Testimony of Jared Bernstein
Senior Economist
Economic Policy Institute

Before the House Committee on Ways and Means

Hearing On:
"Economic Recovery, Job Creation and Investment in America"

October 29, 2008

Chairman Rangel, Ranking Member McCrery and members of the committee, I thank you for the chance to testify today on this urgent topic. As this committee well knows, our economy faces many deep challenges. As we speak, economic turmoil in both financial markets and the so-called "real economy" are taking a toll on the living standards of many American families. My testimony both elaborates those challenges and suggests policy solutions for the committee and the Congress to consider.

The key points in this testimony are:

- The current downturn threatens to be longer and deeper than the last two recessions, both of which lasted eight months and were relatively mild in GDP terms, though much less so regarding jobs and incomes. A key reason for this expectation is consumer retrenchment.
- A recovery package of considerable magnitude is needed to offset the demand contraction. At least 1-2% of GDP ($150-300 billion) is likely warranted, though some analysts believe more will be needed.
- The package should include an extension to unemployment and food stamp benefits, state fiscal relief, infrastructure investment, and possibly direct payments to middle- and lower-income households. The key guidance in structuring this proposal must be to get the most bang for each stimulus buck.
- Infrastructure investment been criticized in the context of stimulus based on the view that lead times to implementation render it an ineffective strategy for a quick injection of demand-side growth. But, based on research by economists at the Economic Policy Institute and the Center for American Progress, along with that of former treasury Secretary Larry Summers, I have listed many examples of ready-to-go projects that would be effective in terms of quick job creation, while filling a public investment deficit. Furthermore, the fact that we may well be facing a more protracted downturn than usual implies that even if longer lead times do occur, our economy will likely still need the stimulus.
- While fiscal rectitude is of course a key benchmark of any legislation, the stimulus package, not unlike the TARP package targeted at the financial sector, will involve deficit spending. Once the economy recovers, Congress may decide it is necessary to reduce the fiscal deficit. But at this point in economic time, budget austerity would not simply be unwise, it would be unnecessarily damaging, both to the macro economy and to living standards.

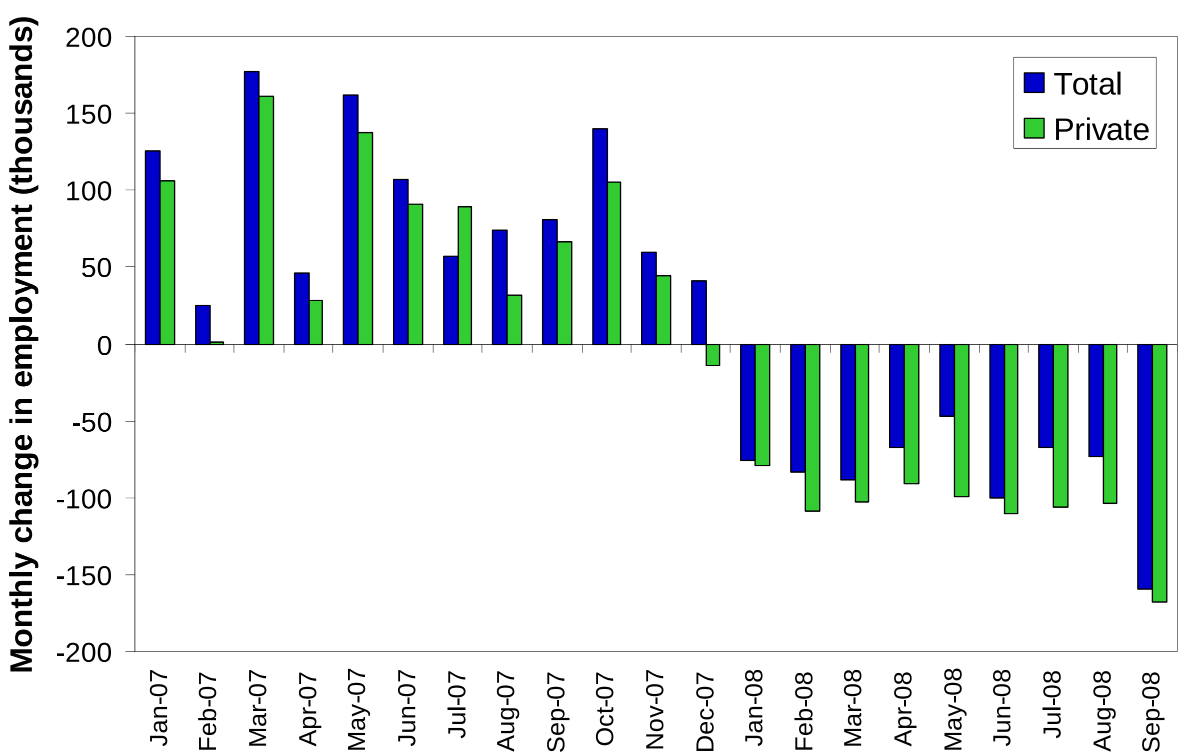
Current Conditions

Though it has not been officially recognized, it is widely agreed that the U.S. economy is currently in recession. There are questions as to how long and deep this downturn will be, but recessionary conditions have prevailed, especially in the job market, throughout 2008. This section will present an overview of these conditions, emphasizing the impact on middle and lower income families.

Labor Market: Figure 1 shows the monthly changes in payroll employment from January 2007 through September of this year, for both total and private sector employment. Both have significantly and consistently fallen, and this pattern of job loss has not occurred outside of recessions.

At this point, most sectors are losing jobs, with the consistent exceptions of government—often a counter-cyclical sector—and health care. The latter reflects continued large public and private expenditures into the system, an aging population, and an inelastically demanded service (i.e., health needs cannot typically be put off until the cycle improves).

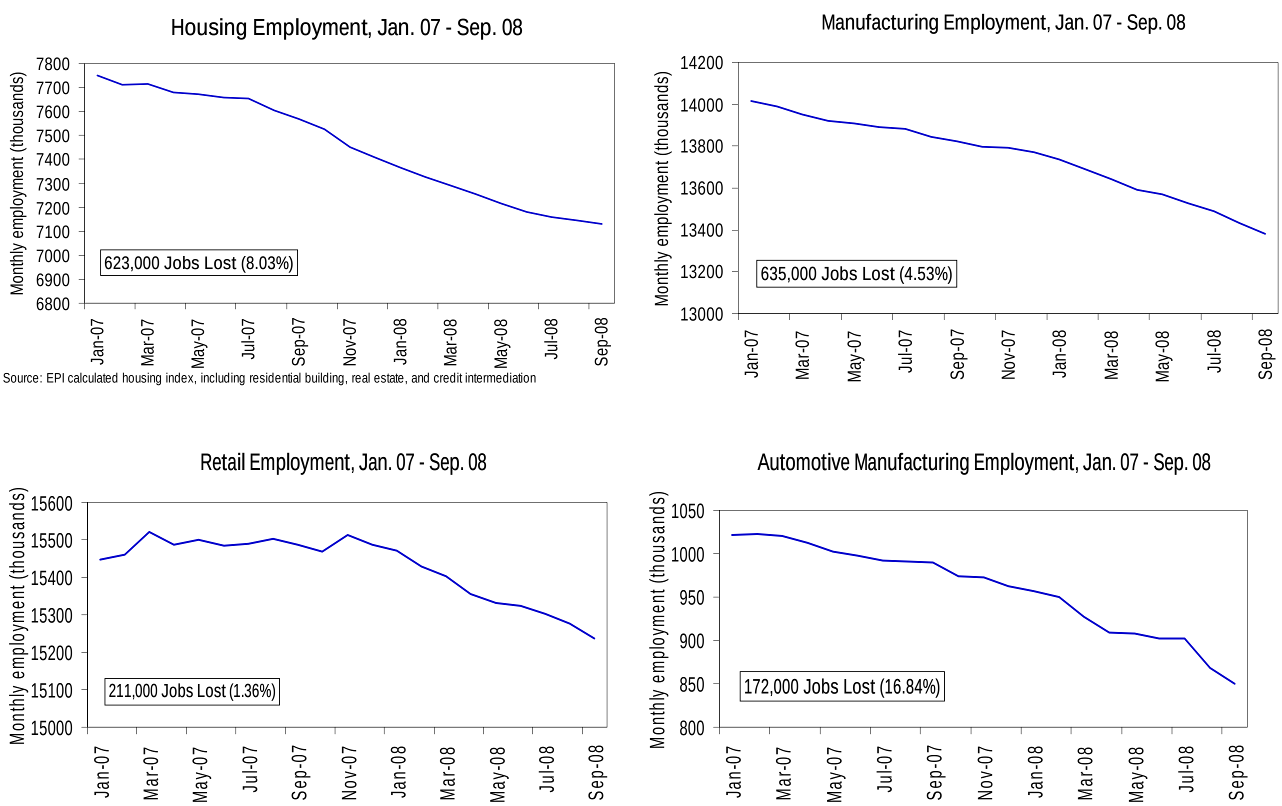
Figure 1. Total and Private Payroll Employment, Jan. 07-Sep. 08



Source: Bureau of Labor Statistics

Of course, jobs in residential construction are far off their peak, driven down by the bursting housing bubble. EPI constructs a residential housing index which includes employment both directly and indirectly linked to the sector (the index includes jobs in construction, real estate, and credit intermediaries related to home financing). **Figure 2** shows losses in the housing index, retail sales, and manufacturing, with autos shown separately. The fall-off in consumer spending is reflected in declining retail jobs, while the sharp fall-off in car buying shows up in that sector's employment losses. Note that these declines in manufacturing have occurred despite improvement in our trade balance. While we have exported more goods and imported fewer in recent quarters, manufacturing employment has not reflected these gains. Some evidence suggests that this is related to the content of our trade flows, which have been more concentrated in commodities such as grain than in durable goods.

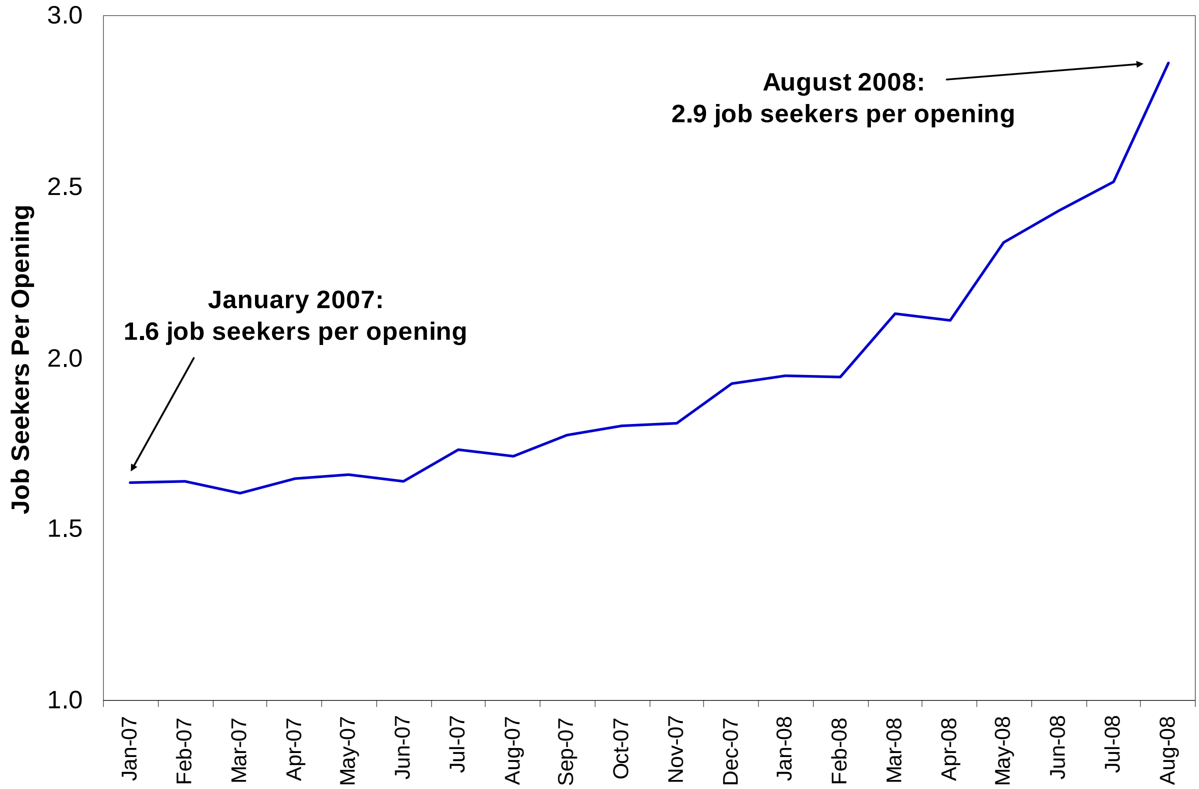
Figure 2. Employment Declines Across Sectors



Source: Bureau of Labor Statistics

Another recessionary indicator is the increase in job seekers relative to job openings. The lack of job creation, as shown in Figure 1, has led to a sharp increase in this metric, a clear indicator of increased slack in the labor market. **Figure 3** shows that in January 2007 there were 1.6 job seekers for every job opening in the economy; in the most recent data available, that ratio had risen to 2.9 job seekers per opening.

Figure 3. Job Seekers Per Opening, Jan. 07 - Aug. 08



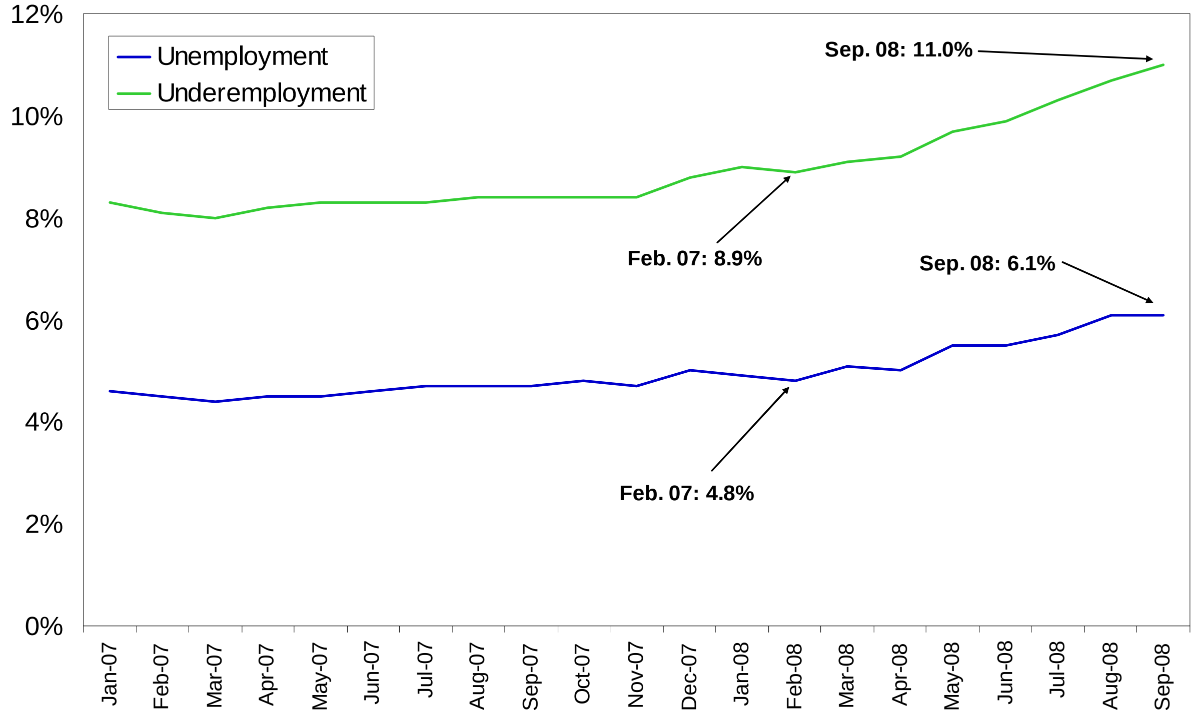
Source: Bureau of Labor Statistics

This mismatch between labor supply and demand leads, of course, to higher unemployment. **Figure 4** plots the unemployment and underemployment rates since January 2007, showing the cyclical rise in both measures.

The fact that underemployment has risen more quickly than unemployment is important because it shows that employers have adjusted to diminished demand not just by laying off workers, but also by cutting workers' hours. The difference is largely driven by the increase in the number of part-time workers who would prefer full-time work but can't find it. Since January 2007, the number of these involuntary part-timers is up by 1.8 million, to 6.1 million, and they now represent 4.2% of employment, the highest share on record since 1994.[1]

[1] Though this series existed before 1994, the BLS significantly changed the way part-time workers are indentified in the Household Survey that year, so the series is only consistent since January 1994.

Figure 4. Unemployment and Underemployment, Jan. 07 - Sep. 08

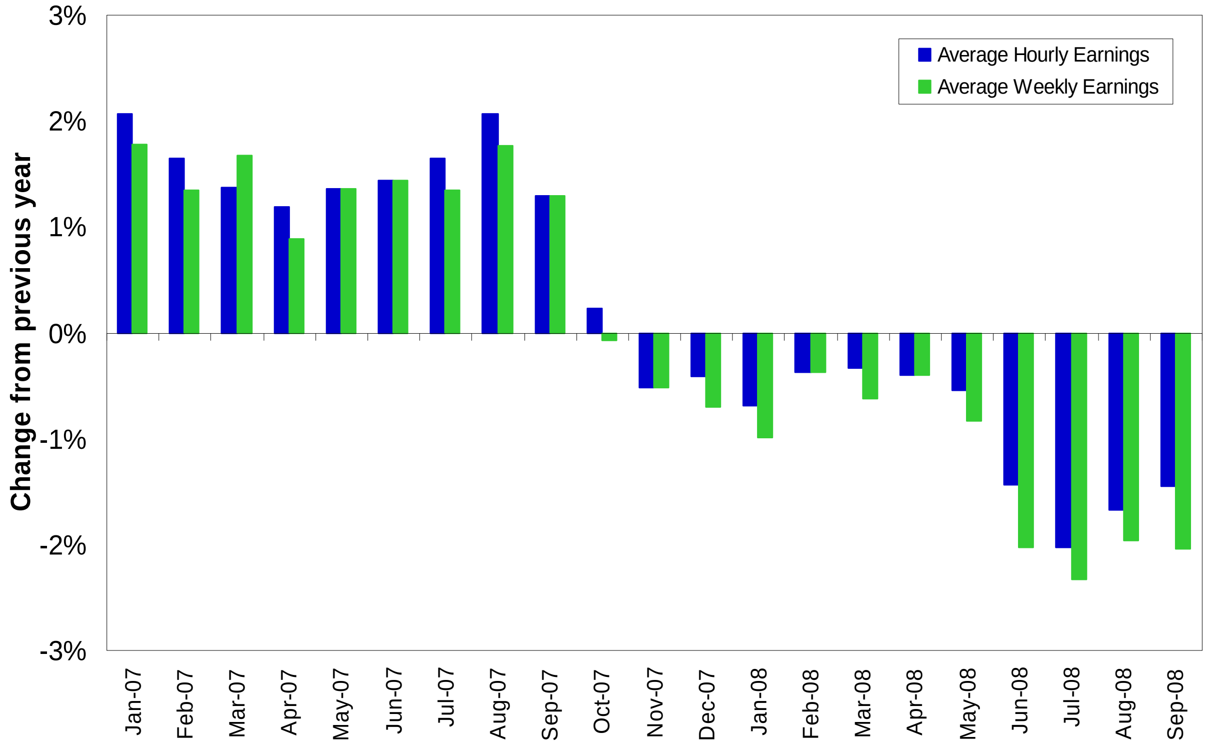


Source: Bureau of Labor Statistics

The fact that many workers are able to find fewer hours than they'd like has led to diminished weekly earnings. **Figure 5** shows yearly changes in inflation-adjusted hourly and weekly earnings since January 2007 for the 80% of the workforce in production or non-managerial occupations. This measure has been flat or falling since October of last year, with real weekly earnings down about 2.5% for the past three months.

In other words, the buying power of most workers is declining as inflation outpaces their weekly paychecks. Three factors are contributing to this erosion. First, the slack job market is leading to slower nominal (i.e., before accounting for inflation) wage growth. Nominal hourly earnings rose 3.5% percent in the third quarter of this year, compared to 4.2% in the first quarter of last year. Second, fewer weekly hours, as noted above, explains why the weekly bars in the figure show larger losses than the hourly bars. Finally, faster inflation has been a major factor in eroding the buying power of working families' earnings.

Figure 5. Yearly Changes in Average Weekly and Hourly Earnings, Jan. 07 - Sep. 08

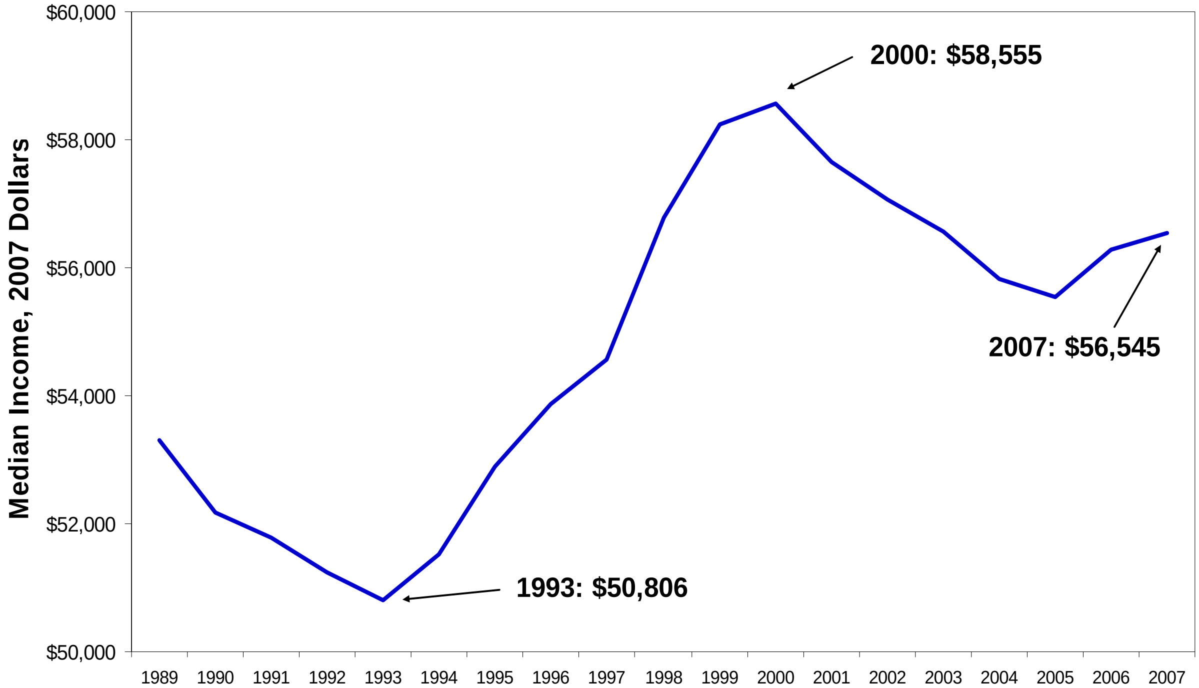


Source: Bureau of Labor Statistics

Incomes of Middle and Low-Income Families: Figure 6 provides some recent historical context for the current conditions discussed thus far. The figure shows the trend in the real median income of working-age households—those headed by someone less than 65— 1989-2007. Their median income, after adjusting for inflation, fell $2,000 between 2000 and 2007, from about $58,500 to $56,500 (2007 dollars).

The trend was very different in the 1990s. After declining in the recession (and the jobless recovery that followed), the median income of working-age households reversed course and rose consistently through 2000. Over the 1990s (1989-2000), it was up almost 10%, or about $5,200. Had this growth rate prevailed in the 2000s, the median income of working age households would have gone up $3,600 instead of falling $2,000.

Figure 6. Real Median Income, Working-Age Households, 1989-2007



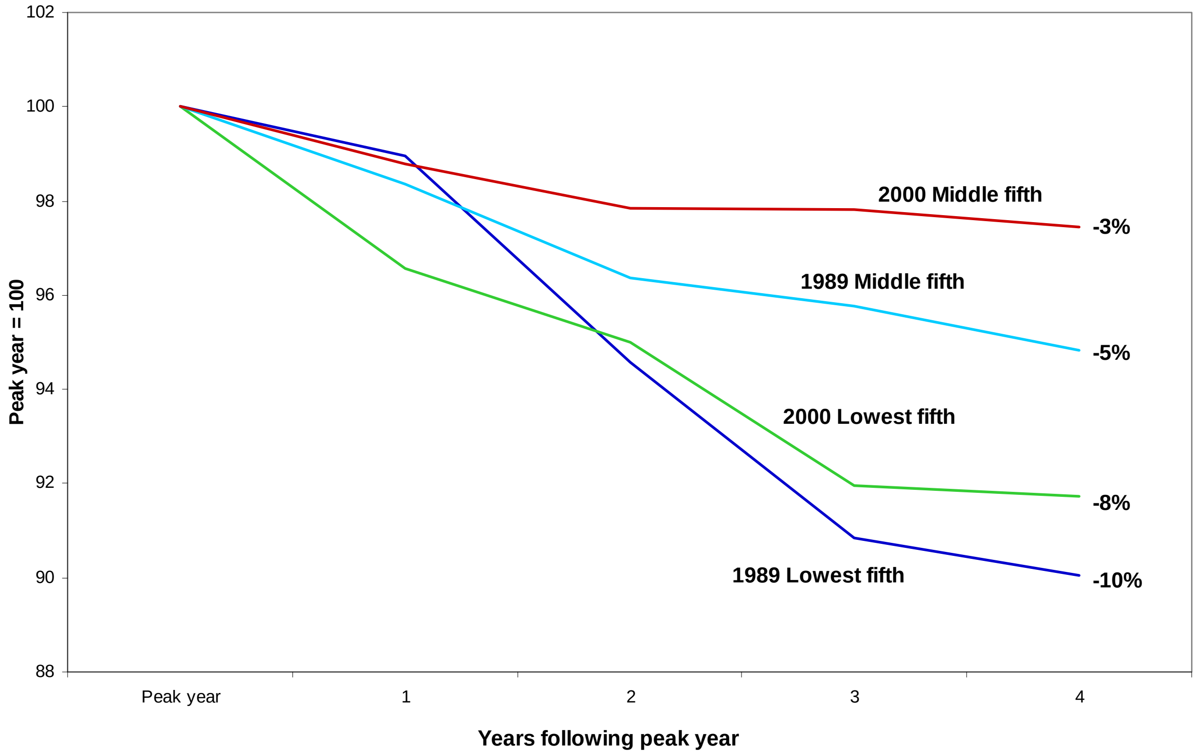
Source: Bureau of Labor Statistics

One key factor behind this result, which is an important source of worker insecurity, is the historically weak job growth over the 2000s business cycle, the weakest on record going back to the 1940s. When employment growth is weak, the abundant supply of labor in the job market means that there is less need for employers to bid wage offers up in order to get and keep the workers they need. This lack of worker bargaining power shows up as weak wage and income growth for working families, even amidst strong productivity growth and relatively low unemployment.

Due to the factors discussed above regarding job loss, fewer hours, and the slower wage growth driven by the weaker job market, incomes usually fall in recessions. Moreover, as the recoveries following these downturns were both weak (both were labeled "jobless recoveries"), family income fell in the early years of these recoveries as well.

These dynamics are plotted in **Figure 7**, which shows the trend in the real average income of low- and middle-income families (the first and third income quintiles). The peak year is either 1989 or 2000, and the years that follow include the recessionary period (both of these recessions lasted eight months) and the first few years of recovery. Note the lower income families tend to experience greater losses, as these families' response to labor market changes is more highly "elastic." This is one reason, as can be seen for middle-income households in Figure 6, that real incomes rose quickly in the latter 1990s, when the job market was uniquely tight.

Figure 7. Change in Average Real Family Income Following Peak Years, by Selected Income Quintiles

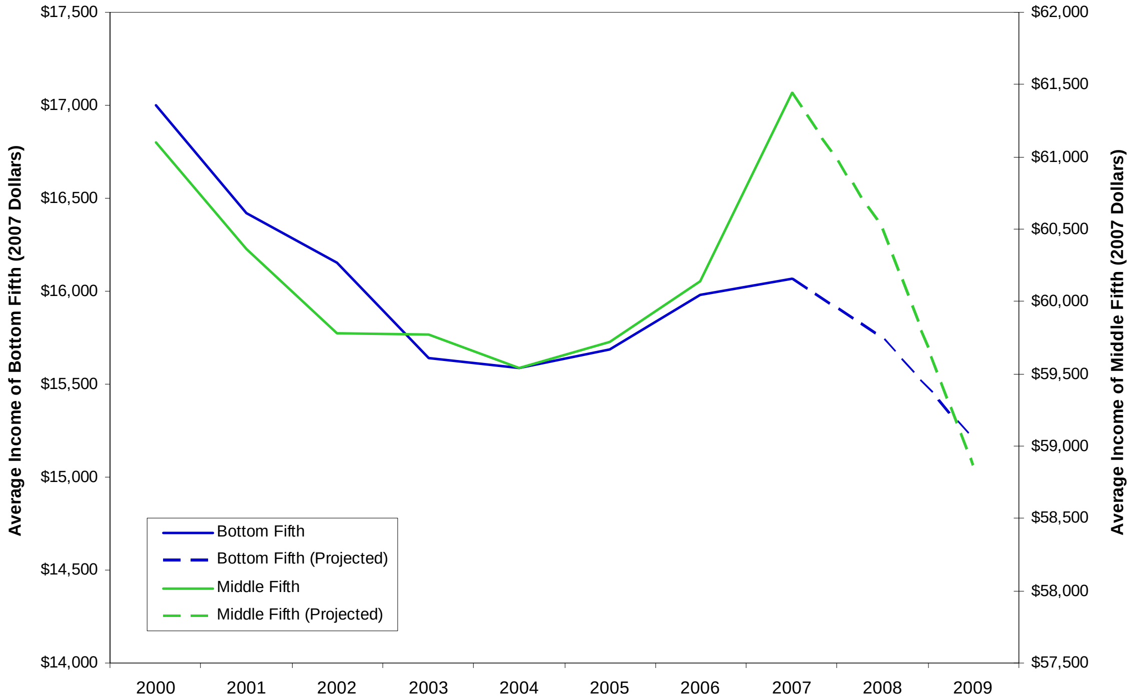


Source: Bureau of Labor Statistics

Using elasticities from economist Tim Bartik that map changes in unemployment to changes in real incomes by fifth (and poverty rates), we are able to predict the impact of the current downturn on incomes over the next few years. One forecast, by Goldman Sachs (GS), expects the unemployment rate, 6.1% in September, to be 8% by the end of next year (and 7.6% on average for 2009).

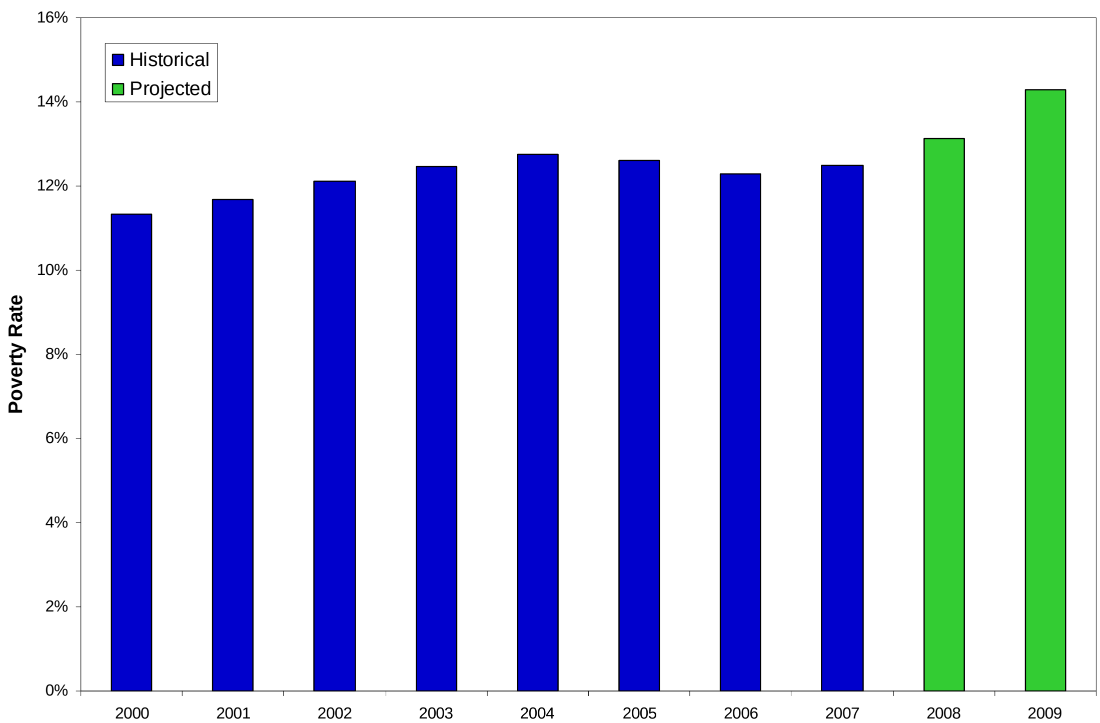
Figures 8 and 9 forecast the impact of the downturn through 2009 on incomes and poverty rates. Based on the GS estimates of rising unemployment through at least next year, we expect the average income of low-income families to fall by 5% in real terms, about $900 in 2007 dollars. Poverty may increase from 12.5% to 14.3%. We expect the average income of the middle fifth to fall about 4%, or $2,500. These losses are commensurate with those shown in the prior two recessions/weak recoveries, as shown in Figure 7. As that figure reveals, however, these losses continued for a few years into the recovery. Assuming that a recession began sometime in early 2008 and lasted through most of 2009, if past patterns persist regarding these income and poverty measures, losses could continue for another few years.

Figure 8. Average Income of Bottom and Middle Fifths, 2000-2009 (Projected)



Source: Bureau of Labor Statistics

Figure 9. Poverty Rate, 2000-2009 (Projected)

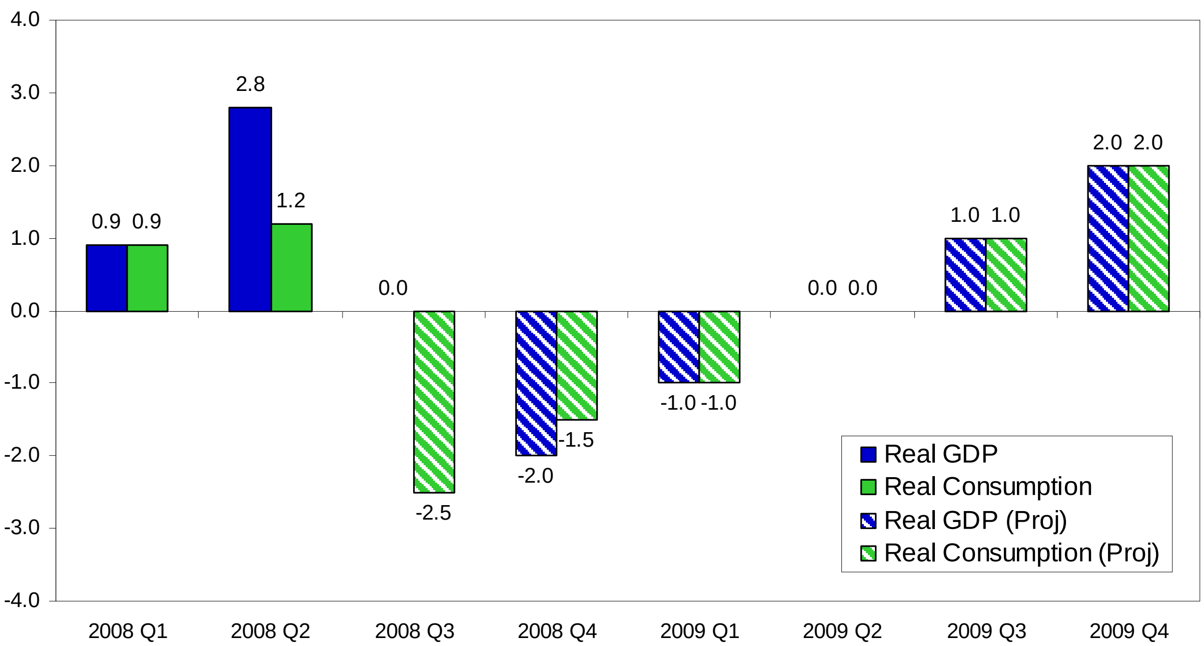


Source: Bureau of Labor Statistics

Macroeconomic Forecasts: The combination of the bursting housing bubble, the financial market turmoil, including the credit crunch, and the labor market and income data shown above implies that the American consumer will likely be spending much less, and saving more, for several quarters if not for years. While raising the national savings rate is an important longer-term goal, in the current context—and in an economy that is 70% consumption—it will extend the length and depth of the current recession.

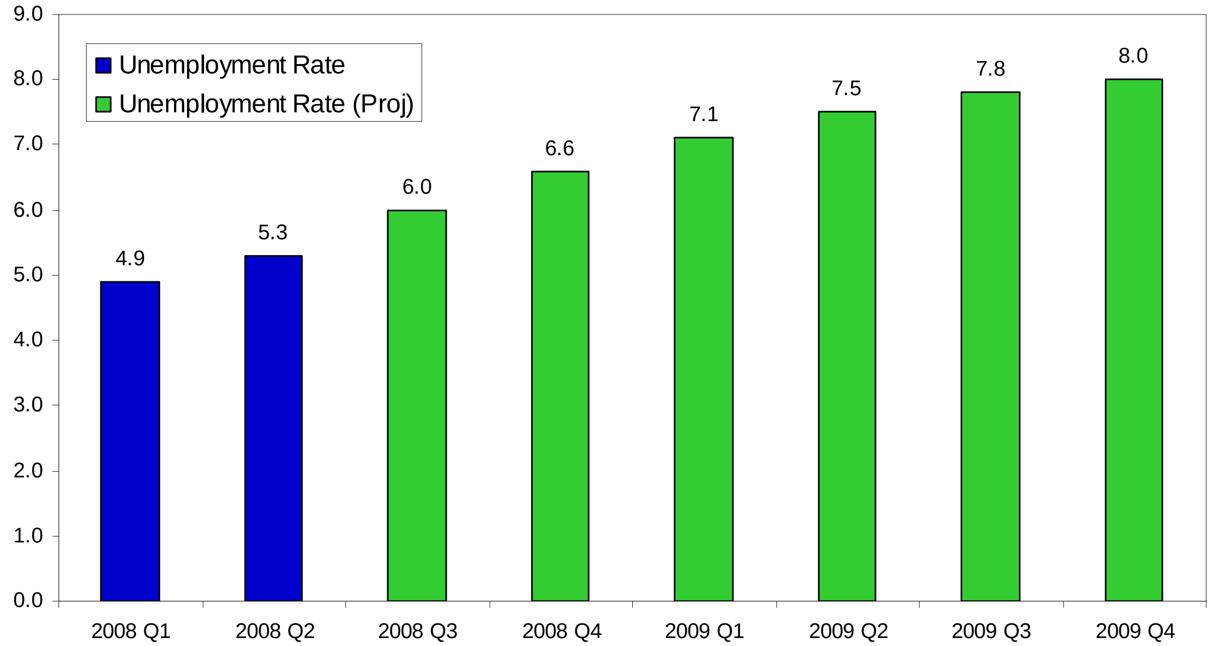
Figures 10 and 11, from forecasters at Goldman Sachs, plot the annualized change in real GDP and consumption, as well as the quarterly unemployment rate, through the end of 2009. Real consumption, which grew at an average rate of 3% over the 2000s expansion (and has not had a negative quarter since 1991), is expected to contract at an annual rate of 2.5% in the quarter just ended (2008q3), and remain negative or stagnant for the next few quarters as well. Unemployment is expected to reach 8% by the end of next year.

Figure 10. Annualized Percent Change in Real GDP and Real Consumption



Source: Author's analysis of Goldman Sachs projections

Figure 11. Quarterly Unemployment Rate



Source: Author's analysis of Goldman Sachs projections

With these expected outcomes in mind, I now turn to a discussion of the recovery package currently under consideration by many in Congress.

A Recovery Agenda

Public officials, both in Congress and at the Federal Reserve, have historically acted to offset recessionary conditions. Both the Federal Reserve and the Treasury have been aggressively intervening in financial and credit markets, and their efforts are starting to show some thawing of the freeze in those markets. I view these as supply-side interventions. That is, by opening up frozen credit lines, these actions have cleared the supply lines of credit such that borrowers and lenders will now lend at least somewhat more freely to each other. But in the absence of stronger demand, it is less likely these supply lines will be tapped.

Thus, demand-side stimulus is warranted. But what form should such stimulus take, and what should be its magnitude? I recommend a one-year recovery package in the neighborhood of 1-2% of GDP, about $150-300 billion, targeted at infrastructure, state fiscal relief, unemployment insurance, and food stamps. This is similar in size and composition to other recommendations, such as Irons and Pollack (2008), or Baily (2008), though smaller than that suggested in a recent Goldman Sachs analysis ($300-500 billion). For reasons I am about to discuss, I do not stress direct payments to households, but these may be helpful as well.

The first round of economic stimulus, passed last February, focused largely on such direct payments, called rebates. Over $100 billion in payments were sent to households over the summer, and some share of these payments, perhaps around half, found their way into the economy (the rest was saved, used to pay off debt, or leaked on import spending). Retail sales and personal income reports, for example, showed fairly clear evidence of the impact. Both of these measures factor directly into gross domestic product, and analysts generally agree that the stimulus package was an important contributor to the 2.8% growth in GDP in the second quarter of this year (real consumption spending contributed just under 1 percentage point to that growth).

But in almost solely emphasizing "rebates," the last stimulus package overlooked other important priorities, and these other channels are likely to provide a bigger bang for each stimulus buck.

A first priority should be to further extend unemployment insurance benefits. As discussed above, net job losses have led to higher unemployment, and at this point about a fifth of the jobless have been so for at least six months. Congress previously enacted the Emergency Unemployment Compensation (EUC) program, which provided up to 13 weeks of federally funded extended jobless benefits beyond the 26 weeks of unemployment insurance provided by the states. The National Employment Law Project (NELP) estimates that 800,000 jobless exhausted these benefits in October and will thus be left without any unemployment compensation.

Expanding the EUC for more weeks should thus be part of any stimulus package. Another 13 week extension is warranted, with further weeks triggered in states with particularly weak job markets.

But Congress may want to go beyond the extensions in two ways: raising the benefit levels of UI compensation and extending eligibility to unemployed persons who currently need but do not qualify for benefits. Given the income deficits facing the unemployed, not to mention the strong macro-multiplier associated with these benefits, increasing the share of lost salary replaced by UI is warranted. Replacement rates—the share of lost salary replaced—are typically well below 50%. As part of a stimulus package, a temporary, federally funded initiative to take replacement rates up to 50-70% would be highly stimulative and provide the unemployed with a much needed boost.

Ways to expand eligibility, such as alternative base periods, are in the language of the UI Modernization Act, well known to this committee. It is my understanding that some of these eligibility expansions could be implemented under the rubric of stimulus.

Regarding multipliers, research by Moody's economy.com finds that since unemployed persons typically spend their checks to meet basic needs, the program yields a particularly large "bang for the buck:" a dollar spent on the UI extension yields $1.64 in terms of GDP growth.[2]

Unfortunately, parts of the initial stimulus package were not spent so wisely. Accelerated depreciation of business expenses, for example, generates only $0.27 extra GDP per dollar spent, the smallest multiplier in the cited study (see previous footnote).

In contrast, a food stamp expansion would resemble UI extension in that it would likely generate a large multiplier ($1.73, according the Moody's economy.com), thus both providing an effective

[2] See Moody's economy.com, Assessing the Macro Impact of Fiscal Stimulus, 2008.

macroeconomic stimulus and addressing a critical human need. The Food Research and Action Council reports that while food prices are up 7.6% over the past year, significantly more than overall prices (4.9%), food costs facing low-income households have risen even more quickly, by 10.3% (this is the increase in the USDA's Thrifty Food Plan, a market basket reflecting the food consumption of low-income households). Consider these increases in the context of the projected income losses for the bottom fifth, as shown in Figure 8.

A temporary increase in the benefit level of food stamps would help to offset this combination of spiking prices and lagging incomes.

Similarly, this committee should consider the inclusion of a provision to reverse the cuts in child support enforcement that were enacted as part of the Deficit Reduction Act. Reversing these cuts—worth about $1.1 billion for a two-year moratorium on the cuts—would provide much needed resources to families that are particularly vulnerable even in good times, and especially so now, given the particularly steep real income losses faced by low-income families in recessions (see Figure 7). Such stimulus is well-targeted because child support disproportionately reaches lower-income families who are more likely to use the income to meet their consumption needs. One in four children in our nation relies upon the child support enforcement program, and most of these children live in families with relatively modest income, where child support is used to meet basic household expenses.

Furthermore, child support income makes up 30 percent of the income of poverty-level families who receive it, and when families do not receive this money support they are more likely to need public assistance. Research shows that for every dollar that the federal government spends on the child support program, it saves nearly a dollar on means-tested programs, such as Food Stamps, Medicaid, and Supplemental Security Income.

State fiscal relief was also left out of the last stimulus package, yet the need to correct this omission is large and growing. According to the Center on Budget and Policy Priorities, "at least 29 states faced or are facing a combined $48 billion in…budget shortfalls."[3] These states typically must balance their budgets. Thus, in the absence of help from the federal government, they will be forced to draw down rainy-day reserves or take actions that would exacerbate the negative macroeconomic cycle (tax hikes or service cuts). The CBPP reports that states are actively tapping their reserves, but that these funds "generally are not sufficient to avert the need for substantial budget cuts or tax increases."

Thus, a second stimulus package should contain considerable aid to states. The two mechanisms through which such grants are typically made are a temporary increase in the federal government's contribution to the state's Medicaid program or general grants to the states. Following the last downturn, each of these programs received $10 billion. CBPP analysts note that these grants had their intended effects of preventing state actions that would deepen the negative cycle. But they also point out that "The major problem with that assistance was that it was enacted many months after the beginning of the recession, so it was less effective than it could have been…"

[3] http://www.cbpp.org/1-15-08sfp.htm

This time, the states' budget needs are considerably larger, and various analysts of such conditions have suggested that $50 billion, split between Medicaid and block grants, could be usefully absorbed by states to offset the effects noted above.

Irons and Pollack (IP, 2008) also point out that the credit crunch has significantly raised the cost of borrowing for states, who, despite their sterling borrowing record, are facing much higher interest rates on bond issues. They note that "the Metropolitan Washington Airports Authority recently postponed plans for a $2.2 billion bond sale to expand the terminals at Dulles and Reagan National Airports. … Foregone infrastructure projects [like these]—which so far have been estimated to total $100 billion—will result in more unemployment, less demand for goods and services, and less overall economic activity." [4]

This example brings us to the final crucial area that the last stimulus package did not address, which is infrastructure investment. I urge this body to strongly consider including funding for infrastructure projects in a second package.

Three facts motivate this contention. First, as noted, American households are highly leveraged, and may well be poised for a period of enhanced savings and diminished consumption. In this context, public investment should be viewed as an important source of macro-economic stimulus and labor demand—the creation of new, often high-quality jobs—which is clearly lacking from our current labor market.

Second, there are deep needs for productivity-enhancing investments in public goods that will not be not made by any private entities, which, by definition, cannot capture the returns on public investments in roads, bridges, waste systems, water systems, schools, libraries, parks, etc. Third, climate change heightens the urgency of the need to make these investments with an eye towards the reduction of greenhouse gases and the conservation of energy resources.

For example, Irons and Pollack also note that according to the American Society of Civil Engineers, over two-thirds of roads are in poor or mediocre condition,[5] resulting in $54 billion per year wasted on repairs and operating costs.[6] More than a quarter of all bridges are rated structurally deficient or obsolete, leading to closings, and in some cases to collapse.[7] Half of all waterway locks are functionally obsolete, resulting in waterway shutdowns and substantial business losses.[8]

In this regard, infrastructure funding serves both to enhance productivity through investment in pubic capital and to create good jobs for workers that might otherwise be unemployed or underemployed. One common argument against such investment in the context of a stimulus

[4] http://www.washingtonpost.com/wp-dyn/content/article/2008/10/03/AR2008100303486.html?hpid=topnews
[5] "Key Facts About America's Road and Bridge Conditions and Federal Funding." TRIP, 2005 http://www.tripnet.org/nationalfactsheet.htm
[6] "Report Card for America's Infrastructure: Roads." *American Society of Civil Engineers*, http://www.asce.org/reportcard/2005/page.cfm?id=30
[7] "Key Facts About America's Road and Bridge Conditions and Federal Funding." *TRIP*, 2005 http://www.tripnet.org/nationalfactsheet.htm
[8] "Report Card for America's Infrastructure." *American Society of Civil Engineers*, 2005 http://www.asce.org/files/pdf/reportcard/2005_Report_Card-Full_Report.pdf

package is that the water won't get to the fire in time; i.e., the implementation time lag is so long that we will be unable to inject growth quickly enough to help the ailing economy. However, research by EPI economists has carefully documented current infrastructure needs that could quickly be converted into productive, job-producing projects.

Take, for example, the August 2007 bridge collapse in Minneapolis. The concrete for the replacement bridge began flowing last winter, and the bridge was recently completed, well ahead of schedule. The American Association of State Highway and Transportation Officials claims that, according to their surveys, "state transportation departments could award and begin more than 3,000 highway projects totaling approximately $18 billion within 30-90 days from enactment of federal economic stimulus legislation."[9]

Thus, we at EPI recommend that the following criteria be met in terms of infrastructure investment.

- the projects are underway or ready-to-go, such that both payout and actual work could begin within a narrow time frame, say three months;

- the projects will create good jobs;

- they will meet a pressing infrastructure need and when possible, will do so with an emphasis on environmental protection;

- legislative conduits to fund these projects already exist.

Here are some examples identified by EPI researchers (e.g., Ross Eisenbrey, John Irons, Ethan Pollack):

- There are 772 communities in 33 states with a total of 9,471 identified combined sewer overflow problems, releasing approximately 850 billion gallons of raw or partially treated sewage annually. In addition, the Environmental Protection Agency (EPA) estimates that between 23,000 and 75,000 sanitary sewer overflows occur each year in the United States, releasing between three and 10 billion gallons of sewage per year.
- According to a survey by the National Association of Clean Water Agencies, communities throughout the nation have more than $4 billion of wastewater treatment projects that are ready to go to construction if funding is made available. Funds can be distributed immediately through the Safe Drinking Water and Clean Water State Revolving Funds and designated for repair and construction projects that can begin within 90 days.
- The National Center for Education Statistics (NCES) put the average age of the main instructional public school building at 40 years. Estimates by EPI find that the United States should be spending approximately $17 billion per year on public school facility maintenance and repair to catch up with and maintain its K-12 public education infrastructure repairs.

[9] http://www.transportation.org/news/96.aspx

- According to EPI's Ross Eisenbrey, the 16,000 public school districts in the United States have a backlog of deferred maintenance and repairs that exceeds $100 billion. Many school buildings are 50 or even 100 years old and thousands of buildings have antiquated electrical wiring, old, leaky windows, damaged or poorly insulated roofs, old, energy-inefficient boilers or air conditioning units, damaged or leaky toilets and plumbing, and damaged plaster and paint. Every district has identified its needs and would do these repairs if they had funds, and most of the projects are the kind of work that can be completed in 60-90 days. There are important returns in terms of energy savings, teacher morale and student achievement from many of these improvements, in addition to safety and health benefits, and $10 billion could be quickly and efficiently spent by distributing the funds through the Elementary and Secondary School Act formula for Title 1. It is possible that as much as $20 billion could be spent quickly and well. It is critically important that Davis-Bacon Act prevailing wage requirements be applied for all funded work.
- The U.S. Department of Transportation has identified more than 6,000 high-priority, structurally deficient bridges in the National Highway System that need to be replaced, at a total cost of about $30 billion. A relatively small acceleration of existing plans to address this need—appropriating $5 billion to replace the worst of these dangerous bridges—could employ 70,000 construction workers, stimulate demand for steel and other materials, and boost local economies across the nation.
- The House Committee on Transportation and Infrastructure has identified more than $70 billion in construction projects that could begin soon after being funded. An effective short-term stimulus plan could include resources directed at projects for roads, rails, ports, and aviation; only projects that can begin within three months would be considered.
- APTA, the American Public Transportation Association, just released a new, up-to-date survey of its member transit agencies with information about public transportation projects that meet the criteria noted above. In fact, these were the survey criteria asked of respondents (state transportation agencies): projects can be implemented within 90 days of federal funding being made available; they constitute an eligible use of federal funding for the agency; they would not proceed in the current federal fiscal year without supplemental funding, thus fostering new economic activity. APTA reports that 170 public transportation agencies have responded to the survey, providing 559 "ready-to-go" projects with an estimated cost of $8.03 billion.

Bracken Hendricks from the Center for American Progress Action Fund has extensively documented these types of ready-to-go projects with an emphasis on green production.[10] He notes that these projects "could rapidly deploy $54.8 billion to provide immediate stimulus and near-term economic recovery and growth, and make a long-term commitment toward building a clean energy economy." The projects include (lifted directly from his document):

- Energy Efficiency and Conservation Block Grants: Increase appropriation to $6 billion to fund states, cities, and counties in pursuing clean energy projects.

[10] Bracken Hendricks, Center for American Progress Action Fund, Recommendations on Green Infrastructure and Economic Recovery, October 22, 2008.

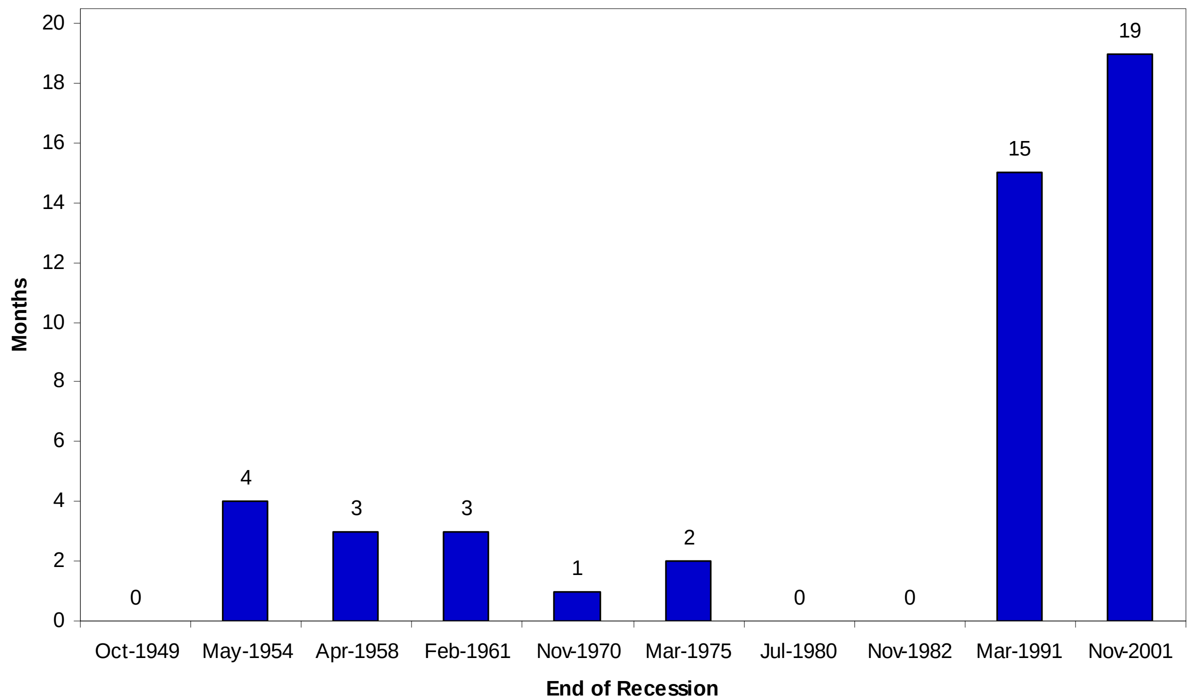
- New Starts Transit Project Investments: Fund 74 identified and permitted projects in 23 states that could begin construction within months, at $30.5 billion.
- Transit Agency Assistance: Provide $1 billion in assistance to transit agencies to reduce transit fares for commuter rail and buses and expand services.
- Green School Construction and Renovation: Support state and local school modernization, renovation, and repair at $7.25 billion.
- Weatherization Assistance Program: Fully fund the Weatherization Assistance Program at $900 million, the amount Congress is authorized to spend on the program in FY 2009, and build toward a goal of weatherizing 1 million homes.
- Emergency Home Retrofit Rebate Program: Initiate a $500 million rebate program for energy retrofits to overcome market barriers to weatherization for middle-income homeowners.
- Green Affordable Housing HOME Block Grants: Supplement block grant funding through the HOME program with $1 billion for energy-related projects.
- Green Community Revitalization: Appropriate $800 million for greening HOPE VI projects to meet Energy Star and green communities standards.
- Workforce Investment – Green Jobs Act: Increase appropriation for the Green Jobs Act, authorized in the 2007 EISA to $250 million to provide job training and workforce investment in energy efficiency and renewable-energy installations.
- Manufacturing Extension Partnership: Expand the capacity of domestic manufacturing modernization efforts, by increasing MEP funding to $200 million.
- Advanced Coal Technology to Capture Carbon: Invest $1.1 billion in beginning construction of the experimental FutureGen Carbon Capture and Storage demonstration coal-fired power plant.
- Consumer Rebates for Solar Roofs: Initiate a $1 billion rebate program to provide rebates of up to 50 percent for home renewable-energy installations.
- Smart Grid Federal Matching Funds: Fund the Smart Grid Title of the Energy Independence and Security Act of 2007, to support R&D, pilot projects, and federal matching funds at $1.3 billion.
- Additional Green Infrastructure – Clean Water: Invest in broader community benefits and green jobs with $3 billion in green storm water infrastructure.

Finally, while I have discussed these infrastructure needs in the context of recession and stimulus, it is important to recognize two important points. First, these are all necessary and productivity-enhancing investments that should be made regardless of the state of business cycle. And second, recent history suggests that it is a mistake to think that labor market slack will no longer be a problem when the recession officially ends.

This last point deserves elaboration. Much of the current recession/stimulus debate has stressed that recent recessions—the ones in 1990-91 and 2001—were both mild and short-lived, and perhaps the next recession will follow the same pattern. It is critical to recognize that these claims are based solely on real output growth, and not on job market conditions. The allegedly mild 2001 recession, wherein real GDP barely contracted, was followed by the longest "jobless recovery" on record. Though real GDP grew, payrolls shed another net 1.1 million jobs.

As **Figure 12** shows, the unemployment rate rose for another 19 months after the recession, and the unemployment rate for African-Americans rose for almost two years. The pattern was similar, though not quite as deep, after the early 1990s recession. The figure also reveals how different these recent patterns were from earlier downturns, when unemployment peaked much closer to the end of the recession.

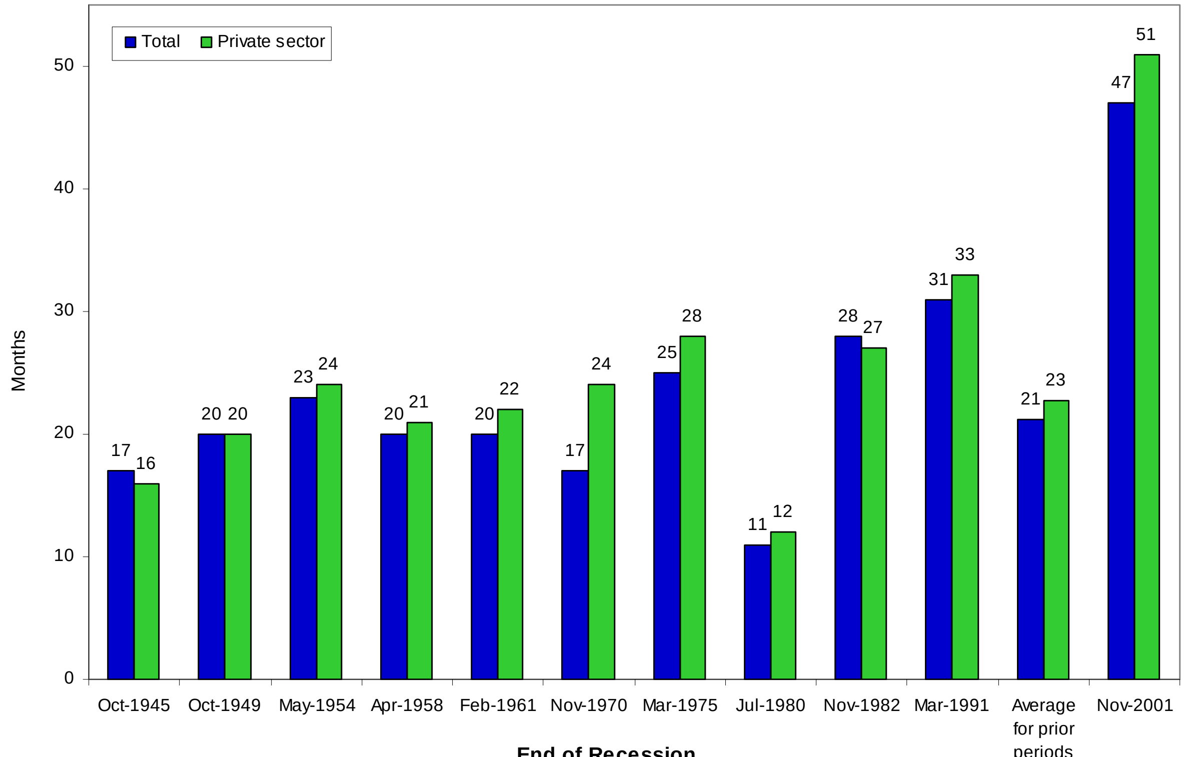
Figure 12. Number of Months from End of Recession Until Unemployment Peak



Source: Authors' analysis of BLS data.

Similarly, employment levels take longer to recover from recessions than does GDP, and this disparity was again much more pronounced in the last recession. As **Figure 13** shows, private sector employment took 51 months to reach its previous peak after the end of the recession of 2001, which is more than twice as long as the average figure for prior recessions.

Figure 13. Number of Months to Regain Peak-Level Employment after a Recession



Source: Authors' analysis of BLS data.

Part of the explanation for this disjuncture has to do with the way recessions are officially dated by the committee at the National Bureau of Economic Research, as they have apparently given less weight to the job market and greater weight to output growth. But policy makers are likely to give greater consideration to working families whose employment and income opportunities are significantly weakened as unemployment rises and job growth contracts. Thus, from a stimulus perspective, these investments will be still be relevant and needed well after the recession is officially ended.

The Congressional Budget Office is often cited in this discussion for noting that since infrastructure spending has a significant lag time, it may not be adequately suited for counter-cyclical economic stimulus. Their claim rests on historical evidence based largely on traditional public investment, such as the outlay rate of the Highway Trust Fund, which was recently scored as 27% in the first year and 69% in the first two years.

However, by focusing on a different set of projects that meet the criteria noted above, this outlay rate could be increased. Members of the House of Representatives, for example, recently included language stressing that investment priorities would be given to ready-to-go projects that can award bids within 120 days of legislative enactment. Such language is critical to make sure that stimulus resources go to ready-to-go projects.

Former Treasury Secretary Lawrence Summers recently wrote that “While infrastructure spending is often seen as operating only with significant lags, I have become convinced that properly designed infrastructure support can make a timely difference for the economy…Properly designed infrastructure projects have the virtue of being helpful as short run stimulus, especially for the employment of the workers most hard hit by the housing decline, while at the same time augmenting the economy’s productive potential in the long run.”[11] In this latter sense, by helping to generate faster growth than would otherwise be the case, infrastructure investments can help pay for themselves.

Conclusion

The first part of this testimony lays out the dimensions of the current recession in some detail, while the second section outlines what to expect in coming years, including forecasts of likely losses to income, driven by higher expected unemployment. The third section discusses a recovery package, including expansions to the unemployment insurance and food stamp programs, rollbacks of the cuts in child support enforcement, state fiscal relief, and infrastructure investment, with an emphasis on projects that can be up and running within months, quickly generating much needed new jobs. This package could involve expenditures, roughly speaking, of between $150-300 billion, with $50 billion for states, $50 billion for infrastructure, and $50 billion for UI and food stamps (UI would absorb most of this, perhaps $30-40 billion, depending on whether Congress pursued benefit and eligibility expansions). Beyond that, Congress may decide that direct payments to low- and middle-income households is also useful. A recovery package of this magnitude is strongly recommended to meet the current economic hardships that many American families are undergoing, as well as those that lie ahead, as the downturn persists in coming months.

My testimony also stresses the utility of infrastructure investment as short-term stimulus. This approach has, in the past, been criticized as invoking long lead times, rendering it an unsuitable strategy. But, based on research by economists at EPI and CAP, along with that of former treasury Secretary Larry Summers, I have listed many examples of ready-to-go projects that would arguably be effective in terms of job creation, while filling a public investment deficit. We also are likely to face a more protracted downturn, implying that if longer lead times do occur, the economy will likely still need the stimulus.

I thank Tobin Marcus, Ethan Pollack, Ross Eisenbrey, Bracken Hendricks, Larry Summers, John Irons, and Monique Morrissey for helpful input.

[11] http://www.brookings.edu/projects/hamiltonproject/~/media/Files/Projects/hamilton/testimony/0909_Summers_budget_testimony.pdf