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AVOIDING ANOTHER LOST DECADE: HOW TO PROMOTE JOB CREATION

HEARING

BEFORE THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

ONE HUNDRED ELEVENTH CONGRESS

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AVOIDING ANOTHER LOST DECADE: HOW TO PROMOTE JOB CREATION

WEDNESDAY, MAY 5, 2010

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The committee met, pursuant to call, at 1:00 p.m., in Room 210, Cannon House Office Building, The Honorable Carolyn B. Maloney (Chair) presiding.

Representatives present: Maloney, Hinchey, Cummings, Snyder, Brady, and Burgess.

Senators present: Casey.

Staff present: Andrea Camp, Gail Cohen, Colleen Healy, Jessica Knowles, Lydia Mashburn, and Robert O'Quinn.

OPENING STATEMENT OF THE HONORABLE CAROLYN B. MALONEY, CHAIR, A U.S. REPRESENTATIVE FROM NEW YORK

Chair Maloney. I believe meetings should start on time. I am going to start this meeting even though my colleagues on both sides of the aisle are on their way here.

Today's hearing is aptly called "Avoiding Another Lost Decade: How to Promote Job Creation." From February 2001 to February 2009, our economy gained a mere 293,000 jobs. As we are facing the greatest post-war economic crisis, we need to take another look at history. In contrast to the Bush Administration, during the Clinton Administration 22.5 million jobs were created, an average of 234,000 jobs per month.

But even with the stellar Clinton job creation record, it would take 3 years for us to recreate the 8.4 million jobs lost during this recession. And that doesn't even factor in the additional 2.5 million jobs that were needed during the recession just to keep up with population growth. In other words, we are about 11 million jobs in the hole.

The great recession has taken a tremendous toll on our economy and families across the country who are struggling to find work and make ends meet. Without the swift, effective response from policymakers, the great recession could have been another Great Depression.

Signed into law less than a month after President Obama took office, the Recovery Act helped soften the blow of the recession and returned the economy to growth in the second half of 2009. It provided a tax cut to 95 percent of American families, extended unemployment benefits, expanded credit to small businesses, and pro-

vided a first-time home-buyers tax credit to help families purchase a home.

The Recovery Act has been followed by other congressional actions to create jobs, including the Worker, Homeownership, and Business Assistance Act, which expanded the first-time home-buyers tax credit and enhanced small business tax relief, and the HIRE act, which provides tax incentives for businesses that hire out-of-work Americans. These actions are working.

Under the current Administration, the employment report has shown steady improvement, with 162,000 jobs created in March, with three-fourths of these new jobs coming from the private sector. Manufacturing employment has been up for 3 straight months. On Friday, the JEC will hold its monthly hearing with the Bureau of Labor Statistics Commissioner to discuss the April employment data. I am optimistic that Friday's employment report will show another month of robust job creation, but we need to remain focused on job creation.

Part of the solution will be to look back to the Clinton Administration and see what fueled job creation during the 1990s. We need to recapture the spirit of innovation that fueled the economy for those 8 years.

Another part of the solution will be to look at the last decade and not repeat the same mistakes. When we came out of the 2001 recession, job creation did not return to pre-recession levels. We can't afford to repeat the mistakes of the last decade and rely on asset bubbles to fuel job creation. We are still dealing with the aftermath of the housing bubble bursting.

But just as we fail to regain the job creation momentum after the last recession, we have also squandered a record budget surplus, leaving us with fewer options to address future challenges.

Part of the path forward is continuing to invest in programs and policies that work. Yesterday, as part of the effort to create a wide net and look for innovative but effective approaches, the House Democratic leadership held an economic summit. At that summit, Professor Alan Blinder from Princeton said, "I think the challenge for the Congress now is to devise budget packages that are efficient in terms of job creation, relative to any deficit increases that they cost. It is not easy."

In an effort to look for efficient solutions to the job crisis, the House of Representatives recently passed the Disaster Relief and Summer Jobs Act of 2010, which supports an additional 300,000 summer jobs for young workers—summer jobs that are particularly needed in this weak economy.

But we also need to take some chances and be willing to place some bets. We should target those sectors that offer the best prospects for growth. We should recommit ourselves as a country to basic research that pays dividends well into the future in new industries and new jobs.

It is clear that the private sector will drive the next expansion, but it is also clear that government needs to be an engaged partner, helping to build skills, to shine a spot light on new sectors and opportunities, and to fund research that can lead to the industries and jobs of tomorrow.

We are very fortunate today to have Dr. Alan Krueger before us to discuss job creation. Dr. Krueger served as Chief Economist of the Department of Labor during the Clinton Administration and is an editor of and contributor to the book, "The Roaring '90s: Can Full Employment Be Sustained?" We look forward to his testimony.

I welcome my colleague, Mr. Snyder, for any opening statement he may have.

Representative Snyder. I am glad to be here.

Chair Maloney. And our Republican colleagues have not come yet.

Are they on their way?

They are on their way.

So I am going to introduce Dr. Krueger and then yield back to my Republican colleagues when they come.

Dr. Alan Krueger is the Assistant Secretary for Economic Policy and the Chief Economist at the Department of the Treasury. On leave from Princeton University, where he has taught since 1987, Dr. Krueger is published widely on a broad range of topics, including the economics of education, unemployment, income distribution, and even what makes people happy. In his other published work, Dr. Krueger showed that increases in the minimum wage do not lead to increases in unemployment. Dr. Krueger is one of the world's leading labor economists, and we look forward to his testimony this afternoon.

So I recognize Dr. Krueger for as much time as he would like to use to express his thoughts today.

Thank you for being here.

[The prepared statement of Representative Maloney appears in the Submissions for the Record on page 22.]

STATEMENT OF HON. ALAN B. KRUEGER, ASSISTANT SECRETARY FOR ECONOMIC POLICY AND CHIEF ECONOMIST, U.S. DEPARTMENT OF THE TREASURY

Dr. Krueger. Thank you very much, Chair Maloney.

Thank you, Congressman Snyder, for coming. I appreciate that you mentioned the book, "The Roaring '90s," that is a book I co-edited with Bob Solow.

Chair Maloney. Can you speak up? Is your mike on?

Dr. Krueger. It is on.

Chair Maloney. Maybe pull it closer to you.

Dr. Krueger. That is a book that I edited with Bob Solow and I have to say, we reached a rather optimistic conclusion that the set of policies that did help produce the strong job growth in the 1990s could be replicated and extended. We saw that evaporate in the 2000s.

What I am going to do in my remarks, which is elaborated in the prepared testimony, is to describe what seems to me to have gone wrong in the 2000s in terms of job growth. I reach a somewhat optimistic conclusion that, as we found in that book "The Roaring '90s," with the right set of economic policies, it is possible to see jobs growing again and to see the U.S. economy producing enough jobs for its expanding population.

The failure of job growth in the 2000s was not inevitable. As Chair Maloney mentioned, we are meeting at a time when the U.S.

labor market is beginning to show signs of improvement after moving through the worst downturn since, by some measures, the early 1980s and, by others, all the way back to the Great Depression. The unemployment rate is currently 9.7 percent, down from a high of 10.1 percent last October. This is an improvement, but the number of people who want jobs but can't find them is still unacceptably high.

The economy gained an average of 54,000 jobs per month in the first quarter of 2010, a vast improvement over the 750,000 jobs lost per month in the first quarter of 2009. Yet even with these recent gains, 8.2 million jobs have been lost since the start of the recession in December 2007. A look at the jobs picture in the past decade, even before this recession hit, indicates that job market performance in the U.S. was poor relative to the 1990s across a number of measures. In other words, while the recession has taken a terrible toll on American workers, the job market during the first 8 years of the 2000s before the recession was already underperforming.

If you look over an even longer stretch of history, as the first figure in my testimony shows, that despite occasional recessionary periods, the U.S. job market has steadily increased employment to accommodate our growing population. That trend came to a halt in the past decade.

During the 1990s, the economy gained 22 million payroll jobs. By contrast, from December 1999 to December 2009, the economy lost almost 1 million jobs and nearly 3 million private-sector jobs. With no net job gains in more than 10 years, it is no wonder that many analysts are calling this period the lost decade.

And I want to emphasize that the jobs picture in the 2000s is weak, even if we exclude the losses that occurred during the recession. Over the first 8 years of the 1990s, the economy gained almost 16 million jobs. During the first 8 years of the 2000s, however, payroll employment rose by somewhat less than half of that, just 7.5 million jobs.

The lackluster job market performance is also evident in the employment-to-population ratio, which is the fraction of the working-age population that is employed. This ratio rose by 1.3 percentage points in the 1990s and reached a record high in April of 2000. In contrast, during the most recent decade, the ratio fell nearly 5 percentage points and is now at a level that was last seen after the 1982 recession. And even before the most recent recession, the share of the population that was employed fell for both men and for women.

After looking at this poor performance, I asked myself why? Did we get it wrong in this book, "The Roaring '90s," or was the poor performance the result of changes in policy? Was it something inevitable due to technological change or globalization or perhaps demographics?

One way to get a sense of whether this very weak trend, this disturbing trend in job growth in the 2000s was something that the U.S. was destined for is to look at other countries that have economies that are in some respect similar to the U.S. In particular, and my written testimony documents this, if we look at Canada, the UK, or the rest of Europe, we see a very different picture.

Canada and Europe had nearly a 3 percentage point increase in the share of their populations that were working from 1999 to 2007, while the U.S. saw a decrease of over 1 percentage point. This suggests to me that the poor U.S. labor market performance was not inevitable. Countries, such as Canada and the UK, were subject to the same international trends, had access to the same technological advances, and faced similar demographic shifts as the U.S., yet they managed to produce significant job growth of the 2000s, as the U.S. lost jobs.

One point that I would highlight is that the U.S. has also lost its leadership in education. The U.S., if you look at older workers in the U.S., people 55 and over, the U.S. is number 1 in the world in average educational attainment and in the share of the population with a college degree. If we look at those 25 to 34 years old, we are not in the top 10 of the OECD. And if we look at high school graduation, excluding GEDs, we are in the bottom of the OECD.

One of the advantages that the U.S. has had is that we were the first to have universal high school. We led the word world in the human capital of our workforce. And we have lost that advantage, and I think that that has contributed to our poor performance in the 2000s.

The dominant feature, of course, in the jobs picture in the U.S. in the last decade was a sharp, sharp job loss during the financial crisis. Fully 4.2 million private-sector jobs were lost in the 6 months after the fall of Lehman Brothers in September 2008. This pace of job loss exceeded what one would have predicted, even from the sharp concurrent contraction in GDP by about 25 percent. Most likely, the panic that took hold of the financial markets spread to employers and other sectors, causing them to react more than normally to a contraction in demand for the goods and services by shedding workers.

To better understand the dramatic loss in employment that we experienced in recent years, I have analyzed for this hearing unpublished research data from the Bureau of Labor Statistics. BLS prepared for me information from the job openings and labor turnover survey, better known as JOLTS, broken down by establishment size. I appreciate the effort that the BLS put into computing and double and triple checking these statistics for me. These data reveal that the experiences of small establishments in the wake of the financial crisis were notably different from that of larger establishments.

In the months immediately following the crisis, small establishments responded by quickly laying off a large number of workers and closing down. While mid-size and large establishments responded by sharply cutting back on hiring. Larger establishments also increased layoffs moderately, but the increase was not as large as that seen by smaller establishments. This pattern is consistent with small companies having difficulties accessing credit to maintain employment when demand for their products collapsed in late 2008. While larger companies eventually had access to corporate debt markets that would turn to function, small businesses are more dependent on bank financing, which remains tight.

The Administration's small business proposals, including the proposals to create a $30 billion small business lending fund and raise

the cap on Small Business Administration 7(a) loans to $5 million, therefore, come at a particularly opportune time.

The unpublished JOLTS data further highlight that the improvement in the labor market to date has been unevenly distributed across different sized establishments. Labor demand has trended up at large private-sector establishments since February 2008. Indeed, large establishments started increasing employment 8 months ago, beginning in September 2009, a possible sign of durable job growth.

Labor demand by smaller establishments, however, has continued to be weak, with low rates of new hires in particular. The challenges faced by small businesses remain a significant concern to the Administration, particularly in light of the fact that small businesses disproportionately hire minority and less skilled workers.

In summary, the past decade could be characterized as a low pressure labor market, punctuated by a deep recession at the decade's end. The consequences of a low pressure labor market are obvious: job growth that is not strong enough to accommodate a growing labor force results in higher unemployment. Unemployment carries severe personal and social costs and can also reduce future economic performance as out-of-work individuals see their skills atrophy and their attachment to the labor market erode. A chronically weak labor market has also been found to raise income inequality and increase poverty.

For all these reasons and more, the Administration is committed to working with Congress to enact policies to promote sustainable job growth. These policies are focused on both the short run and the longer run. Short-run policies include such things as creating a small business lending fund to improve credit to small businesses, as I mentioned; summer jobs, as Chair Maloney mentioned; aid for State and local governments; and an increase or an extension of unemployment insurance benefits. Long-run policies include investments in education, innovation, and infrastructure.

With that, I am happy to take any questions you might have.

[The prepared statement of Dr. Alan B. Krueger appears in the Submissions for the Record on page 24.]

Chair Maloney. Well, thank you so much, and this is certainly, I would say, a top priority on both sides of the aisle, coming up with ideas of ways that we can help our recovering economy hire more people.

And I am interested in your comments on the disparity between hiring among large and small companies. You noted that the labor demand has picked up significantly for larger companies, with large establishments increasing employment in 5 of the last 6 months, but at smaller companies, demand for labor remains very low. And part of that weak demand for new hiring reflects the reality that small businesses are more dependent on bank lending, which is still very tight and which may be limiting their growth.

You mention that the President, in his State of the Union, talked about the $30 billion TARP money loan program. Could you comment on where that stands at this point? And also, what impact do you believe the Administration's proposal to raise the cap on Small Business Administration 7(a) loans to $5 million could have on small business hiring?

Dr. Krueger. I think the diagnosis is right, that the sector or the segment of employers that are lagging most behind now in hiring is small businesses. I think that that is a common pattern after recessions that are caused by financial crises. Our data are not all that great in looking historically, and fortunately, we don't have all that many financial panics to look at. However, normally it appears that when we have a recession that is not caused by a financial panic, small businesses are a moderating force. They tend to pick up earlier and to contribute less to job losses on the way down. That was the case in the recession in the early 2000s and then the recovery.

In the current climate, however, it seems to be the reverse, and larger companies, which as I mentioned, have more access to credit markets because they have access to corporate bond markets, do tend to be expanding more.

So that suggests to me that one avenue is to work directly on improving credit markets. And quite a bit of effort has been put into trying to stabilize credit markets, as you know, trying to strengthen banks to have them raise capital where they are in a position where they can lend.

And the Administration's proposal to take funds from TARP, to separate it from the TARP program, because TARP has a stigma attached to it and the banks that would be the vehicle for doing the small business lending weren't necessarily the source of the financial problems that we face; to take these funds, invest them in viable banks, invest the capital in these banks at an interest rate of, say, 5 percent. If the banks increase their lending to small businesses, lower the interest rate. That gives them a strong powerful incentive to increase their lending. And we have been working intently with the congressional leadership to try to move this proposal forward.

On the 7(a) loans, the cap of a million dollars prevents in particular startups in certain segments for small businesses. For example, many franchises would require more than a million dollars for startup. And franchise companies tend to be fairly stable businesses and fairly stable employers. So raising the cap to $5 million I think will open up kind of a new segment for SBA lobes with potential beneficial consequences for job growth.

Chair Maloney. Well, assuming we can get this legislation through, lift the cap, and have targeted money through Treasury and TARP for small businesses, how quickly could we expect increased capital to flow through to hiring?

Dr. Krueger. Well, I think some of it is a matter of confidence on the part of the employers. I think some of it is that there is considerable amount of damage that was caused by the recession and a lot of uncertainty remains. If the dynamic changes to one in which companies are expecting to see demand increase, which they are seeing, if they are expecting the recovery to continue, and if public policy can reinforce those expectations, it is entirely possible that we can see a continuation of the improvement that we have seen in terms of job growth; although I have to say that the normal pattern after a recession is that unemployment declines painfully slowly. Job matching takes time in the job market, and unfortu-

nately, the historical pattern is that unemployment declines very slowly after a recession.

Chair Maloney. My time is up.

Mr. Burgess is recognized.

Representative Burgess. I thank the Chairwoman for the recognition.

Just a couple of thoughts on some of the data that you have presented to us. You know, there is a pervasive sense that I get when I go home and talk to, particularly, the small- and medium-size employer that they are really not so much interested in another Federal program being created to help them. In fact, if anything, they say, spare us from another Federal program to help us; what we need is for you to stop doing the programs that you have been working on for the last 14 months, specifically in that vein would be health care, cap and trade, and now the financial regulatory bill, all of which has had a fairly toxic effect on the environment in which small business exists.

And I particularly heard from small employers after the passage of the health care bill, during the Easter recess, where individuals who employed folks—I would call them entry level jobs. They tend to pay just a little bit over the minimum wage. They typically do not have a lot of benefits associated therewith. And these folks were looking at the bill that we had just passed—it had just been signed into law in fact by the President—and say, according to our study of this, it is going to cost us if these individuals, because the benefits are low at these entry level jobs, if these individuals seek help for their health care through the exchange, we will be fined a significant amount of money for each one. So what that is telling us is, between now and 2014, to get rid of as many of these jobs as we possibly can. The message we are receiving loud and clear from you, Congressman, is, don't hire right now, because we are going to punish you if you do.

Can you tell us anything to perhaps at least address that notion, and of course we haven't even touched the expiration of the 2001 tax policy, which is also very heavily on people's minds as well? So can you help us with at least, from the direction of the administration—I know the direction of the Democratic leadership here in Congress—but from the direction of the administration from the Treasury Department, can you help us with the direction on what you are doing to at least to allay and ameliorate the fears that small- and medium-size businesses have right now?

Dr. Krueger. Thank for the question.

I agree that a number of small businesses are concerned about health care costs. In fact, when they list their concerns in surveys, they often list health care costs and weak sales as among their top concerns.

I think the health care bill that passed the Congress and the President signed into law will help to lower health care costs for many small businesses. Right away, they are going to be eligible for tax credits for providing health insurance.

Representative Burgess. If I could, because my time is limited. I don't mean to interrupt, but just on that point, what I hear back from my small businesses, they say, this tax credit is fairly confusing. It is time limited. And realistically, the 6 million small busi-

nesses it was supposed to help, in all likelihood, according to the National Federation of Independent Business, is likely to provide help to less than 4 million businesses. And there is also concern because of the nature of the way that benefit or that tax credit is written that it will decay over time. So it is not seen as a solid backstop that the small businessman is looking for. They are looking at a fairly hostile environment, and they are looking for some sure footing. And I don't think that tax credit, in all candor, I don't think that provided it.

Dr. Krueger. Well, I think their experience might be different from that. I think what they may find after the tax credit is made available, that it does provide relief to the small businesses that are already providing health insurance and for those who would like to but can't afford it. And my memory is that credit actually becomes more generous after 4 years, not less generous, although that is something I can certainly double-check.

I think that small businesses will also find that they will benefit from being able to participate in exchanges, because right now, in the small group market, they are paying very high administrative costs. So I think that when the health care bill is implemented, they may find that some of their concerns in fact were not well justified by what actually took place.

Representative Burgess. But the sense now——

Dr. Krueger. You also ask about tax policy, and let me also mention, of course, the President has supported extending the middle class tax cuts from 2001, 2003, for those earning below $250,000; that is the vast majority of small businesses. So the vast majority of small businesses in fact will continue to get a tax cut from the Administration's policy.

Representative Burgess [continuing]. Unless their gross receipts are over $250,000.

Let me just ask you a question. And of course, congratulations on the 1-year anniversary of your confirmation tomorrow. That is a milestone I am sure you are aware of.

Dr. Krueger. I am now.

Representative Burgess. In reading through your resume, and it is an impressive resume, but can you just give us a sense of the private-sector experience you had prior to coming to this position?

Dr. Krueger. Oh, certainly. For 20 years, I worked in the private sector, Princeton University. I also have been in small business, also involved in writing textbook, so that is my most recent private-sector experience.

Representative Burgess. Would you care to elaborate what the small business was?

Chair Maloney. The gentleman's time has expired. The gentleman may answer his question, and then we need to move on.

Dr. Krueger. My small business involved consulting, writing, and similar types of activities.

Representative Burgess. Thank you.

Chair Maloney. Congressman Snyder.

Representative Snyder. Thank you, Madam Chair.

And thank you, Dr. Krueger, for being here.

I will continue a little bit on this discussion about health care because I think it is important. I think it is part of our job to, in the words of Dr. Burgess, ameliorate anxiety.

One of the anxieties I have heard for nearly decades now from folks back home that our current health care system, and this is more a question to a labor economist, the efficiency that comes from people feeling like they are trapped in a current job because of health insurance; and it seems like it mostly happens with family businesses, and sons and fathers and moms and daughters that probably should have parted the company some years before find themselves staying at the same work site because of somebody developing a preexisting condition. They are apprehensive about moving on. What is your comment about how you see the impact of this bill may help the efficiency, the economic efficiency of our country by people being able to move around with more flexibility?

Dr. Krueger. I think your point is exactly right. I think that job lock, the term that we use, is a potential concern for the job market. Employees, particularly if they have a preexisting condition or if they have a family member with a preexisting condition, may be reluctant to change jobs for fear of losing their health insurance coverage. Others who are workers may have a concern about starting a small business because they would have difficulty getting health insurance coverage.

My father was a small businessman and he was fortunate that, when he started his company, he was covered by my mother's health insurance. So I know that is an issue for lots of people and the health care bill can help to ameliorate that.

Representative Snyder. And those are people that we currently count as being taken care of under our current system. If you talked to them, your term job lock, they would actually feel like their economic prospects are limited, even though we would count them as currently a success.

Dr. Krueger. That is correct. To the extent that job lock prevents people from moving to positions where they are more productive, that is inefficient for the economy. We have seen kind of a decline in labor turnover and movement across companies which might be indeed related.

Representative Snyder. I have a couple of quick points I just want to leave with you before I ask another question. One of them is, I never pass up an opportunity when somebody from the Administration comes here to say, if you want to immediately do something about exports and about job creation, do something about Cuban trade policy. I come from a State where some studies have shown Arkansas would benefit the most from making it easier to trade, particularly agricultural products, with Cuba, and for a lot of us, it just doesn't make sense to have the restrictions on trade with Cuba that we do.

The second point I want to make and, again, perhaps you want to get back to us on this, but I have had some discussions the last week or so, I am sure other members have, too, about the issue of nursing. And here we have something, there are a lot of jobs out there for nurses right now. It is anticipated those needs are not going to go away because of my generation, us aging Baby Boomers. The health care will continue to go up and up. But we

have a real problem with inadequate numbers of faculty in nursing programs, specifically the Ph.D. type level of training to be a faculty member in a nursing program, because a lot of nursing programs don't pay faculty well enough to make it worthwhile for them to stay in a teaching position. They get lured away to other places of work.

And consequently, you have nursing programs that would be willing to take substantially more students in order to meet the needs of nurses out there in employment, but we don't have adequate faculty. Maybe it has been going on for enough years now, that maybe there would be a need for a Federal look at that as a challenge; what can we do to encourage more folks to stay in a nursing faculty profession?

I want to ask, yesterday or a couple days ago, I was at a company in Little Rock, a company from India that makes the big pipe that would transport natural gas and oil throughout the country. This is their 1 year anniversary, about 1 year in Little Rock; tens of millions of dollars in investment. They are now seeing an expansion. What role does international investment in the United States play in job creation?

Dr. Krueger. I think it plays a very important role. To your point about exports more generally, I think that exports are going to play an important role going forward in job creation. If you look at the components of GDP and where is growth going to come from, exports are a very likely source. Foreign direct investment in the U.S. is also an important source of job growth and there are studies about quality of employment for those who work for foreign companies in the U.S., which also tends to be high.

Representative Snyder. Thank you.

Thank you, Madam Chair.

Chair Maloney. Congressman Brady.

Representative Brady. Thank you, Madam Chair.

Since I was late, I would like to place my entire written opening statement in the record if I may.

Chair Maloney. Yes.

OPENING STATEMENT OF THE HONORABLE KEVIN BRADY, A U.S. REPRESENTATIVE FROM TEXAS

Representative Brady. Thanks for being here today, Dr. Krueger.

After reading your written statement, I was surprised that as Treasury's chief economist, you didn't mention the stimulus bill or assess its effect on employment in your written statement. I wonder if it is because the stimulus law has failed on so many accounts to deliver the employment growth that President Obama and congressional Democrats promised.

The Administration predicted if Congress enacted a stimulus plan, the unemployment rate would not exceed 8 percent. We know where that is today, 9.7 percent. They predicted payroll employment would increase to 137.6 million by the end of this year; it won't come anywhere close to that. And the Administration forecast that 90 percent of payroll growth will occur in the private sector. Actually, the only growth has been in the Federal Government sec-

tor. The private sector has lost 3.7 million payroll jobs since the stimulus was enacted.

Secondly, when you make comparisons in your statement between payroll employment growth in the U.S., Canada, and the United Kingdom in the 1990s and the last decade, you say more payroll jobs were created in the United States during the 1990s than the last decade, while the reverse was true in Canada and the UK.

Based on these statistics alone, you jumped to the conclusion, the United States had better economic policy in the 1990s than in the last decade, but that comparison is gamed, because you don't place these statistics in context. It is where both or all three countries started that is the key.

The U.S. economy in December 1999 was near the peak of a multi-business cycle sector boom that began in November of 1982 for a number of reasons: marginal tax rate reductions, deregulation, openness of new customers through trade. It was combined with disinflationary monetary policies that Federal Reserve Chairmen Volcker and Greenspan pursued as well.

And the United States began the last decade, though, with the recession caused by the collapse of dot-com stock bubble and the job destroying 9/11 terrorist attack, that didn't occur in Canada and the UK, and ended the decade with a recession caused by the collapse of the housing bubble. So it is not surprising U.S. growth in the last decade was not as strong in the 1990s.

But the 1990s were not kind to either Canada or the UK so they started at a much lower base. Canada experienced a federal debt crisis and suffered as its resource exports fell after the Asian financial crisis. In the UK, the collapse of the exchange-rate mechanism on Black Wednesday triggered a severe recession. So it is not surprising the British and Canadian job growth was stronger in the last decade. They had nowhere to go but up.

Finally, I find your observations on how the recession affects employment differently in small and large firms interesting. You attributed the difference on credit constraints on bank-dependent small businesses. I think you are partially right. Credit has been too tight.

But I think, from a bigger standpoint in working with our smaller and mid-sized businesses, you would be ignoring other more important factors. That is Washington, D.C. There is an uncertainty created by the policies today; the businesses of all sizes tell me they are delaying critical hiring, investment, and expansion decisions for fear of proposals here in Washington by the White House and Congress regarding costly health care mandates, as Dr. Burgess said, higher energy prices, increased regulations, and now a slew of higher taxes on industry, on capital, international businesses.

I think businesses have good reason to worry for all of those issues, especially the health care mandates, the fact that almost 90 percent of all small businesses will not be eligible for the tax credits in health care. Energy costs are driven up by cap and trade and a slew of new energy taxes, hidden gas taxes on the industry. And of course, the White House has proposed more than $100 billion of penalties on U.S. companies that export and sell abroad. So, as one

owner of a company told me, it is hard enough to predict the market, but trying to predict Congress, too, forget it.

To address that uncertainty, what small- and medium-size businesses tell me is that they need customers. Many of the new customers that they can reach are outside the United States, and other regions are recovering faster than we are. So my question is, to Dr. Snyder's question, why are we not opening up markets for new customers in Colombia, South Korea, and Panama? Why are we not moving more aggressively to counter Asia and the European Union as they cut trade agreements that leave our workers in the dust?

Now Canada and the EU have cut deals with Colombia that have already cut our wheat and soybean and corn sales by half in a year. So we are not just losing customers, losing out on new customers, we actually are losing the ones we have. So why won't the Administration pursue new customers, give us a chance to sell to them?

[The prepared statement of Representative Brady appears in the Submissions for the Record on page 43.]

Chair Maloney. The gentleman's time has expired. You may answer the question.

Dr. Krueger. Sure, there is quite a bit there to discuss. The Recovery Act, I think, is part of the answer, by the way, to the question that the businesses raised to you about customers. The Recovery Act helped to support aggregate demand. Support for the unemployed, for example, has led to more consumer spending in the U.S. economy. That creates jobs and is one of the forces that has helped to put the brakes on this very steep slide that the economy was going through.

I think the Recovery Act is a critical reason why, after four quarters in a row of contraction in the economy, we have now had three quarters in a row of expansion. So the fact that I didn't emphasize the Recovery Act was mainly a result of the fact that I was looking backwards over the past couple of decades.

On the international comparisons, I agree with you that there are many differences going on. You never have perfect controlled experiment when you look across national borders. I would point out, however, that in the beginning of the 1990s, the U.S. also had a recession, not too different than the recession from the early 2000s. They were both, by historical standards, fairly moderate recessions. So I think the starting conditions were fairly similar comparing those two decades.

Representative Brady. The starting conditions of Canada and the UK in 1999, when you begin part of your comparison, you are saying were the same, because they were dramatically——

Dr. Krueger. Oh, no, I am sorry, when you compare the U.S. performance in 1990s versus the 2000s.

If you are making the international comparisons, I would make the argument that the U.S. had a lot of advantages going into the early 2000s compared to Canada and the UK. We had higher productivity and a budget surplus. We were starting with better educated workforces. We had more advanced in some respects adapting information technology, so I think one can make an argument that the U.S. started with many advantages.

Representative Brady. When?

Dr. Krueger. When you look at the 20-year period as a whole, the U.S. didn't perform better.

Representative Brady. I understand. The point is, we were growing from a peak; they were growing from a valley.

Representative Cummings. Thank you very much, Secretary.

I want to go back to something that Mr. Snyder was talking about, and I think we in government, we want to be most effective and efficient in what we do. And it is clear, with adding some 32 million people to the insured rolls, that we are going to need more people, and by the way, with the population becoming older, we are going to need more people in the health care area. In this committee, as we have gotten reports every month about unemployment, we noticed that it seems that the one area that seems to not be losing jobs but adding them is health care.

I am just wondering, what kind of coordination there is in the Administration, when we have got, for example, a historically black college in my district, 5 blocks from my house, where they—it is one of the best—has one of the best nursing schools in the country. They are turning away, for every one person they admit, 5 inner city young people who have done everything right, worked hard, and because of the very things Mr. Snyder talked about, faculty and space, they can't accommodate them. And I am trying to figure out, and what I have been saying to my colleges, I want them to look more at allied health areas and look more at things like nursing and whatever, because that is where the jobs are going to be.

And I am wondering, the President talks about innovation, and I agree with him a million percent; we have got to be innovative. We also have to be effective and efficient. And then we have a large population that have lost their jobs and are not getting them back. They are not coming back. The research is showing that people have learned, a lot of these companies have learned to do more with less. So those jobs aren't coming back.

So I am just wondering, what kind of coordination is there within the Administration to begin to steer some of our folks, both laid-off workers and our young people coming out of school, to say, look, green jobs, health care jobs, we need you in those areas, and how do we get them there? And how do we address, you didn't get a chance to address Mr. Snyder's question, how do we address questions like, turning away our own people, our own kids that have busted their butts and done everything they are supposed to do, and then they get to a point to go to school, and there is no opportunity for them? Talk to me.

Dr. Krueger. I will tell you what I can. You asked about how coordination takes place within the Administration.

Representative Cummings. Yes.

Dr. Krueger. Obviously, the health care workforce is not a mainline Treasury Department issue.

Representative Cummings. I understand that.

Dr. Krueger. Nonetheless, through the interagency task force, I have been involved in discussions about, how do we train enough health care workers for what is an expanding sector and will continue to be an expanding sector, given our demographics. Within the Administration, both health care working groups, which were

headed by Nancy-Ann DeParle, considered issues about health care professionals. And then, within the DPC and the National Economic Council, there are also interagency groups that have looked at the question of where do we get the biggest bang for the buck in terms of education dollars? Where does it have the most immediate return in terms of job creation? I would have to say I agree wholeheartedly that nursing is one profession where we do have demand, where workers can be retrained or the flow of workers can be expanded, because some nursing degrees only require 2 years; others require 4 years. But there are, of course, issues in terms of building up the infrastructure for training that workforce. And I would also add very big regional differences across the country. In some areas, tremendous difficulty with recruiting enough doctors, and perhaps in those areas, nurses can perform——

Representative Cummings. It is not just nurses. It is allied health, all those fields, people who look at your X-rays, take your X-rays, physical therapists, all of them. So I will talk to the folks in the Administration because I really want to see us address that more effectively and efficiently.

Let me ask you this, because I see my time is running out. I know that you wrote a recent paper about the unemployed and life satisfaction and intense sadness. A lot of people don't realize that when a person loses their job, it is more than just losing some money, isn't it?

Dr. Krueger. Chair Maloney mentioned my work on happiness, which I appreciate. This work was more on misery.

We had looked at how people spend their time, how they feel about their lives. And what is striking about unemployment is it doesn't only affect people while they are unemployed; it has a lasting effect. And many of life's events, people are tremendously resilient; they adapt to them. But unemployment seems to last for a very long time period in terms of scarring people's psychological well-being.

And one concern is that with the high rates of unemployment that we have, especially long-term unemployment, that that could have an adverse effect on people going forward in terms of their ability to get jobs in the future because they maybe have become isolated. So I think it is particularly important for the unemployed to make productive uses of their time, to volunteer in their community if they can, to spend time working around their house and their neighborhood, and not to become isolated, which could have an adverse effect down the road.

The field of looking at people's subjective well-being has been advancing very rapidly, and economists tend to be very skeptical about what people's responses are about how happy they are or how sad they are. What I think the research is showing is that people's self-reported well-being measures do seem to be predictive of their future outcomes. And unemployment is one of those life events which has a long-lasting negative effect on well-being, which is why it is so important, as you all know, why it is so important to do what we can to continue the recovery and ensure sustainable job growth.

Representative Cummings. Thank you, Madam Chair.

Chair Maloney. Thank you.

Senator Casey.

Senator Casey. Thank you, Madam Chairwoman.

Dr. Krueger, thank you for your testimony and for your public service.

Just by way of a predicate for a couple of questions, I don't think there is any question right now that we are recovering. The economy is growing, which is a dramatic change from a year ago or less. And I believe the recovery bill is having a very positive impact on the economy. We may not be doing a very good job of talking about those positive impacts, but that is our fault. And at the same time, the unemployment situation is better than it has been, certainly better than a year ago. Job loss is down, and job gains are up, but it is still far too high. We have to acknowledge that figure.

In Pennsylvania, we have a 9 percent unemployment rate, which a lot of big States would prefer to their own rate, but that 9 percent still means 582,000 people out of work.

The question that I want to ask you centers on small business and really three basic words: Access to credit, which is a continuing frustration. I have been hearing about this from the beginning of the recession, but we are still hearing about it today. Something is still not working in terms of the access to credit that small businesses need and are asking for.

I just want to get your thoughts, I guess in two parts, assessing the strategies that have been put in place so far in terms of their success, but secondly, more importantly, what can we do going forward to make sure that we are providing that kind of access to credit, which is going to be the driving force to keeping the unemployment rate a lot lower?

Dr. Krueger. The first requirement was to stabilize the financial system, and that required the financial stability plan, TARP investments in banks, and the stress tests, which were enormously beneficial. I think history will show that they were a turning point in terms of encouraging banks to go out and raise private capital. The banks were far more able to raise private capital than I think many people expected. That was necessary, but it hasn't been sufficient.

Additionally, targeted efforts, particularly for small businesses, I think would be helpful. As I mentioned earlier, raising the cap on SBA 7(a) loans to $5 million will help certain lines of small businesses get started, particularly franchises, which tend to be more stable businesses.

And I would just highlight the President's proposal to take $30 billion from TARP; there is the head room that is available to do that to create a small business lending fund. Use that to take capital and invest it in banks. Lower the interest rate that they pay to the Treasury on those funds if they increase their small business lending. I think that will give them a strong incentive to raise their small business lending.

I have to say I am particularly worried about our start-up companies. The data that I was able to show you in my testimony looked at existing establishments. Another set of problems revolve around start-ups and trying to support new businesses to form, because ultimately, that will be the source of job growth in the future.

Senator Casey. I just want to clarify on the new fund you would create with $30 billion of TARP money; you are talking about using those resources to get to community banks so they can loan to small businesses in their regions?

Dr. Krueger. That is right. In our proposal only banks with below $10 billion in assets would be eligible, and those below a billion dollars in assets would be eligible for a higher share of capital. Our view is that those are the banks in the best position to decide which the best businesses to invest in are. That is their business. That is their specialty, but if we could give them the funds so that they could leverage up to invest in businesses, that that is probably one of the best ways that government can try to increase the flow of credit to small businesses.

Senator Casey. Thank you very much.

Chair Maloney. Thank you, we have been called to a vote, followed by several 5-minute votes.

I am going to call on Mr. Hinchey now.

Representative Hinchey. Thank you very, much Madam Chair.

And thank you, Dr. Krueger.

I am impressed with reading your testimony, and I am sorry I wasn't here to listen to you in your presentation that you made. I am sure there were a number of important things that really need to be dealt with.

Representative Hinchey. One of the ways in which you describe the last period of time that we are dealing with is the lost decade with little net job growth, which, of course, is exactly right.

Part of the problem that we have been facing here is a lot of expenditure of money but no money being extended in ways that are going to stimulate the economy, and have positive impacts on the internal needs here in the country to promote internal growth, generate jobs and to make life better. A lot of the money has been wasted, and it was wasted in providing a concentration of wealth in the hands of the wealthiest 1 percent, and was wasted on spending money in Iraq. That number is getting now close to $1 trillion that has been spent over there, which shouldn't have been spent at all. The focus of our intention really has got to be internally, here in the internal needs of this country. These needs have not really been adequately addressed.

So you may have spoken about this already, but maybe you want to say a little bit more about what really needs to be dealt with. What kind of internal investments we should be making? What are the kinds of things that we should be doing?

The investment program we have, which is called the stimulus bill, has had a positive effect on the economy; it has been creating jobs. But it would seem to me that more is needed; more is needed primarily because so little has been done in the past. Now, we need to begin to catch up with the internal needs of this country.

One of the aspects of the internal needs is an improvement in technology, and one of the most important aspects of technology is energy. Our dependence on fossil fuels is something that really should be changed.

Do you think that we should be focusing attention on alternative energy, focusing attention on ways in which we can generate en-

ergy more effectively, solar, for example, and other ways? Are there things like that that we should be paying attention to and putting funds into?

Dr. Krueger. Thank you very much for raising such a big issue.

I think there are many dimensions of investment that have been neglected in the U.S. I highlighted in my remarks earlier education. The U.S. has lost its lead in education. Ultimately, in the long run, there is no reason why jobs wouldn't be attracted to the place or employers wouldn't be attracted to the place where they get the best value. And the main resource we have in the U.S. is our people.

So, first and foremost, I think, for sustainable job growth, we need to improve the quality of our education and the quantity of our education. Secretary Duncan has pursued a number of different and innovative programs to try to get the most bang for the buck in our education dollars.

One area I would highlight is support for Pell Grants for those going to 2-year colleges, junior colleges, or community colleges, which a lot of research suggests has very high payoff for those who are going through those types of educational programs.

But you mention a number of priorities and I would also add, going forward, given the high rate of unemployment that we have, extending unemployment benefits further. Also the COBRA support, which I think is an unprecedented initiative to try to help the unemployed maintain their health insurance while they are unemployed.

So I think there are many, many areas, and you highlight some of the most important ones.

Representative Hinchey. I very much agree with you, and one of the things that I think that we should be focused on is the energy issue because we are seeing examples of the way in which our dependence on fossil fuels is not only driving up the price, but it is also driving up contamination and tragedies and a whole host of things that we are experiencing. So there are a lot of things that have to be dealt with there.

Your focusing attention on education, of course, is critically important. We have passed in the House of Representatives a significant bill which would provide additional funding, a significant amount of funding for education. That is one of a number of very critically important bills which would have very positive effects on the economic conditions that haven't been dealt with in the Senate.

Do you think that something should be done? What can be done? Is the whole 60 number issue something that has to be dealt with? We are impeded because of the circumstances in the Senate and particularly with education.

What do you think?

Dr. Krueger. Well, my expertise is in economics, not in congressional analysis, so I really don't have something to add on relations with the Senate in terms of passing that bill.

But I do agree with your comments about energy. And I would also add the importance of improving our infrastructure, as the Recovery Act tries to do and as the President has proposed further infrastructure investments. Infrastructure will help put displaced

construction workers back to work now and raise productivity in the future.

So I think there are a number of areas in investment that have been neglected.

Representative Hinchey. Thank you.

Chair Maloney. Thank you so very much, Dr. Krueger. We are very fortunate to have you as our Chief Economist and Assistant Secretary at the Department of the Treasury.

Regretfully, we have been called for a long series of votes, so we are going to have to adjourn. I have additional questions and my colleague on the other side of the aisle, Congressman Brady, has some, and we will be submitting them to you in writing.

Again, thank you for your testimony. We were really very grateful for your testimony today.

The hearing is adjourned.

[Whereupon, at 2:05 p.m., the committee was adjourned.]

SUBMISSIONS FOR THE RECORD

PREPARED STATEMENT OF CAROLYN MALONEY, CHAIR, JOINT ECONOMIC COMMITTEE

Today's hearing is aptly named "Avoiding Another Lost Decade: How to Promote Job Creation."

From February 2001 to February 2009, our economy gained a mere 293,000 jobs.

As we are facing the greatest postwar economic crisis, we need to take a look at history.

In contrast to the last Administration, during the Clinton Administration, 22.5 million jobs were created, an average of 234,000 jobs per month.

But even under the stellar Clinton job creation record, it would take 3 years for us to recreate the 8.4 million jobs lost during this recession.

And that doesn't even factor in the additional two and a half million jobs that were needed during the recession just to keep up with population growth. In other words, we're about 11 million jobs in the hole.

The Great Recession has taken a tremendous toll on our economy and families across the country who are struggling to find work and make ends meet. Without the swift, effective response from policymakers, the Great Recession could have been another Great Depression.

Signed into law less than a month after President Obama took office, the Recovery Act has helped soften the blow of the recession and returned the economy to growth in the second half of 2009. It provided a tax cut to 95 percent of American families, extended unemployment benefits, expanded credit to small businesses, and provided a first-time homebuyers' tax credit to help families purchase a home.

The Recovery Act has been followed by other Congressional actions to create jobs, including:

- The Worker, Homeownership & Business Assistance Act, which expanded the first-time homebuyer tax credit, and enhanced small business tax relief; and
- The HIRE Act, which provides tax incentives for businesses that hire out-of-work Americans.

These actions are working.

Under the current Administration, the employment report has shown steady improvement with:

- 162,000 jobs created in March, with three-fourths of those new jobs coming from the private sector;
- Manufacturing employment up for 3 straight months.

On Friday, the JEC will hold its monthly hearing with the Bureau of Labor Statistics Commissioner to discuss the April employment data. I am optimistic that Friday's employment report will provide another month of robust job creation.

But, we need to remain focused on job creation.

Part of the solution will be to look back to the Clinton Administration and see what fueled job creation during the 1990s. We need to recapture the spirit of innovation that fueled the economy for those 8 years.

Another part of the solution will be to look at the last decade and not repeat the same mistakes.

When we came out of the 2001 recession, job creation did not return to pre-recession levels.

We can't afford to repeat the mistakes of the last decade and rely on asset bubbles to fuel job creation. We are still dealing with the aftermath of the housing bubble bursting.

But just as we failed to regain the job creation momentum after the last recession, we also squandered a record budget surplus, leaving us with fewer options to address future challenges.

Part of the path forward is continuing to invest in programs and policies that work.

Yesterday, as part of the effort to cast a wide net and look for innovative but effective approaches, the House Democratic leadership held an economic summit.

At that summit, my friend Professor Alan Blinder said "I think the challenge for the Congress now is to devise budget packages that are efficient in terms of job creation, relative to any deficit increases that they cost. It is not easy . . . ."

In an effort to look for efficient solutions to the jobs crisis, the House of Representatives recently passed *the Disaster Relief and Summer Jobs Act of 2010*, which supports an additional 300,000 summer jobs for young workers—summer jobs that are particularly needed in this weak economy.

But we also need to take some chances and be willing to place some bets.

We should target those sectors that offer the best prospects for growth.

We should recommit ourselves—as a country—to basic research that pays dividends well into the future—in new industries and new jobs.

It's clear that the private sector will drive the next expansion. But it's also clear that government needs to be an engaged partner, helping to build skills, to shine a spotlight on new sectors and opportunities and to fund research that can lead to the industries and jobs of tomorrow.

We are fortunate to have Dr. Alan Krueger before us today to discuss job creation.

Dr. Krueger served as Chief Economist of the Department of Labor during the Clinton Administration and is an editor and contributor to the book "The Roaring '90s: Can Full Employment Be Sustained."

We look forward to your testimony.

Embargoed until delivery

Written Statement by
Alan B. Krueger
Assistant Secretary for Economic Policy and Chief Economist
U. S. Department of the Treasury
before the
Joint Economic Committee
May 5, 2010

Chair Maloney, Vice Chairman Schumer, Ranking Members Brownback and Brady, and other members of the Committee, thank you for giving me the opportunity to discuss jobs in the United States. We are meeting at a time when the U.S. labor market is beginning to show signs of what I expect will be sustained improvement after moving through the worst downturn since the 1930s by some measures, and since the early 1980s by other measures. The current unemployment rate is 9.7 percent. That is down from a recent high of 10.1 percent last October. This is an improvement, but the rate is still unacceptably high. The economy gained an average of 54,000 jobs per month in the first quarter of 2010, a vast improvement over the 750,000 jobs lost per month in the first quarter of 2009. Yet even with the recent improvement, losses since the start of the recession amount to 8.2 million jobs.

While the collapse in the job market in the wake of the financial crisis has been devastating, job growth in the earlier part of the 2000s was also poor compared to the preceding decade. In my testimony I will focus on two periods: First, I will contrast job growth in the decade of the 1990s with job growth in the 2000s prior to the most recent recession; and second, I will analyze the job losses in the recession that began in December 2007 and the recent stabilization and probable improvement of the job market.

The theme of my remarks is that the U.S. job market is not destined for poor performance because of globalization, technological change, or demographics. Other advanced nations that are subject to these same macro forces have seen stronger job growth than the U.S. in the last decade. I will also elaborate on how the financial crisis affected various segments of the job market, and highlight the lingering effects of the crisis on labor demand, especially among small businesses.

Longer-Term Job Trends Have Not Been Favorable

A look at the jobs picture over the years in the previous decade before the recession indicates that job market performance in the U.S. was poor relative to the 1990s across a number of key metrics. In other words, while the recession has taken a terrible toll on American workers, the job market during the first eight years of the decade of the 2000s—before the recession—was already underperforming.

Table 1 provides several labor market indicators. The number of nonfarm payroll jobs, derived from the monthly establishment survey conducted by the Bureau of Labor Statistics (or BLS), is a standard indicator of employment. Looking over a long stretch of history, despite

occasional recessionary periods, the U.S. job market has steadily increased employment to accommodate our growing population until the 2000s. During the 1990s (specifically, from December 1989 through December 1999), the economy gained 21.7 million payroll jobs. By contrast, from December 1999 through December 2009, the economy *lost* 944,000 jobs. Indeed, as Figure 1 shows, nonfarm payroll employment in the U.S. currently stands at about the same level as it did in September 1999. With no net jobs gained in more than ten years, it is no wonder that many analysts are calling this period the "lost decade." This poor performance is not only due to the recession at the end of the decade. Job gains in the 2000s are weak even if we exclude the losses that occurred during the recession: Over the first 8 years of the 1990s, the economy gained almost 16 million jobs; during the first 8 years of the 2000s, however, payroll employment rose by somewhat less than 7.5 million jobs, a little less than half of the previous decade's 8-year increase.

The lackluster job market performance that is evident in the payroll data also is evident in the BLS's Current Population Survey (CPS), which is a household survey. Consider first the employment-to-population ratio, which is the fraction of the working-age population who report being employed. As Figure 2 shows, the employment-to-population ratio rose 1.3 percentage points from 1989 through 1999, and peaked in April 2000 at a postwar high of 64.7 percent. In contrast, during the decade of the 2000s, the ratio fell nearly 5 percentage points, and is now at a level—58.6 percent—that was last seen immediately following the back-to-back recessions of 1980-82. The decline in the employment-to-population ratio was especially sharp after the recession began, but even prior to the recession the ratio had already given up all of its gains during the 1990s, an indication that job growth failed to keep up with population growth.

More detailed data allow us to compare the experience of individual demographic groups during the most recent decade with their experience in the 1990s. The data show that the trend toward increased labor market participation by women continued throughout the 1990s, but then was partly reversed prior to the 2007 recession; by the end of the decade the share of women working had returned to about the same level as it had been in 1989. The employment-to-population ratio for men edged lower during the 1990s, with an acceleration in this downward trend over the most recent decade. Male employment was then disproportionately affected by the 2007 recession: In the recession, the employment-to-population ratio for men fell more than 5 percentage points, and by 2009 the ratio had fallen to all time lows.

Employment-to-population ratios across age groups also display some noteworthy patterns. In particular, for workers age 55 and older, there was a modest uptrend in employment during the 1990s, cumulating in a 1.6 percentage point increase in the employment-to-population rate for the decade. This increase in employment among older workers accelerated during the 2000s, producing a 6.4 percentage point rise in the employment for the decade. The combination of the aging of the baby boom generation which led to an increase in the number of people over age 55 and the increase in their employment rate resulted in a 56 percent increase in the number of employees who were age 55 and over in the first decade of the 2000s. By contrast, the number of workers in *each* of the other age groups—as well as the share of the age group employed—declined from 1999 to 2009.

These data suggest that, while the effects of the recent recession have dominated changes in employment, the past decade saw considerable underlying softness in employment prior to the recession. BLS data from the Business Employment Dynamics (BED) program provide evidence of a related trend in *gross* job flows (as opposed to net job creation). The BED data measure the number of jobs added in business establishments that are opening or expanding and the number of jobs lost in business establishments that are closing or contracting. The BED data indicate a trend toward less churning—a reduction in gross labor flows across companies—beginning in the late 1990s and continuing through the 2000s. The BLS's Job Openings and Labor Turnover Survey (JOLTS) likewise shows a decline in worker turnover in the 2000s.

The U.S. labor market is well known for its dynamism, in the sense that reactions to changes in economic conditions occur relatively rapidly, regardless where we are in the economic cycle. Millions of hires take place each month even in the depths of a recession, and millions of separations occur during an expansion. Although such dynamism can be disruptive for workers and companies, it also serves to reallocate workers from declining to expanding sectors, thereby boosting productivity and, ultimately, living standards for Americans. Therefore, the decline in gross labor market flows is a potential concern if it represents a fundamental shift toward a less dynamic U.S. economy.

The decline in churning that is evident in the BED and JOLTS data, however, is at least partly a result of an aging workforce. I make this inference from an examination of job tenure. A decrease in separations and hiring would be expected to result in longer job tenure, all else equal. Indeed, the average worker age 20 to 64 had job tenure of 7.0 years in 1998 and 7.4 years in 2008 according to tabulations of the Current Population Survey (CPS) data by Henry Farber of Princeton University. If age and education are adjusted for, however, Professor Farber finds that job tenure actually fell in this period for both men and women.

Older workers tend to change jobs less frequently than younger workers. It thus appears that that the aging of the Baby Boom generation has led to a more stable workforce, leading to lower separations (and thus less need for external hiring) and less churning within companies. This older, more experienced workforce is likely a source of higher productivity.

U.S. Job Growth Lagged Other Economically Advanced Countries in the 2000s

Available international data suggest that job market performance in the U.S. in the 2000s was poor not only relative to previous decades, but also relative to the experience of foreign countries with advanced economies.

In Canada, for example, payroll employment rose by 2.3 million during the 2000s, a 19 percent increase that largely kept pace with population growth (see Table 2). The overall employment-to-population ratio fell 1.6 percentage points during the 1990s (when the U.S. ratio was rising). During the most recent decade, however, the overall employment-to-population ratio rose 1.1 percentage points in Canada, while the U.S. rate dropped sharply. From 1989 through 2009, the overall Canadian employment-to-population ratio edged down 0.5 percentage point, as the U.S. ratio fell by more than 3.5 percentage points.

Canada's age distribution is very similar to that in the U.S., with a large post-war baby boom cohort. Like the U.S., Canada experienced a sharp increase in employment of older workers in the 2000s. Unlike the U.S., however, Canada also saw a rise in employment for younger workers. Thus, generational crowding – when older workers hold on to jobs longer and crowd out younger workers from the labor market – is an unlikely explanation for the lackluster job growth in the U.S. in the 2000s.

In the U.K., payroll employment also rose during the 2000s, as the U.K. added 1.3 million workers from 1999 to 2009, about a 5 percent increase (see Table 3). The overall employment-to-population ratio rose 0.6 percentage point during the 2000s, in contrast to the sharp decline in the U.S. Across age groups, the U.K. shows a pattern more similar to the U.S., with sharp declines in the ratio for younger workers and a large increase for older workers. In contrast to the U.S., however, the employment-to-population ratio rose for prime-aged workers during the 2000s, in spite of declines associated with the worldwide recession.

Figure 3 illustrates the change in the fraction of the population working in the U.S., Canada, U.K. and Eurozone in the 1990s and various periods of the 2000s. (Comparable data for the Eurozone are not available for the 1990s.) In contrast to the 1990s, it is clear that job growth was dramatically worse in the U.S. than in these other countries in the 2000s, both in the period before the recent recession and in the recent recession. A likely contributing source of the stronger job growth in Canada and the U.K. in the 2000s is that the education levels of their workforces increased more strongly than was the case in the U.S. Interestingly, while the U.S. job market produced fewer jobs (relative to the population) than in these other economically advanced countries in the 2000s, productivity growth was stronger in the U.S. and total GDP growth was roughly comparable over the decade in all three countries.

The international data carry an important implication: The United States' poor labor-market performance in the 2000s was not inevitable. Canada and the U.K. were subject to the same international trends, had access to the same technological advances and faced similar demographic shifts as the U.S., yet they managed to produce significant job increases during the first decade of the 2000s, while the U.S. lost jobs. Based on reviewing other evidence, Council of Economic Advisers Chair Christina Romer has concluded that "structural factors are not central" to the poor performance of the U.S. labor market. Thus, there is little evidence that fundamental structural shifts have taken place that accounted for the weak record of job growth in the last decade.

Job Market Dynamics by Establishment Size over the Business Cycle – New Findings

A variety of comparisons indicate that the U.S. labor market underperformed throughout most of the first decade of the 2000s. But the dominant feature in the jobs picture of the last decade was the acceleration of the pace of job losses during the financial crisis. The aggregate job statistics—a loss of 8.4 million jobs from December 2007 through December 2009—tell only part of the story. Fully 4.2 million private sector jobs were lost in the six months after the fall of Lehman Brothers in September 2008. Job losses in this period exceeded what one would predict

from the sharp concurrent contraction in GDP by about 25 percent.[1] The sharp loss in jobs around the time of the financial crisis resulted because the seizure of credit markets caused a sharp drop in economic activity, and because the panic that took hold of financial markets likely spread to employers in other sectors, causing them to react more than normally to a contraction in demand for their goods and services by shedding workers. Lingering uncertainty from the financial crises has also restrained hiring in recent months.

To better understand the dynamics behind the dramatic loss in employment that we have experienced in the past two years, we can examine data on job openings, hires, and separations. These data are collected by the BLS in a survey of business establishments called the Job Opening and Labor Turnover Survey (JOLTS), and published each month by industry group and by region.

Recently the BLS provided the Treasury Department with research data that include an unpublished, unofficial series of job openings, hires, and separations for establishments in multiple size classes. Analyzing employment trends among the different size businesses can help shed additional light on the mechanisms by which the financial crisis induced job losses, and can provide some clues as to policy actions that could be particularly effective in the current environment. Moreover, the research data provided by the BLS are available through February 2010, which makes them by far the most up-to-date data available on employment patterns in small and mid-size businesses.

We aggregated the JOLTS data by establishment size into three categories—establishments with fewer than 50 employees (representing about 40 percent of private sector employment); establishments with 50 to 249 employees (representing about a third of private sector employment); and establishments with at least 250 employees (representing about a quarter of private sector employment). The data on job openings shows that the number of job openings had been falling since early 2007, but openings fell precipitously around the time that the financial crisis moved into high gear, especially for larger businesses (Figure 4). The low job openings rate—defined as job openings as a share of employment plus job openings—reflects the continued difficulty that unemployed persons are having finding work, as there are relatively few job openings for them to apply for. Specifically, in the published February JOLTS data there were 5.5 unemployed persons for every job opening, as compared to an average of two unemployed per opening over the 2001-2007 period. As with the overall employment situation, the job openings rate stabilized last fall and has picked up in the past two months. The increase in job openings, however, is heavily concentrated among larger establishments.

Figures 5 through 7 plot the gross hires and the gross separations for small, mid-size, and large establishments. The difference between hires and separations equals net job gains or losses in the BLS establishment survey[2] Shortly after the financial panic reached its peak in September

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[1] See my July 2009 presentation to the American Academy of Actuaries for details of how excess job losses were calculated (available at www.ustreas.gov/offices/economic-policy/AK-Actuaries-07-20-2009.pdf).

[2] This is the case over the year if one aggregates across all size classes. However, the data provided by BLS do not separately benchmark the hires and separations within each size class, so the difference between hires and separations may not equal the employment change within size classes, and even in the aggregate there can be small month-to-month deviations between hires less separations and the net employment change.

2008, a large number of workers were separated from small establishments (Figure 5). Most of the increase in separations was due to layoffs and business closings, as the number of quits was trending down during this period. (The Appendix Figure breaks down separations into layoffs/closings and quits.) The elevated level of layoffs by small establishments continued through February 2009, after which layoffs began to trend down, although they still remain somewhat high in the most recent months compared with the historical average. From the start of the recession to last fall, hiring by small businesses fell at a moderate but steady pace which did not accelerate during the financial crisis. Today the hiring rate by small businesses remains well below its pre-crisis levels.

The experiences of mid-size and large establishments around the time of the financial crisis were notably different. As mentioned, small establishments responded by quickly laying off a large number of workers. Mid-size establishments (Figure 6) and large establishments (Figure 7) responded by sharply cutting back on hiring in the months immediately after the crisis, and while they also increased layoffs, the increase was not as large as that seen by the small establishments. Of course, the net effect is that total employment contracted severely across establishments of all sizes in the months following the crisis.

The JOLTS data can be used to construct a rough summary measure of notional net labor demand, which is a measure of companies' desired change in employment. Specifically, I define notional net demand as the net job change (total hires minus total separations) plus the total number of job openings, relative to total employment. Results for each size category are displayed in Figure 8. It appears that notional labor demand increased steadily for large establishments throughout 2009. Notional labor demand is more volatile for mid-size and small establishments, but it appears to have increased at a more moderate pace than it has for large establishments.

The analysis of the JOLTS data highlights how the improvement in the labor market seen to date has been unevenly distributed across establishments of different sizes. On the positive side, labor demand has generally trended up at large private sector establishments since reaching a trough in February 2008. Moreover, large establishments have apparently increased employment in five of the six months since September 2009—a possible early sign of durable job growth. At the lower end of the size distribution, however, labor demand by small establishments has continued to be weak, with notably low rates of new hires. The challenges small businesses are facing remains a significant concern to policymakers within the Administration. The Administration has consistently supported efforts to assist small businesses through both numerous provisions in the Recovery Act as well as more recent proposals.

Consequences of a Low-Pressure Labor Market

The JOLTS data are consistent with a story in which many small businesses responded to the shock of the financial crisis by quickly laying off workers and shutting down operations, while the first line of response for larger companies was to freeze hiring. Large companies also increased layoffs over the ensuing months. This pattern is consistent with small employers having lower fixed costs associated with hiring and employment than large employers. It is also

consistent with small companies being unable to access credit to maintain employment when demand for their products collapsed in late 2008. Larger companies, which also faced frozen credit markets and declining product market demand in the fall of 2008, eventually had access to corporate debt markets, which enabled them to reduce layoffs and expand employment as the financial markets improved in 2009. Small businesses, which are more dependent on bank financing which remains tight, however, are still facing severe challenges. The Administration's small business proposals, such as the proposals to create a $30 billion small business lending fund and raise the cap on SBA 7(a) loans to $5 million, are particularly well timed given the difficulties that small businesses continue to face in the aftermath of the financial crisis.

Arthur Okun characterized the 1960s as a high-pressure labor market. Lawrence Katz and I similarly described the 1990s as a high-pressure labor market in a 1999 *Brookings Paper*.[3] I think it is fair to say that we have had what could be characterized as a low-pressure labor market so far in the 2000s, punctuated by a deep recession at the end of the decade that in turn featured excess job losses as the financial crisis infected the rest of the economy. We don't know definitively what the causes were for the low-pressure labor market so far in the 2000s. The deep recession that began in 2007 obviously didn't help job performance. Nevertheless, it is clear that the tax cuts that were intended to boost the economy in 2001 and 2003 did not result in better performance in the labor market than what was achieved in the 1990s, a period when government revenue increased and the deficit was reduced and eventually eliminated.

The consequences of a low-pressure labor market are obvious. Job growth that is not strong enough to accommodate a growing labor force results in higher unemployment. Unemployment carries severe personal and social costs, and can also reduce future economic performance as out-of-work individuals see their skills atrophy and their attachment to the labor market erode. But there are additional, more subtle consequences of a low-pressure labor market. When times are bad, workers are more likely to be forced to take dead-end employment, as opposed to having the opportunity to work more hours in better jobs with on-the-job training, career ladders and fringe benefits. A chronically weak labor market has also been found to raise income inequality and prevent families from leaving poverty. For all these reasons and more, the Administration is steadfastedly committed to working with Congress to enact policies that promote sustainable job growth and that lay the foundation for every American to enjoy the opportunity to share in the tremendous prosperity that our nation is capable of producing.

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[3] Lawrence F. Katz and Alan B. Krueger, "The High-Pressure U.S. Labor Market of the 1990s." *Brookings Papers on Economic Activity*, 1:1999, pp. 1-87.

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Table 1

Major Labor Market Indicators in the United States, 1989 to 2009

	Levels (thousands)				Change (thousands)			
	Dec 89	Dec 99	Dec 07	Dec 09	Dec 89 to Dec 99	Dec 99 to Dec 07	Dec 07 to Dec 09	Dec 99 to Dec 09
Payroll Employment	108,809	130,532	137,951	129,588	21,723	7,419	-8,363	-944
Population*	187,165	211,323	231,265	236,337	24,158	19,942	5,072	25,014
Labor Force, pop adj	124,497	141,790	152,636	152,809	17,293	10,846	173	11,019
Household Employment, pop adj	117,830	136,092	145,003	137,548	18,262	8,911	-7,455	1,456
Male	64,499	71,953	78,239	72,499	7,454	6,286	-5,740	546
Female	53,331	62,571	67,934	65,293	9,240	5,363	-2,641	2,722
	Annual Average				**Change in Average Annual Level**			
	1989	1999	2007	2009	1989 to 1999	1999 to 2007	2007 to 2009	1999 to 2009
Labor Force Participation Rate	66.4	67.1	66.1	65.4	0.6	-1.0	-0.7	-1.7
Employment-to-Population Ratio	62.9	64.3	63.0	59.3	1.3	-1.3	-3.7	-4.9
Male	72.4	71.7	69.8	64.6	-0.8	-1.9	-5.2	-7.1
Female	54.3	57.4	56.6	54.4	3.1	-0.8	-2.2	-3.0
16-19 years	47.5	44.7	34.8	28.4	-2.8	-9.9	-6.5	-16.4
20-24 years	71.9	71.7	68.4	62.2	-0.1	-3.4	-6.2	-9.5
25-54 years	79.9	81.4	79.9	75.8	1.5	-1.5	-4.1	-5.6
55+ years	29.4	31.0	37.4	37.3	1.6	6.4	-0.1	6.4

***Population derived using employment population ratio and population adjusted employment.**

Notes: Labor force, household employment and population for December 1989 are not adjusted for population changes. Annual average labor force participation rate and employment-to-population ratios are calculated as averages of seasonally adjusted monthly data. Changes in the average annual level are calculated from unrounded annual averages.

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Figure 1

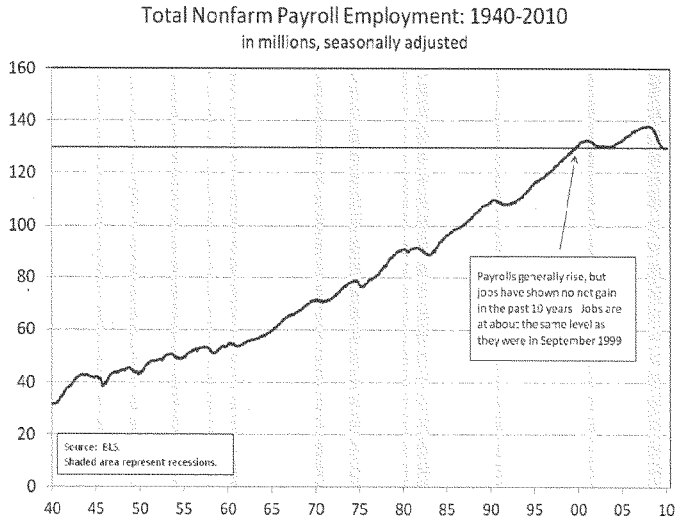

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Figure 2

Civilian Employment-to-Population Ratio: 1948-2010

percent, seasonally adjusted

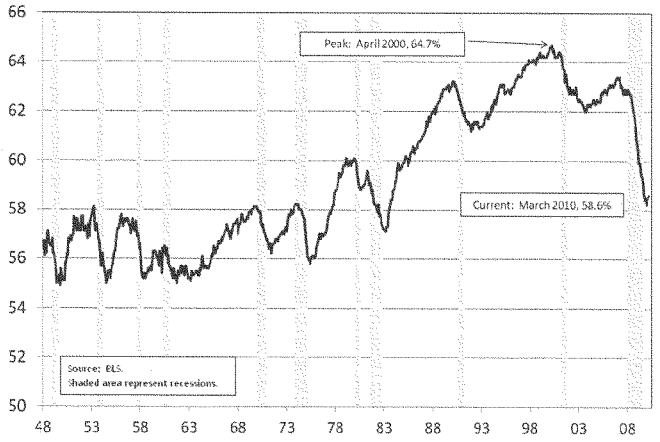

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Table 2

Major Labor Market and Growth Indicators in Canada, 1989 to 2009

	Levels (thousands)				Change (in thousands)			
	Dec 89	Dec 99	Dec 07	Dec 09	Dec 89 to Dec 99	Dec 99 to Dec 07	Dec 07 to Dec 09	Dec 99 to Dec 09
Payroll Employment *	--	12,203	14,653	14,532	--	2,450	-121	2,330
Population	21,039	23,920	26,720	27,491	2,881	2,799	771	3,571
Labor Force	14,154	15,673	18,089	18,437	1,518	2,416	348	2,765
Household Employment	13,070	14,615	17,007	16,881	1,546	2,392	-126	2,266
Male	7,305	7,940	8,973	8,778	635	1,033	-195	838
Female	5,765	6,676	8,034	8,104	911	1,359	70	1,428
	Annual Average (percent)				**Change in Annual Average (percentage points)**			
	1989	1999	2007	2009	1989 to 1999	1999 to 2007	2007 to 2009	1999 to 2009
Employment-to-Population Ratio	62.2	60.6	63.5	61.7	-1.6	2.9	-1.8	1.1
15-19 years	51.7	41.0	47.0	42.2	-10.6	5.9	-4.8	1.2
20-24 years	73.9	68.4	71.5	68.0	-5.5	3.1	-3.5	-0.4
25-54 years	78.2	79.2	82.2	80.3	1.0	3.0	-1.9	1.1
55+ years	24.7	23.7	31.7	32.9	-1.1	8.0	1.2	9.2

*** Payroll employment data for Canada not available before March 1994.**
Source: Statistics Canada/Haver

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Table 3

Major Labor Market Indicators in the United Kingdom, 1989 to 2009

	Levels (thousands)				Change (in thousands)			
	Dec 89	Dec 99	Dec 07	Dec 09	Dec 89 to Dec 99	Dec 99 to Dec 07	Dec 07 to Dec 09	Dec 99 to Dec 09
Payroll Employment *	28,471	28,945	31,143	30,273	474	2,198	-870	1,328
Population	44,805	46,028	48,842	49,613	1,223	2,814	771	3,585
Labor Force	28,901	29,003	31,011	31,363	102	2,008	352	2,360
Household Employment	26,880	27,319	29,398	28,905	439	2,079	-493	1,586
Male	15,200	14,843	15,897	15,393	-357	1,054	-504	550
Female	11,680	12,476	13,501	13,512	796	1,025	11	1,036
	Annual Average				**Change in Annual Average**			
	1989	1999	2007	2009	1989 to 1999	1999 to 2007	2007 to 2009	1999 to 2009
Employment-to-Population Ratio	59.8	59.1	60.0	58.6	-0.6	0.9	-1.4	-0.6
Male	70.4	66.8	66.8	64.3	-3.7	0.0	-2.5	-2.5
Female	49.9	52.0	53.6	53.2	2.2	1.5	-0.4	1.1
16-17 years**	47.2	46.7	33.7	27.7	-0.5	-13.0	-6.1	-19.0
18-24 years**	64.9	67.4	64.8	59.5	2.4	-2.5	-5.4	-7.9
25-59(f)/64(m) years**	73.1	76.4	78.5	77.6	3.3	2.1	-0.9	1.2
60+(f)/65+(m) years**	7.9	7.9	11.0	12.0	0.0	3.1	1.0	4.1

* Payroll employment data for the UK is quarterly.

** Data are not available before 1992.

Source: Office of National Statistics/Haver

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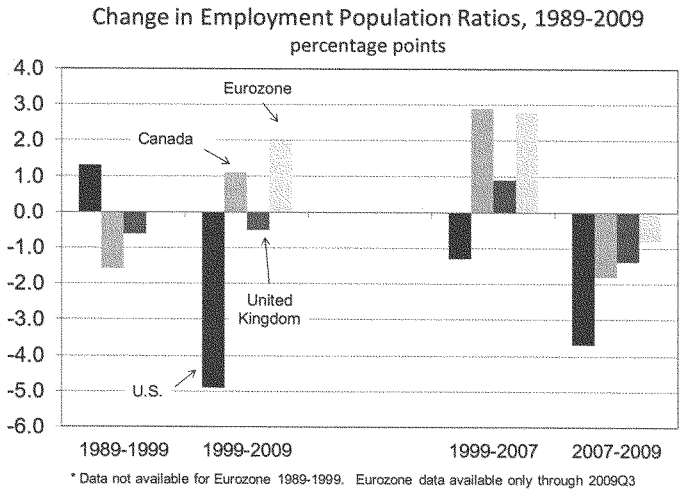
Figure 3



* Data not available for Eurozone 1989-1999. Eurozone data available only through 2009Q3

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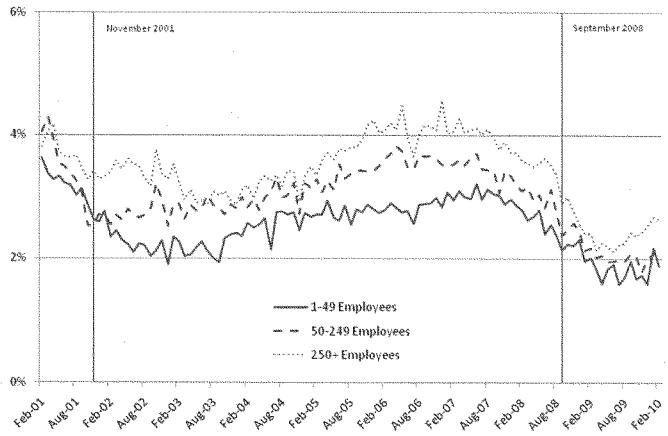
Figure 4
Job Openings Rate



Note: Job Openings as a percent of employment plus job openings. Seasonally Adjusted. December 2000 – February 2010. Job Opening and Labor Turnover program: unpublished research data provided by BLS.

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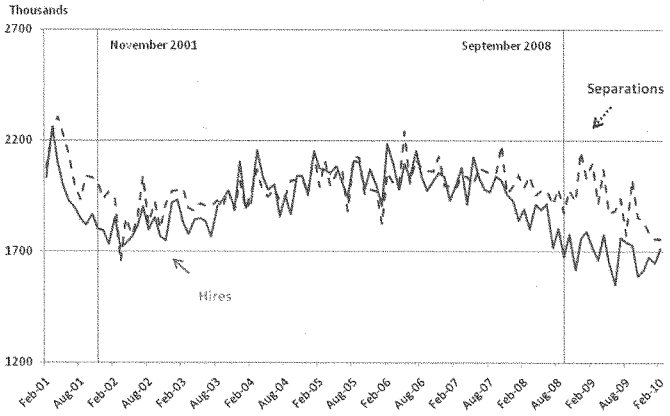
Figure 5
Total Hires & Separations by Establishment Size Class
Establishments with 1-49 Employees



Note: Gross Hires and Gross Separations as a percent of employment. Seasonally Adjusted. December 2000 – February 2010. Job Opening and Labor Turnover program: unpublished research data provided by BLS.

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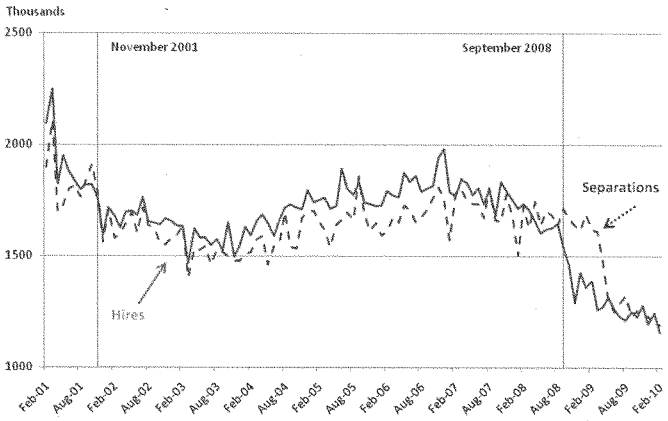
Figure 6
Total Hires & Separations by Establishment Size Class
Establishments with 50-249 Employees



Note: Gross Hires and Gross Separations as a percent of employment. Seasonally Adjusted. December 2000 – February 2010. Job Opening and Labor Turnover program: unpublished research data provided by BLS.

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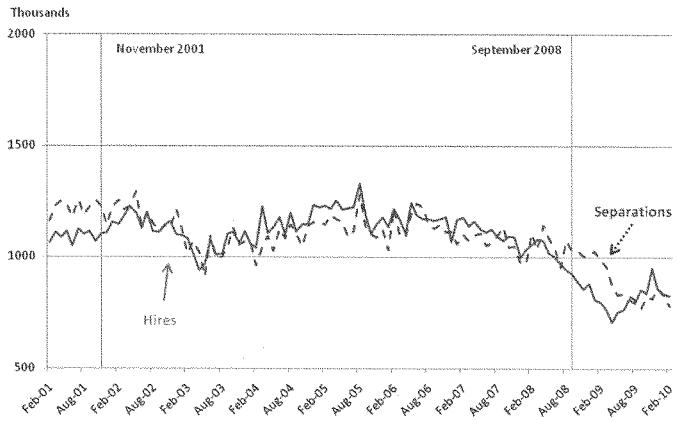
Figure 7
Total Hires & Separations by Establishment Size Class
Establishments with 250+ Employees



Note: Gross Hires and Gross Separations as a percent of employment. Seasonally Adjusted. December 2000 – February 2010. Job Opening and Labor Turnover program: unpublished research data provided by BLS.

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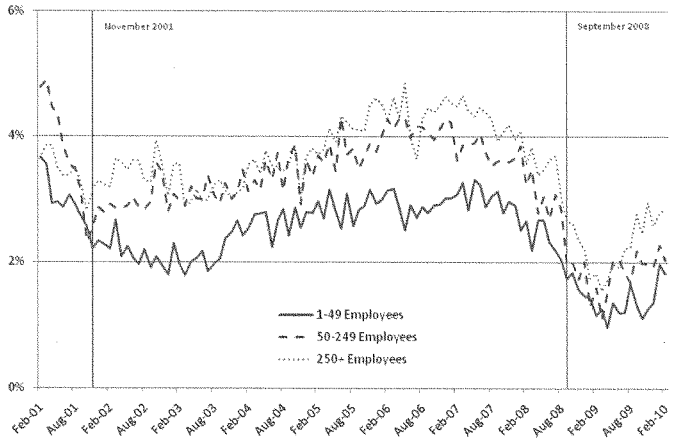
Figure 8
Notional Net Labor Demand



Note: Notional Net Labor Demand is defined as (Job Openings + Job Hires – Separations) as a percent of total employment. Seasonally Adjusted. December 2000 – February 2010. Job Opening and Labor Turnover program: unpublished research data provided by BLS.

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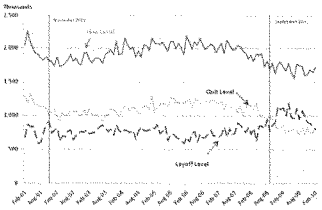
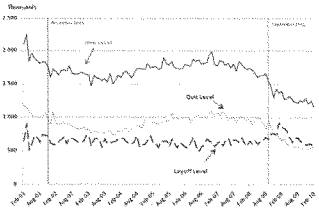
Appendix

Hires, Quits, and Layoffs

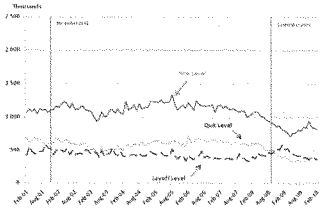
Panel A: Establishments with 1-49 Employees



Panel B: Establishments with 50-249 Employees



Panel C: Establishments with 250+ Employees



Note: Total Hires, Total Quits, and Total Layoffs are in thousands of employees. Seasonally Adjusted. December 2000 – February 2010. Job Opening and Labor Turnover program: unpublished research data provided by BLS.

PREPARED STATEMENT OF REPRESENTATIVE KEVIN BRADY

I am pleased to join in welcoming Dr. Krueger before the Committee.

Although many economic indicators show signs of a recovery, the employment situation remains dire. As of last month, 15 million Americans were out of work for an unemployment rate of 9.7 percent.

Given these grim employment statistics, I thank the Chair for convening this hearing on how to promote job creation. We should begin by examining President Obama's record on job creation.

In January 2009, President Obama proposed an $862 billion stimulus plan. Two of the Obama's Administration top economists, Jared Bernstein and Christina Romer, forecast the economic benefits from Obama's stimulus plan, which the Congressional Democrats enacted the next month. This Romer-Bernstein forecast is the standard that the Obama Administration set to judge the success of its economic policies. So let's compare this forecast with reality:

- The Administration predicted that if Congress enacted the stimulus plan, the unemployment rate would not exceed 8.0 percent. The unemployment rate increased to 10.1 in October 2009, and remained at 9.7 percent in March 2010.
- The Administration predicted that payroll employment would increase to 137.6 million in the fourth quarter of 2010. Actually, payroll employment was 129.8 million in March 2010, and would have to increase by about 867,000 payroll jobs per month to meet the Administration's forecast.
- Finally, the Administration forecast that 90 percent of payroll growth would occur in the private sector. Actually, the private sector lost 3.7 million payroll jobs from February 2009 to March 2010. The only sector in which the number of payroll jobs increased was the federal government.

Let's turn to the other major items on the Democrats' economic policy agenda and assess their impacts on job creation.

First, the recently enacted health care legislation will require employers to offer a costly government-mandated health plan or pay a fine of $2,000 per worker. Insurance premiums are likely to soar as the new system of guaranteed issue will cause some people to wait until they are sick before they buy insurance. It is not clear how widespread this practice will become. But, it is clear that the additional employment costs will discourage hiring.

Second, the Democrats have proposed "cap and trade" legislation that would raise energy prices, require firms to use currently non-existent technologies, and mandate an 80 percent reduction in greenhouse gases by 2050. Speaker Pelosi claims this bill is about creating "green jobs." Spain has tried this approach and failed. Professor Gabriel Calzada Alverez found every "green job" created cost about $763,000. Far more jobs are destroyed by raising energy prices through "cap and trade" than "green jobs" are created.

Third, the Democrats have proposed "card check" legislation to end the secret ballot for union representation elections and impose mandatory two-year contract through political arbiters on newly unionized firms if employers and unions cannot agree. This prospect discourages private business investment and job creation.

Fourth, President Obama and Congressional Democrats have decided to let the 2001 and 2003 tax reductions expire at the end of this year and impose a 3.8 percent surtax on investment income effective in 2013. As a result, the maximum tax rates on capital gains and dividends will jump from 15 percent this year to 23.8 percent and 43.4 percent, respectively, in 2013. This Congress also stood by while our R&D tax credit expired last year.

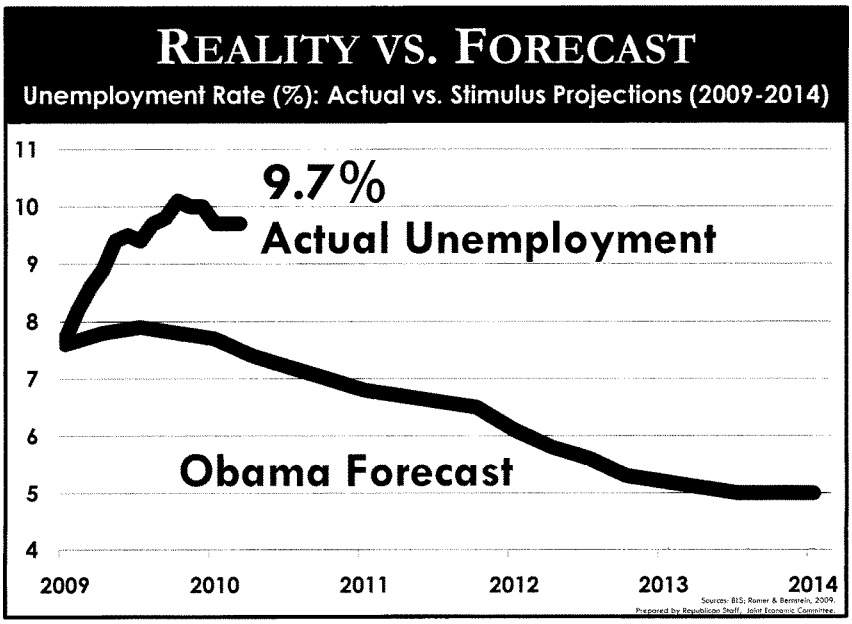
In 1990, our average combined federal and state corporate income tax rate was 6 percentage points lower than the average in other OECD countries. We were leading our competitors. Today, it is 9 percentage points higher—and now we are losing out to them.

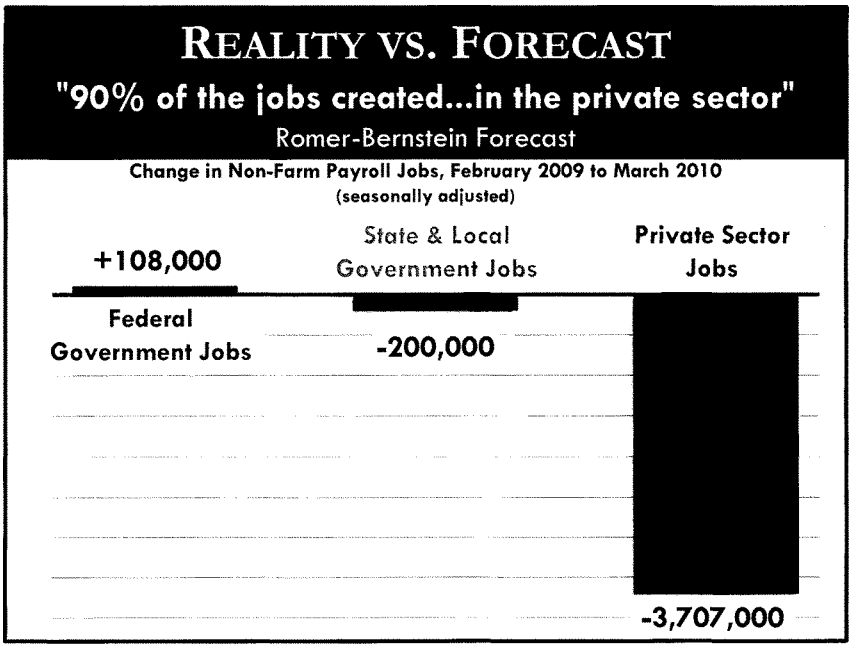
Despite the competitive disadvantages from the high U.S. corporate income tax rate and our system of worldwide taxation with deferrals and foreign tax credits, President Obama has proposed a grab-bag of hidden tax increases on U.S. corporations selling American-made goods and services overseas. And now, Administration officials and their friendly media outlets are beginning to hint that President Obama and Congressional Democrats may seek a value-added tax after the midterm elections in November to fund their permanent increase in the size of the federal government. All of these tax policies discourage private business investment and job creation.

Finally, Congressional Democrats have failed to ratify the already signed free trade agreements with Colombia, Panama, and South Korea that would boost U.S. exports by $13 billion and create 250,000 new high-paying jobs here in America.

Taken together, the economic policies of President Obama and Congressional Democrats, however well intentioned they may be, are a hindrance to a robust job creation. If Americans wish to enjoy vigorous job growth, these economic policies must be reversed.

I look forward to today's discussion.


REALITY VS. FORECAST
Unemployment Rate (%): Actual vs. Stimulus Projections (2009-2014)
11
10
9
8
7
6
5
4
9.7%
Actual Unemployment
Obama Forecast
2009
2010
2011
2012
2013
2014
Sources: BLS; Romer & Bernstein, 2009.
Prepared by Republican Staff, Joint Economic Committee.


REALITY VS. FORECAST
"90% of the jobs created...in the private sector"
Romer-Bernstein Forecast
Change in Non-Farm Payroll Jobs, February 2009 to March 2010
(seasonally adjusted)
+108,000
Federal Government Jobs
State & Local Government Jobs
-200,000
Private Sector Jobs
-3,707,000

MICHAEL C. BURGESS, M.D.
26TH DISTRICT, TEXAS

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May 11, 2010

The Honorable Alan B. Krueger
Assistant Secretary for Economic Policy and Chief Economist
U. S. Department of the Treasury
Washington, DC 20220

Dear Mr. Krueger:

Thank you for coming to the Joint Economic Committee on Wednesday past for our hearing entitled "Avoiding Another Lost Decade: How to Promote Job Creation." Please find below questions which I have submitted for the record for you to answer.

1. During the last so-called "lost decade," did the House pass an omnibus healthcare bill?
2. During the last so-called "lost decade," did the House pass a cap-and-tax bill?
3. During the last so-called "lost decade," did the House pass a $700 bill giving American taxpayer dollars to "too big to fail banks?
4. During the last so-called "lost decade," did Congress regularly address federal appropriations by passing appropriations bills each year of that decade? I ask because we have currently yet to do even a budget resolution for the budget.
5. What was the average national debt during this decade? What was that in relation to the GDP?
6. What was the national rate of unemployment as it relates to various fields of employment? For instance, how many jobs which were lost in that decade were permanently lost (as it seems to be the case this past year) due to changes and innovations in the marketplace?
7. What was the U-6 number during this lost decade?
8. What was the unemployment rate for young people? How many young people got jobs straight out of college?
9. How did the last increase of minimum wage affect unemployment?

Thank you in advance for your time and consideration.

With regards,

Michael C. Burgess, M.D.

DEPARTMENT OF THE TREASURY
WASHINGTON

June 9, 2010

ASSISTANT SECRETARY

The Honorable Michael Burgess
U.S. House of Representatives
Washington, DC 20515

Dear Representative Burgess:

Thank you for your questions following my JEC testimony. Below I have reprinted your questions and provided responses.

1. During the last so-called "lost decade," did the House pass an omnibus healthcare bill?

   In my testimony, I point out that nearly one million payroll jobs were lost from December 1999 to December 2009 (see Table 1 of my testimony), and that this period has been called "the lost decade." There was one major piece of health care legislation that was enacted into law in this period: the Medicare Prescription Drug Modernization Act, which was passed in 2003.

2. During the last so-called "lost decade," did the House pass a cap-and-tax bill?

   The House of Representatives passed legislation seeking to institute a cap-and-trade system to deal with the problems associated with greenhouse gas and other emissions in 2009. This legislation has not yet been enacted into law. This is not the first time that cap-and-trade provisions were proposed. In 1990 amendments to the Clean Air Act created a cap-and-trade system to deal with the problems associated with sulfur dioxide and acid rain. This legislation, signed into law by President George H. W. Bush, has been widely viewed as highly successful in correcting the problems associated with pollution through cost-effective and market-driven solutions.

3. During the last so-called "lost decade," did the House pass a $700 billion bill giving American taxpayer dollars to "too big to fail banks?

   In the fall of 2008, President Bush proposed and the Congress enacted legislation, the Emergency Economic Stabilization Act (EESA), which established a fund to purchase up to $700 billion of troubled assets, outstanding at any one time, to stabilize the financial system during the financial crisis. The Capital Purchase Program invested approximately $205 billion in 707 different financial institutions; most of that investment has already been paid back with a positive return for the taxpayer.

4. During the last so-called "lost decade," did Congress regularly address federal appropriations by passing appropriations bills each year of that decade? I ask because we have currently yet to do even a budget resolution for the budget.

   Economists focus on the outcome of the budget process on the fiscal position of the United States government and the economy. When President Clinton left office, the ten-year budget was projected to be more than $5 trillion in surplus according to CBO. When President Obama took office, projections called for a ten-year deficit of $8 trillion.

5. What was the average national debt during this decade? What was that in relation to the GDP?

   The average national debt held by the public during 2000 to 2009 was about $4.6 trillion. The national debt held by the public as a share of GDP began to decline in 1994. Toward the end of the 1990s the U.S. federal government ran a surplus for the first time since the 1960s. However, this trend was reversed in the 2000s when the projected $5.6 trillion 10-year surplus was erased by a series of large and then-record annual deficits. As a result, the national debt held by the public as a share of GDP began to rise in 2002 and stood at 53.0 percent at the end of FY2009 (46.7 percent of GDP using debt net of financial assets).

6. What was the national rate of unemployment as it relates to various fields of employment? For instance, how many jobs which were lost in that decade were permanently lost (as it seems to be the case this past year) due to changes and innovations in the marketplace?

   Below is a table showing the unemployment rate in major industries in 2000 and 2009.

Unemployment Rates by Industry
Percent, annual averages, NSA

Industry:	2000	2009
Mining	4.4	11.6
Construction	6.2	19.0
Manufacturing	3.5	12.1
Wholesale and Retail Trade	4.3	9.0
Transportation and Utilities	3.4	8.9
Information	3.2	9.2
Financial Activities	2.4	6.4
Professional and Business Services	4.8	10.8
Education and Health Services	2.5	5.3
Leisure and Hospitality	6.6	11.7
Agriculture and Related	9.0	14.3
Government	2.1	3.6

The BLS provides national estimates of employment and unemployment by occupation over the last ten years at: http://www.bls.gov/webapps/legacy/cpsatab13.htm.

7. What was the U-6 number during this lost decade?

The average of the BLS U-6 statistic from December 1999 to December 2009 was 9.7 percent.

8. What was the unemployment rate for young people? How many young people got jobs straight out of college?

The average unemployment rate for 16-19 year olds from December 1999 to December 2009 was 16.9 percent.

I am not aware of an official source that contains timely or long time-series data on "how many young people got jobs straight out of college."

9. How did the last increase of minimum wage affect unemployment?

I am not aware of published research in scholarly economics journals on the effect of the latest minimum wage increase. However, standard economic models of the labor market yield ambiguous predictions regarding the effect of a minimum wage increase on unemployment.

Sincerely yours,

Alan B. Krueger
Assistant Secretary for Economic Policy
and Chief Economist

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