many cities have an established network of community-based facilities experienced in managing and handling CDBG funds that could help bring a public-sector employment program up to scale. Further, if a summer jobs program were a part of this initiative, it could be put in place in short order, as has been done in past years. The fiscal year 1998 summer jobs program, funded at $871 million, provided jobs and training for 480,000 disadvantaged youth.

Build the Next Economy

As Congress acts to stem further job losses, it must not overlook the long-term. We need to lay the groundwork not just for jobs for the next year, but jobs for the next generation.

In the midst of rising unemployment, increasing poverty and battered industries, we need high aspirations for the next economy.

This next economy should be a low (or at least less) carbon economy, as we struggle with the threat of climate change.

It should be innovation fueled, as we strive to make quantum leaps on everything from clean technology and renewable energy to high speed rail, the smart grid and health care information technology.

And it should be less driven by domestic consumption and more oriented toward exports, particularly to rising nations like China, India, and Brazil that are rapidly urbanizing and industrializing.

These three factors will play to the strengths of America's metros, because it is in metros where you find the transit systems and density that reduce carbon emissions. It is in metros where you find the well-educated workers, the concentrations of research institutions, and the streams of Federal funding that support innovation. And it is in metros that you find the ideas and products that are valued and sought abroad, and the rail, port, and logistics networks that move these products to markets overseas.

Strategy 4: Next generation transportation

Our competitor nations understand the importance of having state-of-the-art, seamlessly integrated infrastructure systems, from roads to rail to ports to planes. A new approach to infrastructure is not only a competitive necessity for our nation's metros, it also is critical to helping metros realize a number of national goals, such as a reduction in carbon emissions.

Congress should continue to fund, as a matter of course, the U.S. DOT's Transportation Investment Generating Economic Recovery (TIGER) Discretionary Grants, originally devised for the Recovery Act. The $1.5 billion TIGER program will fund competitive grants to support nationally, regionally, or metro-significant projects that may facilitate linking transportation, housing, energy, and environmental concerns, such as greenhouse gas emissions. The projects will be rewarded based on their ability to preserve and create jobs, invest in transportation infrastructure that will provide long-term economic benefits, and assist those most affected by the current economic downturn. In short, these are the type of projects designed to support a new long term vision for infrastructure in this country.

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[5] An analysis of *Recovery.gov* data from FY2009 Q4 reveals that CDBGs created 4,773 jobs at a cost of $7,214 each, while the average other grant did so at a cost of $56,220 per job. The general finding here seems to be corroborated by analysis of FY2005–2008 data from regular budget cycles.

Typical DOT programs do not require formal evaluations, but TIGER provides the regulatory structure to improve employment impacts because it uses job creation as a metric for evaluating applications. In the short run, this ensures that TIGER funding creates construction-related jobs in a time of great need. But as the economic recovery stabilizes, and TIGER takes its place as a regular part of DOT's budget, the job creation criteria could be broadened to balance short and long-term job creation. TIGER-funded infrastructure impacts have a powerful ability to create well-paying jobs now and a stronger economy in the future.

TIGER disbursements are not expected until February 2010 but preliminary USDOT analysis shows that the program is shiningly popular. The nearly 1,400 applications received so far total $57 billion and come from every State. If even one-third of these applications are projects that adhere closely to the objectives of the program, that represents $20 billion in high-quality projects that are ready to start, but lack funding.

TIGER should be a permanent part of the DOT budget, starting with a $20 billion appropriation, so that these and other critical projects can be realized. There are many potential vehicles for an expanded TIGER program. One is the FY2011 budget. By then there should be more information about the projects funded through the first wave of grants, including job creation and retention. This information will help refine the job creation criteria for future grants. TIGER could also be funded through a short-term reauthorization of the current surface transportation law, SAFETEA–LU which expires at the end of this month. Or the new spending on infrastructure that President Obama proposed in yesterday's address could include a new round of TIGER funding.

Strategy 5: National infrastructure bank

Another important idea to support broad competitiveness goals is a national infrastructure bank (NIB), which would serve as targeted mechanism for financing infrastructure. A development bank in essence, a NIB would have to balance the rate-of-return priorities of a bank with the policy goals of a Federal agency. Ideally, it would improve the Federal investment process and focus on multi-jurisdictional or multi-modal projects with regional or national impact. For these types of infrastructure projects, the NIB could provide Federal funding in terms of grants, loans, and loan guarantees.

Another important idea to support broad competitiveness goals is a national infrastructure bank (NIB), which would serve as targeted mechanism for financing infrastructure. Congress should pass the National Infrastructure Bank Act to establish an independent Federal entity to evaluate and fund infrastructure projects "of substantial regional and national significance." A White House Press release following the President's speech yesterday spoke of supporting "financing infrastructure investments in new ways, allowing projects to be selected on merit and leveraging money with a combination of grants and loans . . . " The NIB would provide grants, loans, loans guarantees to projects requiring Federal investment of at least $75 million. The Federal Government would provide initial capital of $60 billion that NIB would use to issue bonds, with the proceeds used to finance major projects proposed by public entities. The NIB Act should be passed and funded at just under $61 billion.

Strategy 6: Cluster initiatives

As SBA administrator Karen Mills wrote last year before joining the Obama Administration,

> Due to rising global competition, the nation's capacity for generating stable, well-paying jobs for a large number of U.S. workers is increasingly at risk. In this environment, regional industry clusters represent a valuable source of needed innovation, knowledge transfer, and improved productivity . . . Many U.S. industry clusters are not as competitive as they could be, to the detriment of the nation's capacity to sustain well-paying jobs.

Clusters encompass both existing industries and the emerging industries, such as alternative energy, that will grow to meet the challenges of the next economy. In fact, strong clusters promote the product and process innovation, technology transfer and knowledge sharing that help industries shift from the now to the next, and move from making tires to making polymers or making auto glass to making solar panels.

The Federal Economic Development Administration's fiscal year 2010 budget request seeks $50 million for a regional innovation clusters initiative that would award competitive, bottom-up grants to strengthen local efforts and establish a national clusters research and information center. The House appropriations bill

trimmed that back to $10 million, while the Senate pared it to $35 million. To ensure that a fully rounded clusters program becomes operational, House and Senate conferees on the Commerce-Justice-Science appropriations bill should agree to the Senate funding level for the EDA economic adjustment, technical assistance, and research/evaluation accounts, which would allow the clusters effort to be funded at about $35 million.[6] A well-designed and implemented EDA clusters program would serve as an important symbol and demonstration of a new Federal approach to economic policy.

Two other bills currently in Congress would encourage the development and success of industry cluster initiatives, and they should be passed in some form to bolster the productivity and competitiveness of America's regional and metropolitan industries. The SECTORS Act of 2009 ("Strengthening Employment Clusters to Organize Regional Success Act") would award grants to local industry-based organizations to enhance the competiveness of the industry, improve workforce skills, and coordinate State and local economic development activities. The SECTORS Act appropriately recognizes the employment aspects of clusters, calling for Federal support for

> [I]dentifying and aggregating the training needs of multiple employers, helping postsecondary educational institutions and other training providers align curricula and programs to meet industry demand, and improving job quality through improving wages, benefits, and working conditions for workers.

I'm sure the Chairman is quite familiar with the bill, which he introduced with bipartisan support.

Likewise, the Senate and House both referred a bill to Subcommittees on Technology and Innovation that would promote the construction of research parks with $7.5 million for each of 4 years. The title said it all: "A bill to provide grants and loan guarantees for the development and construction of science parks to promote the clustering of innovation through high technology activities." Passing this bill now would promote innovation by encouraging the concentration of technology industries, but it would also create short-term jobs in construction related industries.

Conclusion

I will conclude with these summary thoughts.

I think the time is long past due for national economic policy to align more closely with metropolitan economic realities, given the economic primacy of our metropolitan areas.

In the near term, that will require Congressional action to deal directly and forcibly with the coming fiscal storm in our nation's metros, given the foreseeable declines in tax revenues as economic stress (and declines in income, sales and housing values) undermines State and municipal finance. This metro focus also requires deliberate and purposeful action to build the economy and the future.

I spoke at the beginning of my testimony about the variations in assets and economic strength between metros. We must also recognize variations in institutional capacity. Some municipalities and counties lack the staffing and experience to design and implement various Federal programs. Some metropolitan areas, particularly in older industrial sections of the country, have been in economic decline for decades. The Federal Government, therefore, must acknowledge this variation in capacity and take steps to put in place a national network of firms, non-profit organizations, and individuals that can provide technical assistance to make sure our national project of economic renewal can reach its fullest potential. HUD has already started doing this with regard to neighborhood stabilization funds but more intensified efforts are needed in such areas as energy retrofit, transportation and education.

I thank you again for the opportunity to testify here today, and welcome any questions.

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[6] As a compromise, the conferees should also accept the higher House funding level for EDA assistance programs ($255 million), which would allow conferees to split the difference between House and Senate appropriations for public works.

PREPARED STATEMENT OF RAY LEACH

CHIEF EXECUTIVE OFFICER, JUMPSTART INC.

DECEMBER 9, 2009

Mr. Chairman and members of the Subcommittee, thank you for taking the time to engage in a broad dialog regarding the current U.S. economy's economic challenges, and for inviting me to testify on behalf of non-profit organizations located throughout the United States, who work with and are supported by public, foundations and private sector partners who are all focused on creating economic wealth and jobs via the acceleration of the transformation of State and regional economies under significant economic and employment distress.

All of us are encouraged by the recent news regarding a slight reduction in total U.S. unemployment, yet I believe everyone also recognizes that we have a long way to go in order to create at least 6 million jobs which economist tell us would equal full employment. While it appears that perhaps the worst of the recent recession might be behind us, I would strongly encourage this Committee to use this crisis as an opportunity to reconsider our national economic policy regarding the Federal Government's role in support of the formation of new, highly disruptive technology businesses that have the potential to create significant white, green and blue collar jobs as well as completely new industries.

I would be remiss if I did not share that I believe the recent expansion of small business loan guarantees is a positive action that I would strongly recommend Congress to continue to support. I would also strongly encourage Congress to dramatically expand high-skill immigration quotas to enable the world's brightest and most capable individuals to stay in or come to the United States to work for the benefit of the U.S. economy. I also believe that a wide range of tax credits, not only for hiring new employees, but also to individuals making angel investments in very small, high-technology startup businesses is something that Congress should support and encourage.

Yet, today I wanted to share with you, an approach that has not been discussed to my knowledge, to date, with this Committee and that is how the Federal Government can partner with communities, States and regions of the country to accelerate the formation of entrepreneurial ecosystems that have the potential to produce sustained long-term economic transformation, growth and wealth creation. This approach hones the ability to quickly and efficiently create, support and grow new technology-based companies. Recent reports from the Kauffman Foundation and others tell us that over 75 percent of the new jobs in our economy are done so by firms which are less than 5 years old. The balance of my testimony today will focus on how the Congress can leverage current programs, partnerships and organizations to accelerate the creation and growth of firms that have the potential to employ hundreds, thousands and tens of thousands of workers in the years ahead.

In order to begin explain this approach; I would like to introduce you to my organization, JumpStart Inc. We are a 501(c)3 non-profit organization headquartered in Cleveland, Ohio, whose mission is to recreate a robust and active entrepreneurial ecosystem in Northeast Ohio, which encompasses over 4 million residents and has been a major center for manufacturing over the last six generations.

Going back to a 50-year period of time between 1875 and 1925 years ago, cities in our region of Ohio including Cleveland, Akron, Youngstown, Lorain and Canton were centers for innovative entrepreneurs who created globally competitive companies that were incredible wealth and job creators. Due to these significant successes, communities like Northeast Ohio found that they no longer needed to rely on new innovative firms for their own economic vitality throughout the majority of the 20th century. Unfortunately, over time the principal firms in Northeast Ohio ultimately became victim of new disruptive innovations that became products of new domestic and internationally based firms and the increasing challenges of globalization. As result of this process, which began to accelerate in the last thirty-five years, not only did Northeast Ohio's significant firms who employed hundreds of thousands of citizens begin to lose their competitiveness and shed employment, but at the same time this economic condition exposed the Northeast Ohio region for its lack of a public or market-based entrepreneurial ecosystem. These entrepreneurial ecosystems are critical to wealth creation based on the formation of new businesses as their function is to engage and assist innovators and aspiring entrepreneurs to help them perfect their inventions, access financing to help take their products to market and to help the company's founders find manufacturing, sales and management talent to join the company that would enable the new business to grow and therefore more significantly benefit society by creating increasing employment and tax receipts.

As a result of the absence of an entrepreneurial ecosystem in Northeast Ohio, the region has struggled with this critical economic transition and has found itself near the bottom of many national economic rankings. In fact, *Entrepreneur Magazine* ranked Northeast Ohio as the worst large regional economy for entrepreneurial performance for almost twelve years in a row from 1990–2002.

This is when a new chapter in the economic history of Northeast Ohio began to emerge as corporate and philanthropic leadership in Northeast Ohio came together in 2003 to begin to better understand what needed to be done to recreate a new set of actors and initiatives that could accelerate the re-creation of a robust entrepreneurial ecosystem that could promote, support and invest in disruptive technologies being created at local universities, centers of research and from the inventive and industrious citizens of Northeast Ohio.

Bringing together a broad group of partners, including local, regional and State government as well as the corporate and philanthropic community resulted in a broad-based strategic plan to create JumpStart Inc., an non-profit entity that would work and invest to help re-create an entrepreneurial ecosystem and assist new innovators and entrepreneurs but do so in a way that would seek not a maximum financial return from its activities, but instead work to realize the greatest economic outcomes that could result from the creation of new firms based on disruptive, globally competitive innovation that had the potential to create hundreds, thousands and perhaps tens of thousands of new jobs in the coming decades.

I am encouraged to report that since the creation of JumpStart in 2004 it has generated significant economic results to date and has been able to demonstrate the promise to help accelerate the economic transformation of the Northeast Ohio economy. Since 2004, JumpStart has engaged with over 7,000 first-time innovative entrepreneurs providing them with approximately 100,000 hours of *pro-bono* technical assistance delivered by experienced, serial technology entrepreneurs from JumpStart's team. It has made significant direct investments in 42 high potential startup companies that have already created over 600 jobs and are anticipated to create at least another 3,000 positions in the next few years. JumpStart has also helped to create a broad-based group of community-driven as well as private sector, profit-motivated investors that are making an average of 60 investments in new companies annually which have resulted in a total investment of over $1 billion in Northeast Ohio startup firms since 2004.

JumpStart's business model has recently become nationally recognized, as it has been discussed by media outlets including the *New York Times, the Wall Street Journal, BusinessWeek, Forbes, PARADE Magazine* and the *Chronicle of Philanthropy.* It also has won numerous national awards including the Economic Development Administration's 2009 Excellence in Economic Development Award for Urban or Suburban Communities as well as the State Science and Technology Institute's 2009 Excellence in TBED (technology-based economic development) Award for Increasing Access to Capital. Yet, at this same time JumpStart estimates it could make an even greater economic impact. We estimate that there are at least another 50 firms located in our region that deserve investment from the ecosystem in Northeast Ohio each year, but are currently having to wait until more resources are either secured by non-profit, economical development organizations, like JumpStart, or the less likely outcome of being able to access private for-profit resources are attracted to the region.

There are a handful of critical components to JumpStart's success but none of them are as important as the public/private and foundation partnership that has been formed in Northeast Ohio in order to aggregate the resources required in order to build an organization with the ambition and outcomes of JumpStart. In Northeast Ohio, we are fortunate to have a group of over 80 foundations who have come together to form what is the called the Fund for Our Economic Future. This collaboration of regional foundations has pooled together over $60M in total resources to focus on a wide range economic development initiatives including over $20M focused on the creation of an entrepreneurial ecosystem that can accelerate Northeast Ohio's transformation.

As critical as this group is, an even more important player in the emerging economic transformation is the State of Ohio's Third Frontier Program, a $1.6 billion dollar public-sector initiative that has made an incredible impact on the technology, research and innovation commercialization economy in Ohio. A recent assessment of the program performed by SRI International, found that after State expenditures totaling $681 million to date, over $6.6B of economic activity and 41,300 jobs have been created resulting in $2.4 billion in employee wage and benefits. This leverage represents a 22 percent return on investment per annum to the State and nearly a $10 return for every dollar of State investment. The projects that this program has helped to fund have also helped increase Ohio's gross domestic product by

$440M per annum and these annual revenues are anticipated to continue to grow to at least $900M by 2013. At this same time, high tech employment growth in Ohio has outpaced almost all other Midwestern States and venture capital investment in Ohio has grown over 20 percent since 2003 versus only an average increase of 8 percent nationally increase during this period of time.

The combination of these two actors—Northeast Ohio-based philanthropic foundations and the State government has created a powerful collaboration that is making a tremendous difference to Northeast Ohio's current and future economy. This leadership in Ohio provides a great demonstration of what leverage can do to accelerate the growth and formation of new businesses that create opportunities and jobs.

To ensure that new and innovative businesses continue to be created by entrepreneurs not only in Ohio but across the United States, a broad set of Federal programs should be developed that focus on accelerating technology commercialization, increasing access to technical assistance, education, mentoring and training for entrepreneurs and improving access to risk capital. Unfortunately, current Federal programs have particular limitations that often times do not achieve job-creation outcomes. These limited existing programs include the following:

- The SBIR and STTR research-support programs which have a limited focus on commercialization, especially when the economic outcomes are to occur via the creation of new firms or the deployment of Federal research into young, less mature firms.
- Current Small Business Administration's (SBA) loan programs that are principally focused on less innovative, incumbent firms that benefit from secured loans (which are typically more helpful to maintain jobs versus dramatically growing new jobs).
- Technical assistance programs provided via the SBA's Small Business Development Center programs which tend to focus on even smaller firms that do not have the capacity, in general, to generate a significant number of jobs in the next 5–10 years.
- The current Small Business Investment Company (SBIC) programs which are focused on providing mezzanine capital to investment firms who invest in established firms, the SBA needs to strongly consider new equity-focused programs that would support non-profit venture development and venture capital funds that are looking to bring substantial co-investment to new innovative firms that have the potential to create significant wealth and jobs.
- The Economic Development Administration needs more regional strategic planning and high-growth innovation-focused resources to support technical assistance programs run by non-profit regional intermediaries who are focused on innovation-based, high growth firms and industries.
- The absence of robust State, foundation and private-sector partnerships is preventing and limiting the Federal Government's ability to accelerate the creation of new technology-based companies and jobs. Many States have made substantial investments in organizations who are perfectly suited to partner with the Federal Government agencies and programs yet there exists no strategic, tactical and robust collaboration amongst the practitioners and experts in the States that focus on assisting innovative, principally technology-based, firms who have the potential to dramatically grow regional and ultimately our national economy.

In order to address the shortfalls of the Federal programming outlined above, Congress should create a $2B, 4-year initiative from currently available funds from the original ARRA bill in order to create the **Federal Innovation, Commercialization and Job Creation Network** program where *existing proven* non-profit organizations and/or institutions who have been able to demonstrate significant commercialization and economic outcomes could serve as individual Centers within the network as well as to collaborate with parts of the country that do not have established and proven partners already in place to create new Centers. Each of these organizations would be required to provide matching non-Federal resources from local, State, or regional public and/or private sector partners. Key attributes of the new approach would include:

- Federal resources would be immediately matched and aligned to parties that have a similar vision and prioritization on commercializing disruptive innovation and supporting high-potential innovators and entrepreneurial firms.
- The program will have a special focus on the commercialization of innovation which has the promise to create a small number of jobs immediately but also has the potential to create at least 25 new jobs within 36 months.

- The program would be additive and complimentary to the support and assistance currently provided by NIH, SBIR, SBDC, and SBA programs.
- The program would provide a logic framework to build partnerships to support significant economic outcomes including increased private sector investment, revenue and employment growth in the next 4 years.
- We believe that there are at least 40 non-profit organizations in the United States that could meet the requirements to become a federally supported Center. Each partnering non-profit would have to be able to demonstrate a history of delivering significant economic outcomes (job creation, capital attraction, increased revenues) from its work preceding Federal support.
- Regions of States that do not have existing non-profit organizations or collaborations that could qualify as a Center would be encouraged to build new strategic plans and collaborations that would have the ability to realize the goals of the program. Once these initiatives are formed and non-Federal resources are secured, the Federal Government could consider supporting these organizations.

Mr. Chairman, I believe that the economic outcome of such a program outlined above would make a dramatic impact on all regions of the country—urban, suburban and rural. By partnering with established, proven organizations that can bring significant leverage to the table, anticipated benefits and economic outcomes would include:

- Leveraging existing infrastructure and expertise.
- Accelerating technology commercialization of Federal, industrial and community-based R&D.
- Dramatically strengthen technical resources for high-potential technology entrepreneurs.
- Create innovation and commercialization infrastructure in areas that currently are underserved.
- Increase the United States Global competitiveness in high growth entrepreneurial innovations.
- Increased private sector investment of at least $4B from private sector investors across the globe within 4 years in firms created and/or supported from the Federal Program.
- Creation of at least 260,000 new jobs within 6 years at 1.25× the current national average annual wage. An additional 1,000,000 U.S. jobs to be created as a result of the work of the work of the network by 2020.

I greatly appreciate the opportunity to present to this Committee. I look forward to the opportunity to continuing the dialog on how we can dramatically increase programs that support commercialization and entrepreneurial progress so that we can create an increasing number of globally competitive and wealth-creating jobs in the United States.

PREPARED STATEMENT OF RICK L. WEDDLE

PRESIDENT AND CEO OF THE RESEARCH TRIANGLE PARK,
AND FIRST CHAIRMAN OF THE INTERNATIONAL ECONOMIC DEVELOPMENT COUNCIL

DECEMBER 9, 2009

Chairman Brown, Ranking Member DeMint and Members of the Committee, thank you for having me here today to testify on behalf of economic development professionals throughout the country.

My name is Rick Weddle and I serve as President and CEO of The Research Triangle Park (RTP), the nation's oldest and largest research park. As the home of more than 170 companies involved in cutting-edge research and development in a variety of industry sectors, RTP is probably one of the oldest and largest-scale examples of how public and private policy can have a lasting impact on job creation and creating long-term economic competitiveness.

I am also speaking as an economic development practitioner with over 30 years' experience. During my tenure, I have worked with regions and communities in five States to help reinvent, reposition and redirect themselves. These activities have cumulatively resulted in the creation of more than 26,000 jobs with a total payroll of $1 billion.

Finally, as the first Chairman of the International Economic Development Council (IEDC), my comments today represent the viewpoints of the world's largest organization serving the economic development profession with more than 4,600 members.

The diverse membership of IEDC is dedicated to creating more high-quality jobs, developing more vibrant communities, and generally improving the quality of life in their regions.

I am here today to share with you my thoughts and the learning of the economic development community on how to create jobs and reinvigorate our struggling economy. I have organized my testimony around three questions that should be considered as we develop new policy that aims to create jobs and rebuild national competitiveness.

What have we learned from the Recovery Act that can help inform future decisions?

In February 2009, Congress passed the American Recovery & Reinvestment Act, which provided $787 billion dollars to tackle the severe recession triggered by the collapse of the financial sector and real estate market. The Recovery Act was designed in a rush to provide resources to triage the economic crisis, resulting in a package of tax cuts, formula-based fund transfers and direct grants and loans, most of which would be channeled through existing programs. The act had grand ambitions to simultaneously meet five goals: 1) to create and retain jobs; 2) to rebuild infrastructure; 3) to invest in science, health and technology; 4) to assist those most hurt by the recession; and 5) to stabilize State and local budgets to maintain service delivery. Overall, the main drive of the stimulus is to boost demand as the catalyst for economic renewal and job creation.

Given the actual brevity of the Recovery Act's implementation thus far, any identification of lessons learned can only be tentative at this point. I have broken the lessons into what is generating positive results for economic development and where the challenges remain on the ground.

On the positive side, Recovery Act investments so seem to be achieving the following economic development objectives.

- *They are reigniting stalled projects of strategic importance.*

In some communities, Recovery Act investments have jumpstarted development projects that had been stalled due to lack of credit in the private sector and/or insufficient public funds. In Dayton, Ohio, for example, Community Development Block Grant stimulus dollars coupled with waste water infrastructure dollars combined on the ground to restart a multi-use development district, entitled Tech Town, which had been put on hold due to the lack of public funds. Restarting this project not only has the capacity to generate short-term jobs through construction, but also represents a long-term investment in the economic transformation of Dayton, which has long been struggling to rebuild after the decline of manufacturing. I will return to this example later in my testimony.

- *They are allowing communities to maintain relevant projects that otherwise might have been cut.*

In some cases, Recovery Act dollars have allowed communities to maintain relevant projects and programs that would have been cut in the absence of these investments. For example, Richmond, California, used Recovery Act money to maintain and expand a successful job training program aimed at at-risk young adults that was slated for closure in response to budget cuts.

- *They have enabled business expansion through strategic infrastructure investments.*

Whereas investing in infrastructure upgrades creates short-term jobs, strategically targeting those investments to enable businesses to expand enhances the overall economic development impact of that investment. For example, local economic development professionals in Youngstown, Ohio, lobbied the State to invest some of its Recovery Act transportation allocations to relocate a national rail line which divided the property of V&M Star Steel. By moving the rail line, the company was then able to double its operations and create 400 permanent jobs. Notably, however, for this to occur required State-local coordination and engagement, which can be a trouble spot.

- *They have incented regional coordination.*

The lure of Recovery Act dollars has encouraged communities to establish regional alliances and coalitions to tackle big, commonly shared problems. The Chicago Metropolitan Planning Council spearheaded a coalition of non-profit business and civic groups, real estate developers and the metro mayors' caucus to create a 17-town region in Southern Chicago to align resources, including Recovery Act dollars, to collectively rebuild. Similar regional initiatives are visible in the San Francisco Bay

area, where local political and transportation leaders have come together to bid for Recovery Act high-speed rail funding.

- *They have leveraged resources to increase the size and scope of investments.*

Recovery Act dollars also have served to attract additional public, private and community resources. For example, the California Emerging Technology Fund committed to use a portion of its seed funds to match and leverage Recovery Act funds to meet broadband, digital literacy and other goals.

- *They have increased the dollars available for basic research, a building block of competitiveness in an innovation-based economy.*

Basic research is the primary source of the new knowledge that ultimately drives the innovation process. Economists estimate that up to half of U.S. economic growth over the past five decades is due to advances in technology. A study of recent U.S. patents found that nearly two-thirds of the papers cited in these patents were published by researchers at organizations supported by Federal funds, and these linkages have been growing at an accelerating pace. The major Federal R&D funding agencies all received significant funding through the Recovery Act, the first real increase in Federal research funding in 5 years.

- *They have invested in long-term transformation and economic diversification.*

The recession exposed many weakness in the U.S. economy, such as the severe problems in the automotive sector, revealing the need for investments in long-term economic transformation. Some Recovery Act dollars are enabling this level of transformation. One such example is the Economic Development Administration's allocation of Recovery Act dollars to the University of Arizona to support the startup phase of its Bio-Science Park, which will be located in a distressed urban neighborhood. This is a critical investment in the innovation infrastructure this country needs to remain competitive in the short- and long-term. I will return to this case later in my testimony.

- *Where the Recovery Act has added flexibility to existing programs, it has added value.*

When the Recovery Act has added greater flexibility to existing programs, we have seen positive results. The Richland, California, program discussed earlier was funded by the Workforce Investment Act's Youth Activities fund, whose spending criteria had been broadened by Recovery Act legislation to include 18- to 24-year-olds in youth activities. Equally, the new SBA provisions have been working well, allowing some financing to enter the market.

- *They have resulted in job creation and retention and will continue to do so.*

While there have been a lot of questions recently about the reliability of the job creation figures surrounding Recovery Act investments, it is clear that when awards have been made, jobs have been created and retained. Some new programs, such as Recovery Zone Bonds, have proven to be quite effective and have received public and private sector praise. Moreover, the Recovery Act's stabilization of State and local budgets has helped retain a significant number of jobs that otherwise may have been lost. The bigger issue is public perception, which I will return to when we look at the Recovery Act's challenges.

On the same day as President Obama's Jobs Summit, the International Economic Development Council (the association representing the economic development community), RTP and DCI International issued a survey to over 4,000 economic development professionals across the country to find out if Recovery Act dollars had created jobs in their regions. A 10-percent response rate, representing over 400 communities nationwide, returned the following results: 34 percent noted that jobs were created in their region from the Recovery Act, 31 percent responded no jobs have resulted from Recovery Act dollars, and 25 percent noted that job creation has not yet been determined.

While the Recovery Act has positive lessons to offer, it also faces challenges and limitations. Moving forward, these lessons need to be considered if the government is to create jobs and strengthen the economy.

- *There are significant misperceptions about the Recovery Act.*

Information gaps about what the Recovery Act is designed to do, when the money will be available, how much money will be available and what it can and cannot do abound, resulting in significant misperceptions by the public. The bulk of the Recovery Act is not designed to create jobs, but to stabilize the economy. The dollars available to create jobs are to be disbursed over a 2-year period, so it functions, in

effect, as a slow trickle of funds—as opposed to a great blast, which is what the public was expecting. In addition, some States have not drawn down all the available funding, delaying that potential impact and leading to further misperceptions about the Recovery Act's effectiveness. Finally, some of the newer programs, such as health information technology, were never mandated to be disbursed earlier, but were given time to enable the programs to develop. Given the complexity of the program, insufficient time has been devoted to educating the public as to its potential and its limitations.

• *Speed has been emphasized at a high cost.*

While speed has not always been achieved, speed is still used as an indicator of success, which may have consequently prioritized deadlines over transparency, strategy and new business development. To meet the need for speed, communities may put forth projects which are shovel-ready, but not part of a larger plan that targets longer-term sustainable growth. While such projects may create short-term jobs, one-off, disconnected investments will not have the same transformative impact on a community as projects that strategically align grants, strategy and resources toward a bigger goal. Finally, the need for speed meant that contracts were allocated to existing, often larger companies, thus missing an opportunity to invest in startups, minority- and female-owned, and other very small businesses that may be emerging as some currently unemployed individuals look to create their own enterprises.

• *An overall lack of public alignment has hindered implementation.*

A lack of administrative capacity at the Federal, State and local levels has created challenges to the implementation of the Recovery Act. At the Federal level, many agencies found themselves with significantly more money than they had administered before, plus the need to create new regulations, all in a very tight timeframe with insufficient staff. On State and municipal levels, budget deficits often left insufficient staffing resources available to apply for or monitor Recovery Act funds, which have more stringent reporting requirements than regular Federal dollars. Unfortunately, the States and localities already struggling with budget shortfalls before the Recovery Act passed were also the least positioned to put together a strategic approach to accessing and using stimulus dollars.

• *The definition of distress can be too inflexible.*

When the Recovery Act was passed, economic conditions were different than they are today. For example, a number of States—such as West Virginia, Wisconsin and Oklahoma—experienced their worst unemployment declines since the passage of the Recovery Act. Unfortunately, the act's criteria for some programs, such as Recovery Zone Economic Development Bonds, relied on 2007–2008 data for determining allocation levels; thus, those States that were hardest hit afterward have access to fewer resources, even though they have equal challenges today as those that were hit by the recession earlier.

• *Federal funding silos have been maintained.*

Most of the Recovery Act investments were channeled through existing agencies and existing programs, often at different levels of governments, making it difficult to integrate the funding streams at the local level into strategic efforts that can revitalize distressed places and nurture significant job creation. While some communities and regions did manage to access multiple funding sources, different and often more complicated reporting requirements adds complexity and significant capacity challenges to measuring the outcomes. Moreover, since States are major recipients and allocators of the funding, it keeps them in charge, and their decisions may not be in aligned with local needs.

• *Insufficient funding has been directed to economic development organizations.*

Despite the focus on job creation, most Recovery Act dollars were not allocated to economic development organizations, which work daily in the trenches to create and retain jobs. Economic development is often countercyclical, with States and localities able to allocate more money to it during prosperous times and forced to make cuts during economic downturns. Yet it is precisely in a challenging economy when economic development investments are most required. It is tantamount to cutting back the police force while crime is rising.

• *Reporting requirements may deter small business engagement.*

The Recovery Act's heavy focus on reporting both challenges public sector capacity and influences the ability of the private sector to use funds. For example, the report-

ing requirements apply even to contractors receiving under $25,000 of the total contract value. Because the reporting requirements call for staff time to oversee compliance, smaller contractors seem hesitant to bid on stimulus-funded projects. This is particularly troublesome, as small businesses are ripe targets for job creation.

- *Measuring job creation is complicated and unreliable.*

In public perception, the success of the Recovery Act is measured by its ability to create jobs and to do so quickly. Yet not only is it extremely difficult to measure job creation from public investment generally, its real impact can only be measured over time, often significant time.

What's working around the country that is creating jobs and transforming the economy?

Please allow me to start with the story of The Research Triangle Park. Fifty years ago, the leaders of North Carolina recognized that our State and the Triangle region, in particular, were not poised to be at the forefront of the post-war, science and technology-based era. As such, they made a big bet and established a place where educators, researchers, and businesses could come together as collaborative partners to change the economic composition of the region and State, thereby increasing the opportunities for the citizens of North Carolina. The vision was to attract research companies from around the Nation to locate in a parcel of land surrounded by the State's research universities-the University of North Carolina at Chapel Hill, Duke University, and North Carolina State University. The resulting "Research Triangle Park" would be a place where companies could take advantage of the region's intellectual assets and that provided a ready physical infrastructure for corporate R&D activities.

In the fifty years since, the mix of long-term investment in education and a commitment to building a conducive environment for innovation and technology-based economic development has paid off. RTP has grown to be a globally known center of innovation. Currently, there are more than 170 companies and research and development facilities in RTP, with more than 42,000 employees with combined annual salaries of over $2.7 billion. The average salary in the Park is $56,000 annually, nearly 45 percent more than regional and national averages. Companies represented in RTP include IBM, GlaxoSmithKline, Cisco Systems, BASF and Credit Suisse. In addition, a number of U.S. Federal agencies have a presence in the Park, including the U.S. Environmental Protection Agency, the National Institute of Environmental Health Sciences, and the U.S. Forestry Service.

While RTP is an essential model for understanding what works out in the field, there are other equally important models that we can learn from. When asked in the survey and through other feedback mechanisms which programs they have seen have had the most impact to date, economic development practitioners listed funding for infrastructure projects, a focus on small business and fostering entrepreneurship, and freeing financing and extending credit as the most effective programs. These results remind us that *private companies create jobs.* Thus, the quickest, most effective way to create jobs is to provide companies with the capital they need to find new markets, expand production and ultimately hire new staff. Below are several different examples of how jobs were created at private companies with assistance or funding from economic development groups or government.

Our first set of cases centers on the importance of non-profit financial intermediaries for extending both debt and equity credit to enable small business expansion.

Kentucky "ezone" helps create jobs by providing funding and support to entrepreneurs: From July 2008 through June 2009, the Northern Kentucky ezone (a division of Northern Kentucky Tri-County Economic Development Corporation) created 189 jobs through its work with entrepreneurs in the region. The ezone assisted 29 new high-tech companies in Northern Kentucky and assisted in generating $14 million in investment for client companies from venture and angel funds. Additionally, $2.1 million in investments in ezone client companies came from Kentucky Science and Technology Corporation and other public funds.

SBA loan program helps manufacturing company create/retain 50 jobs: San Diego-based CDC Small Business Finance is an SBA 504 lender. In 2009, it helped Campbell Certified, Inc., a structural/architectural steel fabrication company in San Diego County, obtain an SBA 504 loan that enabled it to buy a $1.7 million facility, expand operations, and create/ retain a combined 50 jobs.

The second set of useful practices focuses on effective measures for helping small businesses export and integrate into the global economy, which enables them to enter new markets, expand and grow jobs.

Attracting foreign direct investment and helping export-ready companies: Economic developers in Portland, Ore., are helping clean tech and green building companies access emerging foreign markets by launching regular communication with State foreign representatives to develop specific company targets abroad and for investment in Portland. They also launched an International Roadshow to bring all of the foreign representatives of the State back to Portland for a week to meet with qualified export-ready companies from the city, and help them find partners in these global markets that will generate significant export sales and increase jobs for Portland companies.

Loan guarantee enables the creation of new jobs at Illinois company: In June 2009, the Export-Import Bank of the United States announced that it would provide a long-term loan guarantee to back American Plastics Technologies Inc.'s export sale of equipment to make intravenous solutions, injectable medicines and bottled water to Nigeria. The loan guarantee supports the creation of 40 jobs. Sixteen U.S. suppliers from across the country, eight of them small businesses, are participants in the APT export. (While this is not a local example, it illustrates the value of loan guarantees to expand export markets.)

The next set of cases highlights entrepreneurship, innovation and commercialization. These are all activities that expand regional economies by creating new jobs, new companies, and in some cases new industries. Economic developers foster this growth by connecting entrepreneurs, technologies and fledgling companies with funding and resources that can help bring new products to market.

Oklahoma non-profit helps expand the technology-based economy of the State: i2E, Inc. provides Oklahoma companies with comprehensive commercialization services, proof-of-concept funding and seed/startup funding. Over its 10-year existence, it has assisted 425 commercialization clients and helped clients to attract $345 million of private capital. In a recent economic impact survey, responding clients reported creating 998 jobs at an annual average wage almost double the State average.

Business incubator provides comprehensive services to emerging science companies: The San Jose BioCenter gives emerging science and technology companies access to world-class facilities and support typically only available to larger firms. Since opening in August 2004, the incubator has assisted 60 clients and graduated 14 companies. Six of the 14 BioCenter graduates have purchased or leased entire buildings and now employ between 30 and 400 people in the Bay Area.

Program fosters business startups in rural Iowa: MyEntreNet uses web technology to provide online networking and resources to entrepreneurs who are otherwise isolated by distance. Through the service, they connect with other entrepreneurs, technical support, training and information on obtaining funding. In 2008, 321 jobs were created with the help of MyEntreNet and related business incubation services.

It also makes sense to target business assistance to strengthen core industries that create good jobs. Targeting manufacturing as well as energy, health and others not only creates jobs quickly, but does so in a way that builds competitive advantage for longer-term economic gain.

Richmond, Va., business retention program identifies and assists expanding businesses: From July 2008 to June 2009, the Greater Richmond Partnership's business retention program was able to find and build on good news in the business community. Outreach efforts helped to identify 111 expanding businesses and 167 firms with plans to add staff in the coming 12-month period. These firms intend to create more than 1,600 new jobs and make capital investments in excess of $88 million. The program is working with these businesses to ensure that they have access to the resources and information they need to realize their plans.

Economic developers help wind-power company create manufacturing jobs: Mariah Power, a Reno, Nev.-based company, decided to manufacture its turbines in Manistee, Mich., due to a unique partnership with a local manufacturer, a highly skilled workforce, and extensive assistance and funding from local and State economic development groups. A former auto parts manufacturing facility run by MasTech Manufacturing was retrofitted to produce the turbines after nearly closing operations due to the crisis in the automotive industry. A $400,000 Community Development Block Grant, provided by Manistee County in partnership with the State, enabled the upgrade of equipment needed to produce the turbines, and the company also received venture financing. The company has created 60 manufacturing jobs in Manistee over the past year and plans to add another 120 jobs in 2010.

Economic development groups in Michigan collaborate to grow green jobs: In Saginaw County, Mich., Saginaw Future, Inc., Michigan Economic Development Corporation, and the Saginaw County Chamber of Commerce collaborated to

facilitate a $1 billion investment from Hemlock Semiconductor (which makes polycrystalline silicon, a key component of solar panel construction), in order to help establish a new industry cluster, create jobs and spur an economic resurgence. The groups worked together to address company concerns, provide tax credits, job training assistance and other incentives. Saginaw Future and its partners also are investing in workforce development and research and development initiatives.

In addition to assisting businesses, another valuable way to create jobs quickly is through real estate investments, particularly in large, strategically designed projects. These create short-term construction jobs but also boost long-term competitiveness and economic diversification, leading to permanent, high-wage jobs. The focus here should be on commercial property, another market that is in decline, and innovation infrastructure, to enable long-term economic revitalization and competitiveness.

Redevelopment of a former auto manufacturing site for mixed-uses and high-tech companies continues in Dayton: Tech Town is a 30-acre, mixed-use district under development on a former GM manufacturing site. Located close to Wright Patterson Air Force Base and within a Historically Underutilized Business (HUB) Zone, the goal is for the district to become a place where business, academia and government work together strategically to take technologies developed at Wright-Patt and other regional R&D facilities and apply them to commercial uses. Stimulus CDBG funds are helping keep the project moving, which has the goal of diversifying and strengthening the region's economy.

Tech park construction jumpstarted to foster the growth of companies related to the University of Arizona-Tucson: The University of Arizona-Tucson received $4.7 million grant in Economic Development Administration stimulus funds for phase-one infrastructure improvements at the Arizona Bioscience Park. The biosciences facility is designed to be part of a larger, mixed-used development that includes a hotel and conference center, retail and residential development. It also is intended, in conjunction with the university's existing Science and Technology Park and business incubator, to support the growth of high-growth, high-tech companies in the region based on university assets. Funding was awarded in late August; construction is expected to begin soon.

Cleveland Flats East Bank project moves forward despite credit woes: Cleveland Flats, designed to be a model sustainable, walkable, mixed-use community on former brownfields sites, has gained new life with new sources of funding, including a $30 million HUD 108 loan and $25 million in Recovery Zone Bonds for infrastructure. The Recovery Zone infrastructure funding allows tax increment financing revenues to be converted from infrastructure to direct project subsidy and a repayment source for the HUD 108 loan. With private financing scarce and expensive, this creative financing covers the project gap so it can proceed.

What new thinking should Congress consider when crafting a new jobs package?

Let me share some suggestions for short-term job creation. I will first take a few moments to discuss some of the key principles that I believe should guide our thoughts as next steps and additional programs are identified. These are:

- Build on and use what we have in innovative ways
- Provide resources to those who are the most agile and flexible
- Further support R&D capacity—both basic and industry-led
- Prioritize action—in regard to short-term impact, but also in terms of the policy's ability to nurture innovation over the long-term
- Focus on changing private-sector behavior

With these principles as guidelines, I would like to summarize some policy priorities and strategies to achieve them.

- *Incent the hiring of Americans now.*

Globalization is a reality which has benefited many U.S. companies, yet the offshoring of U.S. jobs is a gargantuan obstacle to economic development efforts. As we move forward, we need to place a direct emphasis on hiring and retaining American workers. The new green economy promises manufacturing jobs for renewable energy machinery such as wind turbines and solar panels. We need to ensure that these manufacturing jobs are here in the United States, and not in China or elsewhere. Any job creation package should encourage companies to hire American workers, a goal which can be accomplished through a combination of incentives and a review of U.S. trade relationships.

There are several tools and strategies we could use to achieve this goal.

- First, we can offer incentives directly to companies if they are willing to bring work from an offshore location to a U.S. location marked by high unemployment. According to the Information and Technology Innovation Foundation (ITIF), which issued this idea, a forgivable loan (it becomes a grant if the company creates and retains the jobs), administered by the EDA, would be a particularly efficient method not only for creating jobs, but for doing so in areas where the need is greatest.
- Second, we can evolve the current Invest in America program, housed in the Department of Commerce, into an internationally competitive marketing arm of the U.S. Government, similar to the agencies found in most of the nations we compete with globally for foreign direct investment (FDI). This initiative would require a $50 million initial investment, complemented by another $50 million that could be made available as matching funds to States and regions specifically for international marketing purposes to attract FDI.
- Third, evaluate and align trade and exchange rate policy with job creation goals. Many trade and exchange rate policies seem to have been working against our national job creation goals. We need to think about whether or not we should: keep defending the dollar; more stringently enforce trade regulations and intellectual property protection; and reexamine some of our bilateral trade relationships to ensure that they support job creation, rather than hinder it. Specifically, we should ensure that we are not subsidizing competition by establishing lucrative trade agreements with countries that lack parity in terms of environmental and worker protections. We cannot demand that every country we trade with have the exact same labor and environmental laws that we do, but trade agreements should be made with the cognizance that the absence of such laws in other countries substantially lowers the cost of business without upholding the standards we as a nation believe are essential.
- *Target and reach small businesses and entrepreneurs.*

Federal policy also needs to more fully recognize the importance of entrepreneurs and small business as job creators. Businesses of all sizes are still facing issues with access to capital and means to finance new deals. A small firm that receives an influx of cash will be more likely to hire additional workers to get the job done than a larger firm with greater existing capacity. Thus, getting resources to small businesses and emerging entrepreneurs needs to be a government priority. Finding ways to make it easier for small businesses, including very small businesses, to access financing, contracts, export markets and other resources for growth is the single most useful tactic the government can adopt to create jobs quickly.

There are many approaches we can take to achieve this goal.

- First, we should emphasize non-traditional financing entities—such as certified development corporations, community development financial institutions and revolving loan funds—instead of relying on banks to provide working capital for small businesses. One way to support non-traditional financial institutions is by allowing them to offer SBA 7(a) programs. Another effective strategy is to extend the New Markets Tax Credits (NMTC) through 2014 with annual adjustments for inflation, and increase funding to existing programs that are already working in this area, such as SBA 7(a) and 504 programs.
- Second, issue Federal tax credits to stimulate seed and venture investments to support entrepreneurs and small companies. Quick infusions of capital can also help to create jobs quickly.
- Third, build on successes that are moving capital into the private sector. In particular, the reduction/elimination of fees on the 504 and 7(a) loan programs has been very successful at bringing more lenders in the program and getting working capital into the hands of small businesses. In addition, Recovery Zone Facility Bonds have also worked to help private companies access financing.
- Include counts of early stage and startup companies in job creation measures. This expands our understanding of how and where jobs are being created in the economy, and may also allow us to identify emerging industries.
- Provide additional funding at all levels of government—local, State and Federal—specifically to help small businesses export abroad.
- *Accelerate innovation through R&D and commercialization.*

There is no doubt that the Federal Government's investments in research and development (R&D) are a critical tool for stimulating innovation and building long-

term U.S. competitiveness. To create jobs more quickly, we need to find ways to target and accelerate innovation by encouraging more R&D and commercialization. There are multiple ways to achieve this goal.

- Invest in innovation infrastructure such as research parks, incubators and others means, as they marry short-term job creation goals with the need to build strong regional innovation eco-systems. One idea is to create a direct loan program or loan guarantee program to invest in such infrastructure.
- Spur partnerships between universities and the private sector by establishing Federal research grants. Place incentives in current agency programs for public-private innovation partnerships.
- Offer a bonus R&D tax credit in 2010 and 2011 which companies can choose to take against their non-corporate income. This recommendation, also put forth by ITIF, would help companies maintain their research during challenging economic times, allowing them to retain and possibly grow science jobs while investing in the company's long-term competitiveness.
- Another ITIF recommendation that deserves consideration is to allow information technology investments to be expensed in 2010. This would help not only to boost a company's competitiveness through productivity gains, but also enable them to buy safer, more energy-efficient equipment.
- Finally, finding new ways to work with universities, Federal labs, hospitals, the SBIR/STTR program and large companies (with patents they are not using) to accelerate commercialization is a critical area where new thinking and the identification of best practice models is particularly imperative.
- Provide support for competitive businesses and industries.

We need bold new thinking on how to create jobs in a way that also supports our long-term competitiveness, and that means ensuring that some investment is directed to keeping critical industries strong and supporting high-growth industries and companies. There are several tools and strategies to accomplish this.

- Harness existing Federal infrastructure such as the EDA University program or the Manufacturing Extension Partnership (MEP) networks to reach out to competitive, innovative companies and help them weather the storm, then expand. These programs work locally with companies and provide an important link between Federal goals and the private sector.
- Increase funding for the MEP. Encourage MEP to intensify its focus on supporting sustainability initiatives and pulling innovative technologies from universities, Federal laboratories, and other research institutions for adoption by manufacturing firms.
- The Federal Government might consider providing additional resources to State programs to support fast-growth, innovative companies, as ITIF also recommends.
- Allow flexibility with Workforce Investment Act (WIA) funding awarded to States to support responsiveness to regional and State needs, especially for incumbent training. This strengthens the competitiveness of existing businesses and allows them to retain critical jobs. Part of a jobs bill needs to include methods to retain existing jobs as well.
- The Federal Government should make a concerted effort to find new ways of supporting and rebuilding our manufacturing industry. In our December 3 survey of the economic development community, manufacturing was identified by the highest number of respondents (39 percent) as the industry that has been hardest hit by the economic crisis.
- Work more aggressively with the economic development community and more fully engage us in the jobs dialog and as funding recipients. This group of dedicated professionals, of which I am proud to be a part, works daily on the front line in their States, regions and communities to create and retain jobs, build companies, and develop innovative eco-systems that keep regional economies running. They know what potential projects could benefit most from an infusion of cash, which company is set to grow and what infrastructure would have the most strategic economic impact. They are first responders to the economic crisis and need to be a more integral component of any jobs bill then they have been in the past.
- Develop strategic principles for the allocation of infrastructure dollars that directly support job creation in competitive and emerging industries, and support local economic transformation.

- *Include issues of flexibility, capacity and speed in the design of any short-term job creation policy.*

Any jobs bill emerging from Congress also needs to address some of the limitations in the first Recovery Act. In particular, the following strategies will offer improvements.

- Set realistic expectations for any jobs package and ensure they are understood by the public. Public confusion and discontent with the Recovery Act is due in part to unrealistic expectations as to what it can really accomplish.
- Build greater flexibility into program design and the definition of distress. Where flexibility was available, Federal programs had a greater scope and impact. There may be additional areas where efficiencies and flexibility can be found. For example, the Federal Government can streamline or waive environmental reviews of building projects if States have similar or more rigorous processes.
- Work with agencies that already have a track record in achieving job-related outcomes, such as the Economic Development Administration and the CDFI Fund.
- Leverage funds across Federal agencies in a targeted manner and consider centralizing the overall management of the program to align their impact.

Thank you for the opportunity to testify today. I would be happy to answer any questions the Committee may have.

SUPPLEMENTAL REPORT OF RICK WEDDLE

FUNDING FOR INVEST IN AMERICA TO ATTRACT INVESTMENT, CREATE JOBS AND STIMULATE GROWTH INDUSTRIES: A COMPARATIVE REVIEW OF THE STRUCTURE, FUNDING AND PROGRAM FOCUS OF COMPETITOR NATION INVESTMENT PROMOTION AGENCIES

Overview and Introduction

The information compiled below is a supplemental report generated upon the request of Chairman Brown, following my testimony on creating jobs in the recession to the Senate Banking Committee's Subcommittee on Economic Policy on December 9, 2009. As the Committee will recall, I worked with the International Economic Development Council (IEDC), of which I am a former Chairman, to compile the analysis presented in my original testimony. For this document, I again called on IEDC to pull together this research on Foreign Direct Investment (FDI) and other countries' approach to it. As noted during my original testimony, the United States is the only developed economy without a major FDI attraction function. Specifically, this report addresses the following recommendation from my original testimony on the Federal role in revitalizing our economy:

> We can evolve the current Invest in America program, housed in the Department of Commerce, into an internationally competitive marketing arm of the U.S. Government, similar to the agencies found in most of the nations we compete with globally for foreign direct investment (FDI). This initiative would require a $50 million initial investment, complemented by another $50 million that could be made available as matching funds to States and regions specifically for international marketing purposes to attract FDI.[1]

In support of this notion of increased funding for the Invest in America program as a tool to attract investment, create jobs and stimulate growth industries, I have compiled a comparative review of the structure, funding and program focus of competitor nation investment promotion agencies to benchmark our efforts stand and frame recommendations for short-term action.

This report is structured as follows:

1) **Why National-Level Inward Investment Promotion?** A brief overview of the rationale for pro-active efforts at the national level to promote inward foreign investment.

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[1] Rick L. Weddle, In Testimony Before the Subcommittee on Economic Policy, December 9, 2009, 2 pm hearing: "Weathering the Storm: Creating Jobs in the Recession."

2) **How Does the United States Compare?** A data-driven argument for the timing and job creation impacts of a well-funded national investment promotion program.
3) **Country Comparisons of National Investment Promotion Agencies.** Profiles of the national inward investment promotion agencies the United Kingdom, Ireland, France, Spain, Brazil, Canada, the Netherlands and Finland. For purposes of comparison, a summary of the current scope of Invest in America is also included.
4) **Conclusions/Further Recommendations.** A summary of findings and specific suggestions for ramping up Invest in America.

Why National-Level Inward Investment Promotion?

- Foreign investment brings outside capital & job creation, drives exports, and is also linked to positive externalities like knowledge transfer and competition-sparked increases in the productivity of domestic businesses.
- The balanced budget requirements and persisting shortfalls facing individual U.S. States may constrain their ability to independently attract foreign direct investment (FDI).
- Time is of the essence in capturing the highest-value outbound investment from rapidly growing emerging markets.

  According to empirical research, as markets globalize, "the most productive firms become multinationals earlier, while firms that are relatively less productive enter host economies later,"[2] as international market entry becomes more feasible.

- More players for a finite pool of global investments translates into more competition. According to the World Bank:

  Today's shrinking economic environment makes effective promotion of foreign investment an especially competitive activity for countries. The current global economic slowdown and associated financial instability are expected to significantly reduce flows of FDI in 2009 and beyond. The extent of FDI decline will ultimately depend on the depth and duration of the economic slowdown. However, companies are already reluctant to make medium-term investments—many projects have been postponed or even canceled, and some estimates suggest that FDI flows could fall by as much as 30–40 percent in 2009.

  As the pool of FDI shrinks, there will be more competition for fewer projects. The ability of [Investment Promotions Intermediaries] to influence investment decisions with timely and relevant country and sector information and facilitation efforts will be more crucial than ever.[3]

How Does the United States Compare?

- While in dollar values the United States remains the top recipient of inward FDI flows (see Figure 1), as total global flows of FDI increase and more nations compete for finite investment opportunities, the United States share of overall global investment has begun to shrink (see Figure 2).

[2] Silvio Contessi and Ariel Weinberger, *Foreign Direct Investment, Productivity, and Country Growth: An Overview,* Federal Reserve Bank of St. Louis *Review,* MARCH/APRIL 2009, p 74.
[3] World Bank Group Advisory Services, Investment Climate, *Global Investment Promotion Benchmarking 2009 Summary Report,* P 11.

Dollar Value of Inward FDI by country in millions, 2005-2008

Rank	Country	2005	2006	2007	2008
1	United States	104 773	237 136	271 176	316 112
2	France	84 951	78 154	157 973	117 510
3	China	72 406	72 715	83 521	108 312
4	United Kingdom	176 006	156 186	183 386	96 939
5	Russian Federation	12 886	29 701	55 073	70 320
6	Spain	25 020	36 949	28 179	65 539
7	Hong Kong, China	33 618	45 054	54 365	63 003
8	Belgium	34 370	58 893	110 773	59 680
9	South Asia	14 352	27 758	33 982	50 669
10	Australia	- 32 080	27 864	44 330	46 774
11	Brazil	15 066	18 822	34 585	45 058
12	Canada	25 692	59 761	108 414	44 712
Total Global Flows		973 329	1 461 074	1 978 838	1 697 353

Figure 1. Source: UNCTAD, *Inward FDI flows, by host region and economy*, 1970 - 2008

Share of Global FDI Flows Captured by the United States

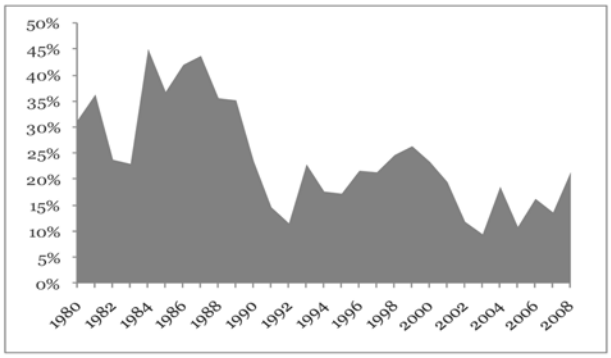

Figure 2. Source: UNCTAD, *Inward FDI flows, by host region and economy*, 1970 – 2008

- The United States lags behind other nations in terms of growth rate of inward FDI. The five countries with the largest average year over year percent increase in FDI from 2006–08 were the Netherlands, Brazil, Russia, Spain and Saudi Arabia. The United States ranked 13th during this same period while India and China ranked 6th and 9th respectively.

Growth Rate of Global FDI Flows Captured by the United States

Rank	Country	Average Year-over-Year increase 2006-08
1	Netherlands	793%
2	Brazil	157%
3	Russian Federation	157%
4	Spain	154%
5	Saudi Arabia	145%
6	India	144%
7	Sweden	139%
8	France	138%
9	Australia	132%
10	China	122%
11	Belgium	121%
12	Hong Kong	118%
13	United States	115%
14	Canada	111%
15	Mexico	111%
16	Caribbean	98%
17	Switzerland	98%
18	Poland	94%
19	Singapore	93%
20	United Kingdom	85%

Figure 3. Source: UNCTAD, *Inward FDI flows, by host region and economy*, 1970 – 2008

- Mergers & Acquisitions (M&A) of existing U.S. firms, assets and divisions account for the vast majority (see Figure 4) of incoming FDI, eclipsing Greenfield activity. However, Greenfield FDI vastly outpaces M&A in terms of job creation. Investment promotion to increase the amount of Greenfield FDI would have strong impacts on job creation.

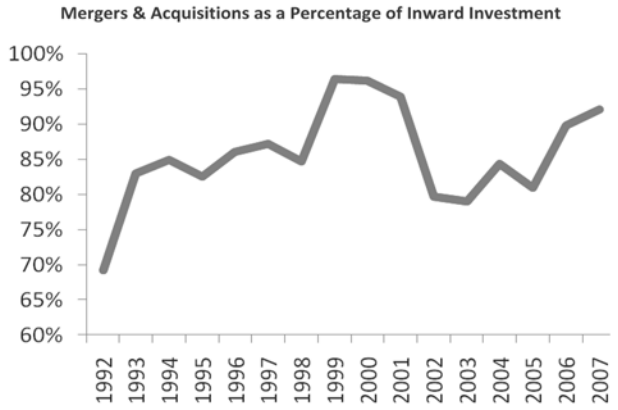

Figure 4. Source: Bureau of Economic Analysis

Country Comparisons of National Investment Promotion Agencies

Below, the national inward investment promotion agencies of 8 countries are profiled: the United Kingdom, Ireland, France, Spain, Brazil, Canada, the Netherlands and Finland. These countries were selected as they represent competitor nations for total global flows of FDI and/or nations with faster year on year growth rates of incoming FDI than the United States. Each is instructional in terms of approaches to investment promotion, and each reflects a stronger financial commitment to the effort. For purposes of comparison, I begin with an overview of the current scope of the Invest in America program.

Invest in America

While in the past, the sheer size of our economy did not necessitate a focus on international investment promotion, in reaction to the pressures of globalization, the United States is starting to play catch-up in the race to target FDI. The Department of Commerce's March 2007 roll out of the Invest in America Initiative reflects this new drive to capture FDI through a coordinated national effort.

The Invest in America Program is housed within the United States and Foreign Commercial Service (USFCS) Office of the International Trade Administration. At present the program has an estimated annual budget of under $1 Million and a direct staff of 3 full-time employees. Invest in America also delivers its services through Federal Government staff at existing international USFCS posts in target FDI source markets.

In terms of investment promotion services, the office:

- Conducts investor outreach and education
- Performs Ombudsman assistance and foreign investor after-care when approached
- Engages with national and sub-national partners to enhance the investment policy environment
- Trains USFCS staff on dealing with foreign investor prospects

At present, Invest in America is not equipped to promote the United States as a destination for investment on a broad scale through branding and public relations, an activity conducted by all the IPAs profiled below. Invest in America also does not perform lead generation or deal facilitation (such as match-making and site selection assistance) as these are efforts already performed by State and sub-State entities.

Given the rationale for pro-active national investment promotion efforts as outlined above, Invest in America is a solid and established platform from which to capture a growing percentage of global FDI flows and increase the number of inward Greenfield activities. The following profiles of other similar agencies provide guidance on the expansion of Invest in America to support U.S. competitiveness in the long-term and job creation and economic revitalization in the short-term.

United Kingdom

The United Kingdom's national-level investment promotion activities are housed within U.K. Trade & Investment (UKTI). UKTI's parent agencies are the Foreign & Common Wealth Office (FCO) and the Department of Business, Innovation and Skills.[4] Within the UKTI, Investment Promotion activities are led by the Directorate of Investment, which spearheads efforts to market the U.K. economy internationally and partners with Regional Development Agencies (RDAs) to supplement their FDI attraction, retention and expansion efforts. The aim of UKTI's inward investment promotion efforts is to help the United Kingdom "benefit from different forms of foreign direct investment not just in terms of the creation of jobs, and the injection of capital, but also through the competition and 'knowledge spillover' effects that inward investors have on the rest of the economy."[5]

UKTI's total operating budget per annum is listed as £256 million ($416 million). A portion for programming (£89 million/$144.7 million) is allocated directly from Parliament, the remaining funds are transfers for administration and staffing from the parent agencies, the predominant portion £135 million pounds (219 million USD)—comes from the FCO and includes the London HQ budget. For the current budget year, £15.4 million ($25 million) of UKTI's programming budget went directly toward inward investment efforts, including marketing the United Kingdom abroad, production of publicity materials and advertising. In addition, 17.2 million pounds ($27.9 million) flowed to FDI attraction in the form of assistance grants to RDAs.

UKTI has 2,500 staff and advisers including those overseas, based out of embassies, high commissions, consulates and tradeoffices. To agency aims to merge delivery of both trade and investment promotion services across its overseas operations and maintains staff in 150 foreign offices including 22 in the Asia-Pacific region, 12 in Canada and the United States, 17 across Europe, 2 in Latin America and the Caribbean, 1 in the Middle East and 1 in Sub-Saharan Africa.

The Inward Investment Services provided through the Directorate of Investment include:[6]

- Promoting the United Kingdom's assets to prospective investors and using regional and local analysis to advise onsite selection. Recruitment efforts focus on six target industry sectors.

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[4] The parent agencies have gone through a series of changes: through November 2007, UKTI fell under the Trade and Industry Committee and through June 2009 the Department for Business, Enterprise and Regulatory Reform.

[5] UK House of Commons Trade and Industry Committee, *UKTI's 5-year strategy: Government Response to the Committee's Sixth Report of Session 2006–07,* July 2007, p. 3.

[6] Source: UKTI Autumn Performance Report, December 2007, p. 13–14.

- Connecting businesses to key contact networks, such as industry leaders, chambers of commerce, universities and other centers of research excellence.
- Facilitating collaborative technology partnerships between United Kingdom and foreign businesses.
- Assisting overseas entrepreneurs to develop a U.K. platform.
- Building relationships and providing after-care services to key high-value investors to facilitate their continued growth/retention in the United Kingdom.
- Serving as a source of international investment policy and regulatory expertise.

Ireland

Industrial Development Agency (IDA) Ireland is the primary national entity with responsibility for the attraction and development of foreign investment in Ireland. In terms of structure, IDA Ireland is an autonomous statutory Agency which operates under guidance from the Ministry for Enterprise, Trade and Employment. This government ministry is the primary source of funds to the agency and is empowered to issue general policy directives and receive reports on activities. IDA Ireland is governed by a small Board (approx. 15 members) composed of private sector leaders representing the target sectors, as well as IDA Ireland's Executive Director and the Assistant Secretary of the Department of Enterprise, Trade and Employment. The Board is responsible for setting the broad policies of the organization and for overseeing its operation.

IDA's annual budget is €186 Million ($266.7 Million), broken down as follows:

- €9 Million in grant assistance ($12.9 Million)
- €37 Million for administration & general expenses ($53 Million)
- €11 Million for programming (marketing, consulting, promotions and advertising) ($15.7 Million)
- €46 Million for Industrial Building Charges ($65.9 Million)

IDA Ireland operates 10 regional offices in Ireland and 17 offices outside of Ireland. These are in Boston, New York, Atlanta, Chicago, Mountain View, Irvine, Sao Paulo, London, Paris, Frankfurt, Mumbai, Moscow, Shanghai, Taipei, Sydney, Tokyo and Seoul. Worldwide, the agency has a staff of 260, the overwhelming predominance of which (202) are based in Ireland, with 33 staff in America, 11 in Europe and 14 in Asia.

IDA Ireland's services are directed at prospective investor companies, promoting the country's suitability as a location for new investment or expansion projects by providing information on doing business in Ireland and insight on the dynamics of individual regions. Investment recruitment efforts focus on 5 high-value sectors (Life Sciences, Software and Services, International Financial Services, Information Communication Technologies, Cleantech) and attracting Research, Development & Innovation (RD&I) projects. Core functions include:

- Compiling and distributes detailed sector-based intelligence.
- Connecting businesses to local service providers, local public sector contacts and institutes of education. These can include introductions to companies already operating in Ireland and introductions to relevant university departments, training colleges, or third part service providers such as tax specialists, estate agents, banks and recruitment firms.
- Working on a continual basis with foreign investors facilitated by IDA to retain and support them.

As indicated in the budget breakdown above, IDA Ireland also has funds for direct assistance grants to companies locating in Ireland, to support capital development and job creation surrounding an investment. Matching grants are also available through IDA for existing foreign companies that are undertaking major training initiatives.

France

The Invest in France Agency (IFA) was created in May 2001 and is overseen jointly by the Minister of Economy, Finance and Industry and the Minister for Regional Development. These parent agencies collaborate to define IFA's strategic priories, objectives, and indicators, and are responsible for determining IFA's annual budget. Approximately 99 percent of IFA's funding comes in the form of allocations of government funding through these parent agencies. The remainder comes from regional partners (sub-national IP entities) to support their participation in prospect-development events arranged by IFA.

For 2009, IFA's budget was approximately €22.2 Million ($31.8 Million); €200,000 of this comes from transfers from regional partners. For 2010, an additional €5 million has been added to the agency's budget for a new communications campaign. IFA's budget breaks down as follows:

- 70 percent for human resources
- 20 percent for operation costs
- 10 percent for communication (with this share increasing in 2010 to reflect the new campaign)

Staff wise, in 2007 IFA had 60 employees at their central Paris office and 79 staff distributed across 21 foreign offices. Among these, most are stand alone offices with multiple staff, though a few are housed within embassies, consulates and/or commercial service posts. In 2008, IFA's combined worldwide staff grew to 160. Of these 21 foreign offices, 7 are located in Europe (Benelux, Germany, Italy, Russia, Scandinavia, Spain, and United Kingdom), 7 in Asia (China, India, Japan, Korea, Singapore, and Taiwan), 2 in the Middle East (Israel and United Arab Emirates) and 5 in North America.

Invest in France staff provide the following services:

- Investment facilitation through every step of the process of opening operations in France. This support includes information about legal regulations, analysis of eligibility for public financial support, & connections with local authorities and industry clusters.
- Site selection
- Ombudsman assistance
- After-care to investor companies

Spain

Invest in Spain was created in 2005 as an independent agency housed within the Ministry of Industry, Tourism, and Trade to enable the public sector to provide a better response to the challenges posed by the growing integration of international markets and the resulting increase in competition to attract the best investment projects. Invest in Spain's budget for 2008 was €7.55M ($10.8M). In 2008, €7.2M ($10.3M), or 95 percent of the agency's total budget, was supplied from transfers from the General State Budget. The remaining 5 percent, or €350,000 ($500,000), came from income generated through sponsorship and agreements.

Invest in Spain has 43 designated staff in its domestic HQ in Madrid, its only direct office, and draws on a network of investment officers working in Economic and Commercial Offices in Spanish Embassies across the world. In addition, the agency contracts for representation directly with in-country investment and site selection consultancies in eleven target countries: Canada, the United States, Mexico, Brazil, France, Germany, the United Kingdom, the Netherlands, Sweden, Japan and India. With these two networks combined, the total representation of Invest in Spain spans 95 offices worldwide.

The agency provides investment facilitation services at no charge directly to prospective businesses, as well as delivering after-care to existing foreign investors to maintain their presence and encourage reinvestment. In addition, Invest in Spain works with other entities which attract investment at the regional and local level to establish channels for cooperation.

Specific functions performed include:

- Promoting Spain as a destination for investment and providing information on doing business in the country
- Lead generation
- Connecting potential investors to relevant business networks, chambers and other private service providers
- Providing technical support in the form of partner and location searches and talent recruitment

Brazil

Apex-Brasil is Brazil's trade and investment promotion agency. It took its current form in 2003, becoming an autonomous public agency under the Ministry of Development, Industry, and Foreign Trade to further promote and coordinate trade and FDI.

For 2010, the total budget for Apex-Brasil as a whole will be R$286 Million ($160.9 Million). According to figures released in 2008, inward investment promotion was allocated R$50M ($28.1M) from within the total Apex-Brasil budget.

This was aimed at supporting 29 planned events to be performed in 13 target countries, along with the provision of an estimated 226 actions of business intelligence, such as sector studies, market studies, and investment opportunity studies.[7] According to conversations with Apex-Brasil investment staff, this number was later adjusted downwards an undisclosed amount to reflect the onset of global recession.

Apex-Brasil employs 300 people across both its trade and investment promotion (IP) departments. The IP department has 17 dedicated employees in the headquarters in Brasilia, and shares staff members in Apex-Brasil's offices in Havana, Miami, Moscow, Brussels, Beijing, Warsaw, and Dubai, merging both trade and investment promotion functions from these locations. In addition, Apex-Brasil has liaisons in Brazilian embassies in other locations abroad.

In terms of services, Apex-Brasil:

- Performs lead generation in target sectors, focusing on "companies and projects that offer technological innovations and new business models, strengthen industrial supply chains, have a direct impact on national job creation and improve the volume and diversity of Brazilian exports."[8]
- Provides investment facilitation and assistance with doing busienss in Brazil.
- Acts as a liaison between prospective investors and key local and regulatory bodies.

As part of Apex-Brasil's strategy to ramp up inward-FDI, in 2009 the agency initiated a partnership with the World Bank Group to deliver training and technical assistance to improve the capacity of the Brazilian States to attract investment. In this arena, Apex-Brasil's focus is to decrease the fragmentation among the range Federal and State entities working to attract investment, with the long-term goal of facilitating a more integrated approach to FDI attraction.

The Netherlands

The national inward investment promotion entity for the Netherlands is an operational unit of the Dutch Ministry of Economic Affairs called Netherlands Foreign Investment Agency (NFIA). NFIA works directly with businesses to attract new locations and facilitate expansion projects. Funding for NFIA flows through the Ministry of Economic Affairs; currently the annual budget is €11.5 Million ($16.5 Million). According to agency officials, NFIA plans to use these funds in 2010 to attract projects worth €500 Million ($718.6 Million) in FDI and create 2,500 new direct jobs.

NFIA has one national office, its headquarters in The Hague. In addition, NFIA has 19 local offices spread among the United Kingdom, Turkey, the United Arab Emirates, the United States, Japan, Korea, China, Taiwan, India, Singapore and Malaysia. NFIA directly employs 100 people worldwide, including 30 in The Hague. Beyond these direct staff, the agency partners with embassies, consulates and other entities that represent the Dutch government abroad to deliver its services and message. NFIA also maintains a broad network of domestic partners, including municipalities, provinces, regional development agencies, ports and airports, research centers, and technical institutions.

The agency provides the following assistance to prospective investors at no cost:

- Promoting the advantages of the Dutch business environment, particularly as a launch pad for Europe
- Guidance on doing business in the Netherlands, including labor issues, permitting, tax structures and available incentives
- Site selection and match-making assistance
- Work to enhance the investment policy environment

As organizational priorities set forth by the parent agency in 2006,[9] NFIA has broadened their services to:

- Include a stronger focus on encouraging expansions from existing foreign companies.
- Gaining knowledge-based activities, such as R&D.
- Establishing additional offices in emerging market countries, such as India and China.

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[7] Press Release, December 18, 2008. *Apex-Brasil increases resources provided to investment and exports promotion in 2009.* source: *http://www.apexbrasil.com.br/portal_apex/publicacao/engine.wsp?tmp.area=149&tmp.texto=4965.*

[8] ApexBrasil: Brasilian Trade and Investment Promotion Agency, 2009, *Who We Are,* p.2.

[9] Finnish Ministry of Economic Affairs, August 2006, *Action for Acquisition,* p. 3–4.

Canada

The Invest in Canada Bureau is one of the three initiatives inside the Department of Foreign Affairs and International Trade (DFAIT). Its current incarnation dates back to 1998, when it was created to attract FDI to Canada. Invest in Canada now meets this goal by undertaking four main functions: working to improve the investment climate, marketing Canada as an investment location of choice, offering services to foreign investors and coordinating aftercare functions once companies have made an investment.

The total planned budget for DFAIT in 2009–2010 is $214.6 Million CAD ($201.8 USD), with the largest portion ($161.3M CAD/$151.7USD) going toward operating Canada's international platforms. $4.5M CAD ($4.2M USD) of the DFAIT budget is dedicated to programming for the Invest in Canada program; staffing and administration expenditures are not included in this figure, but are integrated within DFAIT's annual budget.

At its headquarters, Invest in Canada has 51 employees working in investment promotion. DFAIT has 13 regional offices throughout the Nation and abroad, it has missions and posts totaling 156, with 50 offices located in the Americans, 42 in Asia and Oceania, 34 in Europe, 15 in the Middle East and North Africa, and 15 offices in Sub-Saharan Africa. These offices outside of Ottawa provide a range of DFAIT functions including the delivery of the investment promotion program in the field.

It should be noted that the Invest in Canada Bureau also works with provincial/territorial governments and municipalities in foreign investment attraction efforts. For example, it awards funding to Canadian communities of up to 50 percent of the costs of improving their investment attraction activities.

Finland

Invest in Finland was founded in 1992 as an independent agency housed within the Ministry of Employment and the Economy (MEE), which provides its funding. Invest in Finland has an annual budget of €3.1M ($4.44M).

Invest in Finland employs 18 people at its headquarters in Helsinki, its only office in the nation. The agency also has an independent office in Sweden and shared offices with the Finnish Export Association in four other target countries. In addition, Invest in Finland works in partnership with entities in more than 50 countries, including consultancies, chambers of commerce, and economic development organizations, to gather information, generate leads and serve potential investors. Invest in Finland draws on international business development professionals with experience in target industry sectors to serve as in-country consultants.

Service-wise, Invest in Finland:

- Performs match-making services, linking investors with Finnish research universities and institutions, with a target of attracting companies interested in R&D activities.
- Provides investment facilitation to business free of charge. These services cover every stage of setting up a business in Finland, ranging from initial data collection and opportunity analysis to networking and the actual business launch.
- Assists with partner search to support inward Mergers & Acquisitions. According to the European Council of American Chambers of Commerce, "This covers the whole process of identifying possible businesses and delivering background information, to organizing meetings and giving advice on a wide range of practical issues."[10]

[10] *http://www.european-american-business.com/2009/1_37.php.*

Summary Overview—National IPA Budget Comparisons

Investment Promotion Agency	Annual Operating Budget
UK Trade & Investment	$25 Million for programming $27.9 Million for matching grants
IDA Ireland	$266.7 Million total: $65.9 Million for building costs $53 Million for administration $15.7 Million for programming $12.9 Million in grant assistance
Invest in France	$36.8 Million
Invest in Spain	$10.8 Million
Apex-Brasil - IP Dept	$28.1 Million for programming
Netherlands Foreign Investment Agency	$16.5 Million
Invest in Canada	$4.2 Million for programming Does not include staffing and administration
Invest in Finland	$4.44 Million
Invest in America	<$1 Million

Conclusions/Further Recommendations

As illustrated by the organizational summaries above, the developed countries which capture the lion's share of inward FDI invest strongly in their IPAs, making the Invest in America (IIA) office underfunded in comparison to its peers. With additional funding, IIA would be able to better supplement and complement the efforts of State and sub-State entities, especially in the form of matching grants in the face of public sector budget constraints and travel freezes. With additional staff and leverageable funding, IIA is well placed to attract foreign investment in high-growth sectors which will ultimately spin off into increased productivity and sustainable jobs at a time when the United States urgently needs to stimulate growth in the industries of the future. Drawing on the various models presented above, combined with an understanding of the unique political and structural environment in which Invest in America operates, I recommend that the Committee consider $100 million in additional funding to IIA, $50 million of which would serve as matching grants to support State and sub-State efforts. The remaining $50 million would do well to expand Invest in America operations by funding dedicated inward investment promotion officers in major foreign markets, expanding in-country investor outreach efforts particularly via cultivating relationships with significant investors, providing expanded ombudsman services to potential investors, and establishing a dedicated after-care team to work with existing priority investors to maintain and expand their presence in the United States.

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