EXPANDING OPPORTUNITIES FOR JOB CREATION

HEARING

BEFORE THE

COMMITTEE ON EDUCATION AND THE WORKFORCE U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

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C O N T E N T S

EXPANDING OPPORTUNITIES FOR JOB CREATION

Wednesday, February 1, 2012
U.S. House of Representatives
Committee on Education and the Workforce
Washington, DC

The committee met, pursuant to call, at 10:05 a.m., in room 2175, Rayburn House Office Building, Hon. John Kline [chairman of the committee] presiding.

Present: Representatives Kline, Biggert, Foxx, Goodlatte, Walberg, DesJarlais, Bucshon, Gowdy, Roby, Heck, Ross, Kelly, Payne, Scott, Woolsey, Hinojosa, McCarthy, Tierney, Kucinich, Davis, Bishop, and Altmire.

Staff present: Katherine Bathgate, Press Assistant/New Media Coordinator; James Bergeron, Director of Education and Human Services Policy; Casey Buboltz, Coalitions and Member Services Coordinator; Ed Gilroy, Director of Workforce Policy; Benjamin Hoog, Legislative Assistant; Marvin Kaplan, Workforce Policy Counsel; Barrett Karr, Staff Director; Ryan Kearney, Legislative Assistant; Rosemary Lahasky, Professional Staff Member; Brian Newell, Deputy Communications Director; Krisann Pearce, General Counsel; Molly McLaughlin Salmi, Deputy Director of Workforce Policy; Linda Stevens, Chief Clerk/Assistant to the General Counsel; Alissa Strawcutter, Deputy Clerk; Loren Sweatt, Senior Policy Advisor; Joseph Wheeler, Professional Staff Member; Aaron Albright, Minority Communications Director for Labor; Tylease Alli, Minority Clerk; Kelly Broughan, Minority Staff Assistant; John D'Elia, Minority Staff Assistant; Livia Lam, Minority Senior Labor Policy Advisor; Brian Levin, Minority New Media Press Assistant; Celine McNicholas, Minority Labor Counsel; Richard Miller, Minority Senior Labor Policy Advisor; Megan O'Reilly, Minority General Counsel; Julie Peller, Minority Deputy Staff Director; Michele Varnhagen, Minority Chief Policy Advisor/Labor Policy Director; and Michael Zola, Minority Senior Counsel.

Chairman KLINE. A quorum being present, the committee will come to order.

Well, good morning, and welcome to the first Education and Workforce Committee hearing of the new year. I would like to thank Governors Snyder and Malloy for participating in today's hearing. Your experiences at the state level offer some really important insight to this committee in Congress, and we appreciate having you here with us.

And I talked to both of you before the hearing, and thank you. I want to thank you again. It is always very special for us when we have leaders here who can bring their experiences to us.

A year ago, the committee met to examine the state of the workforce. It was our first hearing of the 112th Congress and reflected our commitment to make job creation and American competitiveness top priorities.

Much has happened since we met in January of 2011. Unemployment was 9.1 percent. Today, it stands at 8.5 percent. Nearly 14 million workers were unemployed. Now 1 million fewer workers are unemployed. The number of long-term unemployed—those out of work for 27 weeks or more—has also declined from 6.2 million to 5.6 million.

These facts may demonstrate modest progress, but far too many Americans continue to face significant hardship in this tough economy. The number of Americans participating in the labor force is at its lowest level in 28 years. More than 8 million individuals are working part-time because full-time jobs are unavailable, and 1 million "discouraged" workers have abandoned their job search entirely.

Simply put, we are experiencing the weakest recovery since the Great Depression. As the Wall Street Journal recently noted, the recovery of the 1980s led to 18 straight months of growth greater than 5 percent. Yet our own recovery over the last 2.5 years has averaged just 2.5 percent. The nation should be firing on all cylinders; yet our economy remains stuck in neutral.

In many ways, the current administration has made matters worse by promoting the politics of fear and uncertainty. Costly regulations that fail to enhance the welfare of workers, bureaucratic actions that favor powerful special interests at the expense of employers and employees, and politically motivated decisions that destroy tens of thousands of good-paying jobs are part of what Governor Mitch Daniels described as a "pro-poverty agenda."

To help restore certainty and confidence, the House of Representatives has approved more than 30 bipartisan jobs proposals in the last 12 months. The bills touch upon virtually every part of the economy, from labor relations and energy security to tax relief and fiscal responsibility. No single proposal represents a silver bullet but each helps remove government barriers to economic growth and job creation.

While more than 25 House-passed jobs bills face obstruction in the Democrat-led Senate, a number of our legislative efforts have reached the president's desk. In January, I had the privilege of joining Speaker Boehner on a trip across Latin America, including a stop in Colombia to visit with its business leaders and elected officials. Thanks to the bipartisan effort of this Congress, working with the president, Colombia will soon import—duty free—goods and products built by American workers.

Speaking of our trade agreements with Colombia, Panama, and South Korea, the president stated, "American automakers, farmers, ranchers, and manufacturers, including many small businesses, will be able to compete and win in new markets." We need to build on this success and explore new opportunities to help workers thrive in the global economy.

I am hopeful job training reform is an area in which we can work together to strengthen the competitiveness of the workforce. For the nation's long-term unemployed, 7 months without work can feel like a lifetime. Effective job training support can help workers get back on their feet and back to work. The need for a leaner, more efficient workforce investment system has never been more urgent. I was pleased to hear the president call for reform in his State of the Union address, and we stand ready to take action.

Already, my colleagues have introduced three proposals that lay the foundation for a 21st-century job training system. A key component of our effort is the consolidation of dozens of federal workforce programs into four flexible funding streams. Streamlining these programs will enhance support for workers, offer a better trained workforce for employers, and promote better use of taxpayer dollars. The president suggested the need for even greater consolidation, and we are happy to consider a responsible plan to do that.

In fact, I sent a letter to Labor Secretary Solis this morning that asks for more details about the president's new job training proposal. I look forward to receiving a timely response so we can improve the nation's workforce investment system without delay.

Over the last several years, we have seen a lot of failed policies and broken promises, starting with a so-called stimulus plan that created debt, not jobs. And I know there are sharp differences in this Congress, in this House, and on this committee. However, it is not enough to shout from the stands and criticize the plays being called on the field. I encourage all members, on both sides of the aisle, to stay engaged, offer positive solutions, and work to find common ground.

Again, I would like to thank our witnesses for joining us, and I will now recognize my distinguished colleague, Mr. Payne, for his opening remarks.

[The statement of Chairman Kline follows:]

Prepared Statement of Hon. John Kline, Chairman, Committee on Education and the Workforce

Good morning and welcome to the first Education and the Workforce Committee hearing of the new year. I'd like to thank Governors Snyder and Malloy for participating in today's hearing. Your experiences at the state level offer important insight to this committee and Congress, and we appreciate having you here with us.

One year ago, the committee met to examine the state of the workforce. It was our first hearing of the 112th Congress, and reflected our commitment to make job creation and American competitiveness top priorities.

Much has happened since we met in January of 2011. Unemployment was 9.1 percent; today it stands at 8.5 percent. Nearly 14 million workers were unemployed; now one million fewer workers are unemployed. The number of long-term unemployed—those out of work for 27 weeks or more—has also declined from 6.2 million to 5.6 million.

These facts may demonstrate modest progress, but far too many Americans continue to face significant hardship in this tough economy. The number of Americans participating in the labor force is at its lowest level in 18 years. More than 8 million individuals are working part time because full time jobs are unavailable and one million "discouraged" workers have abandoned their job search entirely.

Simply put, we are experiencing the weakest recovery since the Great Depression. As the Wall Street Journal recently noted, the recovery of the 1980's led to 18 straight months of growth greater than 5 percent. Yet our own recovery over the last two and a half years has averaged just 2.5 percent. The nation should be firing on all cylinders, yet our economy remains stuck in neutral.

In many ways, the current administration has made matters worse by promoting the politics of fear and uncertainty. Costly regulations that fail to enhance the welfare of workers, bureaucratic actions that favor powerful special interests at the expense of employers and employees, and politically motivated decisions that destroy tens of thousands of good paying jobs are part of what Governor Mitch Daniels described as a "pro-poverty agenda."

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Over the last several years, we've seen a lot of failed policies and broken promises, starting with a so-called stimulus plan that created debt, not jobs. And I know there are sharp differences on this committee. However, it is not enough to shout from the stands and criticize the plays being called on the field. I encourage all members, on both sides of the aisle, to stay engaged, offer positive solutions, and work to find common ground.

Again, I'd like to thank our witnesses for joining us, and I will now recognize my distinguished colleague George Miller, the senior Democratic member of the committee, for his opening remarks.

Mr. PAYNE. Good morning.

Mr. Chairman, thank you for calling this very important hearing on job creation. And welcome to Governor Malloy and Governor Snyder. I am pleased we will be hearing from two state executives about their efforts to expand job opportunities. You are right there where the rubber meets the road.

And I am pleased we will have an additional panel of experts to advise this committee on how best to move forward on this very important issue of creating jobs.

Last week in his State of the Union, President Obama challenged us to work together to move the economy forward. I couldn't agree more. Job creation is the most urgent issue for millions of families and businesses across the country.

In 2008, our economy went over the cliff. The recession, brought on by Wall Street greed, was long and deep. Almost immediately, 4 million jobs were lost. Another 4 million were lost before things started to turn around.

It took strong and decisive action by the last Congress, working with the Obama administration, to pull our country back from the abyss. The action made a real difference. The private sector has created more than 3 million jobs in the last 22 months. Consumer confidence is edging up and signaling continued economic growth. Manufacturing employment has grown for the first time since the late 1990s.

Despite calls from some to let the domestic auto industry fail, we took bold action and actually saved millions of American jobs. Our auto industry is back on the upswing, making great cars, investing in new factories, creating thousands of new jobs, all because we intervened.

And while rising health costs have been a drag on our economy, we did take action. We passed the Affordable Care Act. Not only does the law give businesses and health care providers new tools to bring costs under control, it will expand health care coverage to 32 million Americans. This is an amazing feat.

And health care reform is no job-destroyer. On the contrary, since the Affordable Care Act was signed into law, we have seen half-a-million new jobs created in the health care sector. This is a much different story than what our country was facing just a few years ago, when our economy was hemorrhaging 750,000 jobs a month.

And so our nation's economy is headed in the right direction. But of course, we all know that there is more action that needs to be taken. Now is not the time to put on the brakes. We need to work together for a fair and sustainable recovery and to rebuild those ladders of opportunity for every American.

While today's hearing is timely and appropriate, I fear another year of wasted opportunities is before us. I say this because a little more than a year ago, this committee held a similar hearing on the economy and job creation. During that hearing, a governor and economists across the political spectrum agreed that rebuilding roads, schools, and bridges have significant benefits for jobs and for building the economy.

But in the years that followed, the House failed to act on jobs. Instead of a jobs agenda last year, all we saw was political brinksmanship. The kind of politics that hurts building jobs, that shuts down the FAA, putting thousands of workers out of work, jeopardizing thousands of construction workers' jobs in the process. It resulted in our nation's credit being downgraded for the first time in our history.

It has jeopardized Americans' unemployment insurance. It has threatened the extension of payroll tax cuts. And now we are seeing a highway bill from House Republicans that falls substantially short of what our nation needs. Our roads and our bridges are crumbling. It does not even contain a buy America provision so that jobs created are jobs that can be created here in the United States.

Again, Mr. Chairman, this hearing comes at an opportune time. I hope it will help us turn the corner. I urge my colleagues on the other side of the aisle not to allow another year to go by without action.

I have read the comments that Speaker Boehner wants to use this year to put the Obama administration on trial. I hope Speaker Boehner's comments are a commitment, rather, to oversight and that we will be able to work together in an effort to grow our economy and to create new jobs.

The American people aren't interested in another year of politics and political infighting and congressional inaction on jobs. There is nothing wrong with political differences and policy differences. Sometimes we agree with these and we agree on the other side of the aisle in cases. But sometimes we don't agree. That is the nature of democracy. That is why we have different political parties.

But during tough times, we should at least try to work together to develop consensus, not roadblocks, and that is the case at all levels of government.

Thank you, Mr. Chairman. I will yield back.

Chairman KLINE. I thank the gentleman.

Pursuant to committee rule 7(c), all committee members will be permitted to submit written statements to be included in the permanent hearing record. Without objection, the hearing record will remain open for 14 days to allow statements, questions for the record, and other extraneous material referenced during the hearing to be submitted in the official hearing record.

[An additional submission of Chairman Kline follows:]

ASSOCIATED BUILDERS AND CONTRACTORS, INC.,
Arlington, VA, February 1, 2012.

Hon. JOHN KLINE, *Chairman;* Hon. GEORGE MILLER, *Ranking Member,*
Education and Workforce Committee, U.S. House of Representatives, Washington, DC 20515.

DEAR CHAIRMAN KLINE AND RANKING MEMBER MILLER: On behalf of Associated Builders and Contractors (ABC), a national association with 74 chapters representing more than 22,000 merit shop construction and construction-related firms, I am writing in regard to the full committee hearing titled, "Expanding Opportunities for Job Creation."

ABC members appreciate the committee's interest in improving America's business environment to foster job growth. The construction industry is still struggling to combat a staggeringly high unemployment rate of 16 percent.

One significant way for government entities to create opportunities for employers in the construction industry to expand and hire is to eliminate government-mandated project labor agreements (PLAs) on taxpayer funded construction. These special interest schemes discourage competition from qualified nonunion contractors and their workers. When a government entity requires a PLA on a construction project, they are essentially tilting the playing field in favor of contractors that agree to use organized labor. On government-funded or assisted projects, this means that the 86 percent of the private construction workforce that chooses not to join a labor union cannot compete on an equal basis for projects funded by their own tax dollars.

Governor Rick Snyder and Governor Dannel Malloy have contrasting records with regard to government-mandated PLAs. ABC believes that these policies will have significant impacts on the construction industry in their states in the future.

Michigan

Although less than 22 percent of the construction workforce in Michigan has decided to join a labor organization, numerous public entities were choosing to require contractors to sign a PLA with a labor union as a condition of performing public work. In July 2011, Governor Snyder signed legislation barring the state and other public entities from requiring contractors to sign an agreement with a union in order to perform public construction. Michigan is one of 11 states to ban government-mandated PLAs, with seven doing so in 2011 alone.

This law is already improving the business climate for construction firms in Michigan. PLA requirements on several projects were lifted almost immediately, giving employers in the construction industry a much needed opportunity to compete for projects and grow their workforces. This law also ensures that taxpayer funds are used as efficiently as possible. PLA requirements have been found to increase construction costs by as much as 18 percent. By eliminating PLA mandates, public entities can use these savings to fund other priorities.

Connecticut

The Malloy administration has supported job killing PLA mandates and recently signaled its intention to implement a PLA requirement for future expansion and renovation of the University of Connecticut hospital system. Additionally, the Malloy administration is under significant pressure from organized labor to require or encourage the use of PLAs on future construction. ABC believes that requiring contractors to sign a PLA in order to perform public construction reduces job opportunities for the vast majority of the construction workforce that chooses not to join a labor organization. We hope that Governor Malloy will choose to allow fair and open competition to dictate how taxpayer funded projects are awarded in the future.

At the federal level, ABC believes that President Barack Obama should considering following Governor Snyder's lead and reverse his Executive Order 13502, which encourages federal agencies to require PLAs on projects costing more than $25 million. When mandated on federal construction projects, PLAs limit the ability of merit shop construction firms to compete and deprives them of the opportunity to create new jobs.

We appreciate you taking the time to address this vital issue and believe Governors Snyder and Malloy, along with the other witnesses, have important insights to share with this committee. We look forward to working with you on future job growth initiatives.

Sincerely,

CORINNE M. STEVENS,
Senior Director, Legislative Affairs.

[The statement of Mr. Miller follows:]

Prepared Statement of Hon. George Miller, Senior Democratic Member, Committee on Education and the Workforce

Good morning, Mr. Chairman.

Last week, this committee held a rare hearing on creating job opportunities for the American people.

The first panel consisted of two governors: One Democrat and one Republican. Despite party and regional differences, the governors delivered a positive message about cooperation and economic progress in their respective states.

They both unequivocally rejected the path of divisive politics. When it comes to seeking solutions for a stronger, faster economic recovery, they did not recommend inaction.

Instead, they both made a compelling case that past efforts here in Washington, like the Recovery Act and the auto rescue, saved this country from an even deeper crisis.

Michigan's Republican governor specifically highlighted legislation authored by Congressman Frank that helps to provide capital to small businesses.

Governor Snyder said that in Michigan, this one piece of legislation allowed the state to use $30 million in public funds to leverage nearly $86 million in private capital for small businesses. These loan enhancements were spread across three programs. All together, they supported the creation of nearly one thousand new jobs.

In addition, despite calls from some to let the domestic auto industry fail, both governors agreed that the federal rescue of the American auto industry was essential. Governor Snyder noted that inaction would have brought down the entire industry. Because of the federal government's role, the American auto industry is back on top of its game and creating thousands of jobs.

Their message to Congress was "work together." Put aside divisive issues.

Our nation's future economic growth is dependent on productive partnerships and shared responsibility between federal, state, and local governments and the private sector.

I couldn't agree more.

Last week's hearing showed us that there are real opportunities where we can work together to rebuild our economy and reignite the American Dream.

This committee should be exploring ways we can assist governors to improve their states' infrastructure and to modernize and repair our nation's schools. Targeting resources to fix crumbling schools not only helps student learning, but also saves struggling small contractors from bankruptcy and creates private-sector construction jobs.

We could be exploring ways we can work together to modernize our nation's job-training programs or find a bipartisan solution to ESEA reauthorization.

We could be helping local governments save the jobs of teachers, police, and firefighters.

We could be exploring ways to help small businesses with their two most important challenges: getting access to credit and creating more consumer demand.

But that's not what this hearing is about.

Today is just another legislative day dedicated to divisive issues. It's not about working together to find solutions to real problems.

Today, the President's efforts to keep a vital government agency fully functional will surely be criticized. The rights of workers will be attacked. Labor unions will be attacked. An agency's efforts to enforce the law or modernize the law will be attacked.

By now, we all know the drill. And so does a very frustrated American public.

So, instead of working together to find solutions to real problems, let's proceed with the majority's sixth hearing on the National Labor Relations Board.

I yield back.

Chairman KLINE. For introductions of our first distinguished panel of witnesses, I yield to Mr. Walberg of Michigan to introduce our first witness.

Mr. WALBERG. Thank you, Mr. Chairman.

On November 2, 2010, Michiganians elected Rick Snyder, a successful businessman with no experience in politics—I think that has changed—to lead the state as governor. Through his relentless positive action and focus on accomplishing what he pledged to do, Governor Snyder has delivered.

During his first year in office, he worked with lawmakers on both sides of the aisle to eliminate the state's $1.5 billion budget deficit and create a $460 million surplus, and climbing.

As a true believer in the power of the private sector, uniting, not dividing all sectors, he has proven his commitment to Michigan's future through his support of education and real-world training for job-seekers and removing unnecessary government-made hurdles. These types of bold actions were direly needed in Michigan, and Governor Snyder, doing what he promised—an unusual tact—has acted quickly to put our state back on the path to prosperity.

And for that, I say thank you.

On a more personal level, by the age of 23, this businessman-turned-politician earned his undergraduate degree, MBA, and law degree from the University of Michigan. Go blue.

After spending time teaching and working as a tax accountant, Governor Snyder led a struggling company called Gateway, led them to grow from just over 700 employees struggling with great challenges to a Fortune 500 company with more than 10,000 employees.

As a fellow Michiganian, I look forward to working with Governor Snyder in 2012 as we help to grow Michigan's economy. And may I add, it has been a pleasure to watch a governor who doesn't believe that it can't be done and when it is the right thing to do. And through relentless effort, relentless positive action, he has been able to make unbelievers believers in the possibility, as well as the ultimate opportunity of Michigan regaining its primacy as a manufacturing state, as a technology state, as an education state, and the best state in the world to live and do business.

We welcome you, Governor Snyder.

Chairman KLINE. Thank you, Mr. Walberg.

You notice we do a lot of that "Go Blue," "Go Red." I don't know. Maybe it is the Education Committee, we can't stop ourselves.

It is my pleasure now to introduce our second witness, co-panelist, Governor Rick Snyder. He was sworn into office as the 48th governor—I am sorry. We just introduced that guy. [Laughter.]

Mr. WALBERG. I think I did that well, didn't I, Chairman?

Chairman KLINE. Actually, you did it extremely well. I am not sure about the "Go Blue" thing, but very, very well.

Governor Dan Malloy—let's get the right guy here—took office as the 88th governor of Connecticut on January 5, 2011. Prior to his election, Governor Malloy worked as a prosecutor in Brooklyn, New York, serving 4 years as assistant district attorney. In 1995, Governor Malloy was elected and served 14 years as mayor of Stamford, Connecticut. Now, that was a real job, no question about it. Governor Malloy, received his undergraduate and law degrees from Boston College.

Welcome to you both.

Before I recognize each of you to provide your testimony, let me, once again, briefly explain our lighting system. You will each have 5 minutes to present your testimony. If you go over, I will not be gaveling you down. If I start to get nervous up here, you will hear a gentle tapping.

When you begin, the light in front of you will turn green. When 1 minute is left, the light will turn yellow. When your time is expired, the light will turn red. After everyone has testified, we here members will each have 5 minutes to ask questions and have them answered from the panel.

So, at this time, we will start with Governor Snyder.

Governor, you are recognized.

STATEMENT OF HON. RICK SNYDER, GOVERNOR, STATE OF MICHIGAN

Governor SNYDER. Thank you, Mr. Chairman. And it is an honor to be here. Thank you for the invitation, and I want to thank Representative Walberg for his fine representation of our state, along with Representative Kildee.

I am here to really talk about the topic that is most important in our state, and I appreciate the opportunity to share that with you, which is more and better jobs.

If you look at where Michigan has come from, we led the nation in unemployment. If you go back to September 2009, our unemployment rate was over 14 percent. I am proud to say that, in December this last year, it was 9.3 percent, but as already been commented, that is not good enough. The goal is more and better jobs.

And the opportunity today, the way I view it is, is not to come and criticize the federal government and talk about how great Michigan is, but to come in the interest of partnership. We have a philosophy in Michigan, as Representative Walberg said, of relentless positive action, which means no blame, no credit, find common ground, solve a problem, and do it in a relentless fashion. And that has been successful.

So I want to compliment the federal government on a couple of programs we have partnered to together on, including the state small-business credit initiative. It has been a very successful program. And also good work going on with the Export-Import Bank to do credit for small business.

In terms of things in Michigan that we have move forward with, because the way I view more and better jobs, the role of government is not to create jobs, but to create an environment where the private sector can be successful and employ people, and so we have worked hard to create the best environment, and that began with having a balanced budget, where we actually start paying down long-term liabilities in our balance sheet requirements. And I clearly encourage Congress and the federal government to look at ways to deal with the deficit and the debt elimination that is required. That would be one of the greatest things that we could do for our employers in Michigan and the country.

We did tax reform. We eliminated tax credits. We made a simple, fair and efficient tax system. We are doing regulatory reform. We have done unemployment insurance reform, workers comp reform. We are doing infrastructure reform as we speak. And the topic of specific nature I would like to cover is talent.

And the reason I use the word talent instead of workforce is, while I believe workforce development is very important, it is inadequate as a solution to deal with unemployment. Workforce tends to deal with creating opportunities and giving people skills. That is simply not good enough.

The talent topic is what really matters, and there are three C's, in my view. There is, first, creating; second, there is collaboration; and, third, there is connecting. And we need to do well on all three of those if we are to do our jobs effectively.

In terms of creating talent, that is the topic of, again, traditional workforce development, giving people skills, and our education system, which we don't call K-12. We call it P-20, which goes prenatal through lifelong learning. And it is about creating an integrated environment to give the best skills possible to the most talented people in the world, Michiganders and Americans.

With respect to that, though, as I said, we need to do more. So we have created a number of programs on collaborating. We have created programs such as Pure Michigan Talent Connect and Pure Michigan Business Connect. Pure Michigan Talent Connect is really a program where we created a portal for our employers to post the jobs they have now and for the future, what skills they need, and how to partner together. It is also about skilled trades. We have had union involvement of both the carpenters and the operating engineer partner with us on these programs. So those are all very good.

So if you go down the list, the one of critical nature that is overlooked too often is connecting. And I encourage you to go to mitalent.org, a portal we launched last fall, which is literally to say it is not about jobs being open. It is about career planning.

We have 70,000 open jobs in Michigan today. We could drop our unemployment rate by almost 2 percent by filling those jobs, and that was not something readily available to our citizens in helping them plan a career. So connecting is critically important.

There are two specific items I would mention to the committee for your consideration, one on the Workforce Investment Act, about potentially looking at new ways to do that. Too often you hear governors saying, "Give us a block grant," or you get the traditional model of federal government of prescriptive programs.

I recommend a middle ground. We want to be held accountable. We want metrics and measures to say we are succeeding, but I ask that be done in a portfolio-based approach of metrics and measures, not prescriptive programs nor just block grants.

The last thing I would mention is a critical issue that would help immediately, which is on the immigration front. Immigration is a very difficult issue, but I would encourage consideration of a very narrow opportunity, which is to create a STEM green card for advanced-degree people with doctorates and such in engineering and other fields. If we could have those people available, what a difference that would make.

I have personal experience with this, given that I did startup companies. We are educating these people and telling them to leave our country. They are job-creators, and there are broad-based opportunities for success there.

So with those two specific ideas in mind, I hope you look at them very seriously. I appreciate the opportunity to share what we are doing in Michigan. We are helping reinvent our state. It is about more and better jobs, and we want to be good partners with you in success.

[The statement of Governor Snyder follows:]

Prepared Statement of Hon. Rick Snyder, Governor, State of Michigan

Good afternoon, Mr. Chairman and Members of the committee. I appreciate the invitation to join you this morning and discuss the critical issue of expanding opportunities for job creation. Thank you for the invitation. Also, I would like to thank you all for your public service and the work that you do. I would especially like to thank Congressman Tim Walberg and Congressman Dale Kildee for their work on behalf of our home state of Michigan. I look forward to your continued cooperation in reinventing Michigan.

I am excited for the opportunity to be here today to strengthen what I believe is a critical partnership for Michigan in expanding opportunities for job creation—the partnership between states and the federal government. The Constitution of the United States establishes a system in which the states are unequivocally the laboratories of democracy, and powers not granted to the federal government are reserved to the States and the people. In order for us to optimize that system, it is important that the federal government allow states the flexibility needed to innovate. However, it is also important that states reciprocate by sharing their lab results from time to time. So I am here today in partnership, and I would like to briefly highlight a few areas where the state and federal government have positively impacted our economic development and contributed to our recovery.

I would also like to outline several of the successful steps we have taken in Michigan to create a stable environment where businesses can grow and create jobs. As many of you are aware, Michigan has endured some significant challenges in the past decade—accounting for nearly half of the nation's job loss during that span. Therefore, I hope our foundational work in meeting those challenges, such as tax and regulatory reforms, addressing our budget deficit, and paying down our long-term debt, can be informative to other states and the federal government. Moreover, I believe our focus on talent in Michigan will make for a useful discussion that is particularly relevant to the committee's jurisdiction.

It is my belief that our greatest resource in Michigan is our people. We have great confidence that if we empower the talented citizens of Michigan through what I refer to as the "Three Cs," they will unleash an Era of Innovation. By Connecting, Collaborating and Creating, we believe Michigan will be a leader in efficiently integrating the goals of talent and economic development in the 21st Century.

Finally, as a series of next steps, I would like to offer up Michigan to serve as a pilot for state innovation. We take great pride in our heritage of innovation and entrepreneurship, and there are several areas within this committee's jurisdiction—such as the Workforce Investment Act—and beyond, where we would relish the flexibility to serve as a laboratory for innovative solutions.

There are a few specific examples of positive outcomes that I hope will provide a path forward illustrating the types of partnerships between state and federal governments worth pursuing. One such example is the State Small Business Credit Initiative (SSBCI). In September 2010, Congress enacted the Small Business Banking and Jobs Act of 2010. The law included the $1.5 billion SSBCI to fund individual states loan enhancement efforts. Michigan, and particularly the Michigan Economic Development Corporation (MEDC), was the driving force behind the creation and passage of the federal program which allocates funds to states to support small business loans.

Michigan was allocated approximately $80 million to operate its loan enhancement initiatives including the Collateral Support Program (CSP), Loan Participation Program (LPP), and the Capital Access Program (CAP). Since receiving its initial tranche of funding in July 2011, those programs have led to significant results for companies in Michigan. Specifically, in seventeen CSP deals, an initial $14,657,074 investment resulted in unleashing $44,084,000 in private funds and the creation of 628 jobs. The LPP resulted in eleven deals using $15,068,520 in public funds to garnering $33,680,937 in private investments and created 435 jobs. Finally, through CAP, 109 deals have been brokered, leveraging $255,894 in public funds to raise $7,907,663 in private dollars, creating 118 jobs. The MEDC has since shared that success nationally by assisting approximately 20 states, including the US Virgin Islands, to establish loan enhancement programs.

Additional examples where we have seen early signs of positive outcomes include an Export Financing Incentive Program to assist Michigan companies in growing their export business. The program works with companies alongside the Export-Import Bank of the United States, and uses a small amount of public resources to defray the incremental cost difference between domestic and foreign working capital loans. The program also increases business profit by lowering costs and induces entry and expansion into foreign markets.

Finally, the U.S. Small Business Administration (SBA) State Trade and Export Promotion (STEP) program has also become a part of Michigan Economic Development Corporation's continued economic gardening strategy to support existing Michigan companies' efforts to create new jobs. As members of the committee are aware, export sales help diversify a company's customer base, provide long-term stability, and support higher paying jobs.

Besides looking abroad at export opportunities, however, there is plenty that we have already done in Michigan during the past year to lay a foundation for economic recovery. In fact, we are hopeful that our efforts can serve as a model for the federal government. Taking responsible steps toward putting the nation's fiscal house in order would amplify the efforts being made in the states.

Specifically, in Michigan we approved a structurally balanced budget that eliminated the state's $1.5 billion deficit without using one-time accounting gimmicks. We are paying down our long-term debt and saving for the future for the first time since 2004. Additionally, we eliminated the job-killing Michigan Business Tax and replaced it with a flat rate that is simple, fair and efficient—ending unfair double taxation of small businesses.

The impact of small businesses on job creation cannot be overstated. Small businesses in Michigan account for ninety-eight percent of jobs created as recently as 2009. With that in mind, we have also embarked upon an aggressive initiative to reinvent our state's regulatory system. Excessive and burdensome regulations have long served as an impediment to job creation and economic growth. By launching an Office of Regulatory Reinvention to review and streamline regulations, we are establishing a culture in state government that emphasizes customer service above all, and is more conducive to business growth and job creation.

Our efforts over the past year have contributed to the creation of 80,000 private sector jobs, and our unemployment rate which was as high as 14.1% in September of 2009 has dropped to the current 9.3%. As a result, at a time when sovereigns are facing downgrades across the globe, Fitch Ratings improved Michigan's credit outlook to positive, and Bloomberg recently reported Michigan's economic health second best in the nation. We fully recognize our challenge remains steep, and we will not rest knowing many Michiganders are still struggling. However, we continue to relentlessly move forward having established a stable environment where businesses can plan long-term, invest and grow. Ultimately, we are working to create a future where our young people can raise families of their own and our talented people are well-aligned with the job opportunities of the 21st century's economy.

At the core of Michigan's reinvention is a commitment to ensuring that our talented future generations have career opportunities in our state. I believe an honest assessment of our nation's current economic condition reveals that we have failed to think strategically about the relationship between economic development and talent. Job creators are finding it challenging to grow and develop without the right talent, and job seekers are struggling to connect with the right opportunities that leverage their skills. While the struggle to connect talent with employers is multifaceted, the primary reason employers are struggling to fill jobs is a mismatch between skill attainment and skill demand. We must commit to addressing these challenges, and the good news is we can do so through the Three Cs: Connecting, Collaborating, and Creating.

With technology today, connecting people with opportunity is more achievable than ever before. Addressing the current talent mismatch demands new tools that ensure economic development and talent enhancement are occurring in tandem. In Michigan we have launched a new tool that will better connect and develop Michigan's talent: Pure Michigan Talent Connect.

Pure Michigan Talent Connect is a web-based talent marketplace found at www.MiTalent.org. It features tools that job creators and job seekers need to make better-informed decisions. Market analysis and input from economists have been used to identify labor trends and high-demand career paths for dislocated workers, college students, high school students, and those entering the workforce after a long separation. Ultimately, the new site creates a central hub linking private and public stakeholders. It will help connect Michigan's talent with opportunities for education, training, and employment. And it will allow employers to discover and retain Michigan talent that can help their companies grow and flourish.

Today, job seekers must think strategically about career paths. Pure Michigan Talent Connect allows Michiganders to create an electronic talent portfolio early in their educational career, driving everything from curriculum choices to career paths. I have asked the Michigan Department of Education, the MEDC, and the Workforce Development Agency to work together to encourage students, parents, and educators to use MiTalent.org. For those who do not have web access at home, MiTalent.org will be accessible at local libraries and Michigan Works! offices. We recognize, however, that the need to better align talent with opportunity is not simply for students.

For decades, our talent has excelled in managing and meeting the needs of manufacturers and large firms. With the downsizing of Michigan's largest businesses, some of our talent has found it difficult to transition into a new position, smaller firms, or a different industry altogether. We know that to fuel our economic reinvention we must provide small businesses the talent needed to grow, and we must provide our citizens the opportunity to continue developing their skills.

Last year I asked the Michigan Economic Development Corporation to create "Michigan Shifting Gears," a career-transition program for professionals who want to leverage their experience to pursue exciting small-business opportunities. Michigan Shifting Gears is a three month career-transition program that involves an executive education, mentorship, and internship. It gives individuals the tools, networks, and training to repurpose their skills and rapidly re-enter the new economy.

Thus far, Shifting Gears has had great success, with approximately fifty percent of participants gaining employment within three months. With experienced leadership in the small business pipeline, we are building a solid base for job creation. As such, I have also asked MEDC to apply this model to address the critical need for computer programming talent by creating Shifting Code. Currently, Michigan's shortage of programmers stifles the growth of high-tech companies and our ability to expand our portfolio of high-tech job creators. To address this problem, Shifting Code will create a supply of high-demand programmers while simultaneously giving small businesses the technology assistance they need. Innovative programs and technological tools alone, however, will not solve the challenge we face.

Developing a comprehensive strategy that coordinates Michigan's economic and talent development also requires broad collaboration. Stakeholders, coalescing around the mutual interests of job creation and economic growth, will enable our businesses to compete, grow, and create more opportunity. I am grateful to our businesses and labor organizations for embracing the collaborative spirit. For example, in a state where we reject the thought that manufacturing is history, and instead recognize it is a critical part of our future, I have committed to partnering with the International Union of Operating Engineers (Local 324) and the Michigan Regional Council of Carpenters and Millwrights to increase attainment in the critical skills necessary to maintain our status as a leader in vocational talent. Through such collaboration we continue to develop some of the best skilled-trade talent in the country in Michigan.

Another proud illustration of the collaborative spirit in our state has been the launch of Pure Michigan Business Connect (PMBC). The program is a public-private initiative that provides Michigan businesses with new ways to buy and sell, raise capital, and connect with each other through an alliance of the Michigan Economic Development Corp., state agencies, and major Michigan companies and organizations. There are four primary components to PMBC: New market development—programs and services to expand market opportunities for Michigan companies; Business Support Services—providing services to companies through various programs and initiatives including legal and accounting, website consultation, marketing, PR and communication support; Financial services—information and access to a continuum of capital resources (i.e. private sector lenders, MEDC programs); and Talent—uniting workers and companies with talent needs and opportunities. Approximately 894 companies have requested services through PMBC, and we have received commitments from banks to provide business opportunities totaling $7 billion for expansion and hiring. The fact that the program more than doubled in less than six months has underscored just how important collaboration is to spurring innovation, entrepreneurship, and job creation.

In Michigan, we have recognized that not only is our history rooted in entrepreneurship, but our future and many of the solutions to the challenges we face are tied to entrepreneurship as well. Along those lines, we know we cannot continue to insist that the only option for the unemployed is to simply seek work somewhere else. Frankly, it is not a viable option for those that lost their job in a field that will not return. Because I so strongly believe in this, I have urged our state legislature to support giving the Unemployment Insurance Agency the ability to allow self-employment assistance to be utilized for entrepreneurship. For displaced Michiganders facing the most serious challenges returning to the labor force, we must aggressively seek more creative solutions to providing opportunity. Oregon has been a leader in implementing self-employment assistance and has already seen great success. Survey data from 2004—2009 showed that 77% of self-employment assistance participants who started a business remained in business. This program is an investment in individuals and another tool to spur innovation and support states' reinvention. Congress should consider allowing states further flexibility to pursue such reforms and empower the unemployed by fostering a culture of entrepreneurship.

With all the benefits of collaboration we have seen over a relatively short period of time, there are still areas where we have not measured up. One such area where local, state, and the federal government, along with the business community, should work better together is solving the unacceptably high unemployment rate of our veterans. Veterans bring a unique set of skills which benefit our communities and our economy. They have real-world work experience and transferrable technical expertise. Moreover, veterans possess leadership skills and a work ethic that have been tested at an early age under extreme circumstances. The fact is we have not properly connected veterans returning from Iraq and Afghanistan with the opportunities available to them.

In Michigan I have directed the Veterans' Services Division of the Workforce Development Agency to partner with Department of Military and Veterans Affairs to create a seamless delivery system for veteran benefits and employment services. This initiative will include co-locating veteran employment representatives and veteran service officers who help access VA benefits, including the Post 9-11 GI Bill. We will better coordinate with federal and local partners to connect veterans with the education and employment opportunities that their sacrifices have earned.

Additionally, I encourage Members of Congress to follow Michigan's example by promoting the benefits of hiring veterans and challenging your constituent businesses to reach out to veterans. I have asked employers of veterans to also commit to helping those they employ more fully access their benefits. While our skilled trades are already doing a great job through programs like Helmets to Hardhats, we can do more. Our veterans would be assets to any employer. We must not squander veteran talent, but instead develop and retain it.

Connecting and collaborating are two definitive steps toward expanding opportunities for job creation. The equally important third step is creating a talent pool prepared to meet the demands of the 21st Century by more efficiently integrating the goals of talent and economic development. Today's young employee will have multiple careers in his or her lifetime. This makes it more crucial than ever that the skills they attain in their post-secondary education are both marketable and transferable. Maintaining a skill set that is transferable among industries will help talent better prepare for our changing economy and more quickly connect with employment.

I am committed to partnering with Michigan's public colleges and universities to provide a post-secondary education that is marketable and transferable. A recent report by the Center for Michigan concluded that Michigan graduated 20% too few computer and math professionals, 14% too few health care professionals, and 3% too few engineers in 2009-2010. Among our shortage, there is a common message. Addressing these deficits will require Michigan to invest in the development of science, technology, engineering, and math (STEM) as well as health industry talent. Otherwise, these shortfalls hold the potential to stunt Michigan's projected economic growth.

Just as talent must think strategically about a career path, government must think strategically about its investment in our talent pipeline. Support of post-secondary education should be concentrated in areas that enhance our economic development strategy and provide our students with the opportunity to thrive. We need to stop overproducing in areas where there is little or no occupational demand and encourage students and educational institutions to invest in programs where the market is demanding a greater investment in talent.

The current imbalance creates a population of young talent that cannot find work, is saddled with debt, and many instances are forced to leave their state and search for work elsewhere. This is an outcome we cannot afford. I have also reached out to the Workforce Development Agency, local Workforce Development Boards, and Michigan Works to shift their efforts to a demand-driven employment strategy. Today, they are reorganizing around our major industries, including manufacturing, energy, healthcare, information technology, and agriculture, to better collaborate with businesses, our colleges and universities, and our public school system. Business and community leaders, driven by data, are working to create a skilled workforce that meets the needs of job providers. In partnering with local community colleges, non-profits, and business leaders to address talent development from early childhood through post-secondary education, we can achieve the goal of having more citizens credentialed in these critically important industries.

To grow our economy businesses will need the right talent. To build a bright future for our young people, we must arm them with the right skill sets to succeed today and tomorrow. We can do more at the earliest stages to help students achieve academic success. We have been spending money without delivering the results that are essential to giving our young people a bright future. It is time that we viewed our educational system as P-20 instead of just K-12. We have begun to take the steps necessary to fully integrate Michigan's public education and create a P-20 system that prepares our students to compete for the best jobs available today and tomorrow. We need to establish a system that focuses on real achievement for all of our children. We cannot leave children without the tools for success in their adult lives, and we also need to encourage better and faster opportunities for children that can go farther and faster in our system.

My final request for Members of the Committee today is to consider a few next steps concerning two specific issues within the jurisdiction of Congress. First, it is my understanding that this committee will soon be considering a reauthorization of the Workforce Investment Act (WIA). I strongly encourage Members of the Committee to reach out to your state's Governors and engage in a dialogue concerning the importance of the fifteen percent for statewide activities in Workforce Investment Act Title I formula funding. Bipartisan support exists amongst Governors that redirecting funds away from statewide activities is detrimental to efforts to advance innovative workforce development initiatives. Thus, I encourage continued conversation between Members of the Committee, Governors, and state Workforce Development Agencies.

Rather than focus solely on funding levels, however, I would like to suggest further that the reauthorization of WIA provides an important opportunity for partnership with states to aggressively address the realities of the 21st Century economy and job training. Specifically, the WIA reauthorization presents an opportunity to create a demand-driven workforce system that cultivates a labor force possessing the necessary skills employers require. Burdensome and bureaucratic performance measures should be replaced by meaningful key indicators of performance focused on desired outcomes and accountability. Such indicators should support innovation and allow states the flexibility to implement programming to meet local and regional economic demands.

It is my understanding that a package of bills recently introduced by Mr. McKeon, Ms. Foxx and Mr. Heck include several promising proposals, and I will look on with great anticipation at how the committee proceeds on those proposals. However, I would also encourage the committee to consider some of the following examples of demand-driven, meaningful measures for the workforce system:

• Number of Training Modules Created for Specific Employers or Groups of Employers: The purpose of this measure is to capture the level of partnerships occurring between workforce development, economic development, educational, and employer partners resulting in the creation of demand-driven training.

• Number of Industry-Recognized Credentials Issued: The purpose of this measure is to quantify how many employer valued diplomas, licenses, certificates, or degrees are issued through the workforce system.

• Percentage of Jobs Filled: The purpose of this measure is to track the percentage of jobs that the system is able to fill for employers who request assistance with finding qualified workers.

• Number of New Business Start-Ups: The purpose of this measure is to capture the level of activity occurring in terms of new businesses opening their doors and creating jobs.

• Employment Rate of Individuals Receiving Training: The purpose of this measure is to quantify the percentage of individuals who receive demand-driven training and are able to obtain a family-sustaining job upon completion of training.

• Average Wages of Those Receiving Services: The purpose of this measure is to track the resulting wages of individuals who received services from the system.

Success, as measured by key indicators such as these, will result in a demand-driven system where existing employers have access to the talent they need to meet their employment needs, where workers have the right skills to enable them to obtain family-sustaining employment, and where new entrepreneurs have the confidence to invest their capital to create new jobs.

A final, purely federal issue that I strongly believe falls within the purview of expanding opportunity for job creation is attracting global talent and investment. Immigration laws are established at the federal level, so it is important that Michigan partner with the federal government to better attract highly educated foreign talent and investors. I realize immigration can be a divisive issue, but common ground already exists across party lines about the need for investment and job growth. That mutual interest should not cease at the simple mention of immigrant talent.

Highly educated and skilled immigrants are a key component to filling skill gaps and helping our American businesses flourish. Many Michigan businesses are growing, but finding the right talent can be an obstacle. Retaining and attracting the best possible talent from around the world will fuel faster growth, help secure and create jobs for Americans, and strengthens us against our global competitors.

Early last year I announced the Global Michigan Initiative which is a collaborative statewide effort—spearheaded by the MEDC and the Michigan Department of Civil Rights—to retain and attract international, advanced degree and entrepreneurial talent to our state. I did so, in part, because one-third of high-tech businesses created in Michigan over the past decade were started by immigrants. Major Michigan-based companies like Dow Chemical, Meijer and Masco were founded by immigrants and have a long, established track record of innovation and significant job creation. Of course, these statistics are not unique to Michigan. A recent report by the Partnership for a New American Economy in June 2011 indicated that 40% of the 2010 Fortune 500 companies were founded by immigrants or their children. The data is conclusive: advanced-degree immigrants and foreign investors spark job creation.

Unfortunately, inflexible immigration laws increasingly delay foreign investors and impair job growth. We need to remove those barriers, and need action from the federal government to do so. Specifically, the EB-5 foreign investor program provides international investors the chance to live here as they invest in our economy and create jobs. However, the program is set to expire in September 2012. I urge you to work together with your fellow Members of Congress and the Department of Homeland Security to renew and make permanent the EB-5 Immigrant Investor Regional Center program. I would also recommend modifying the requirements so that an investor may qualify by creating at least five jobs and investing $500,000. We should not deter attracting eligible, willing investors to our states.

In addition to investment, foreign talent contributes to Michigan's economy by meeting employer demand in career fields where we currently lack critical skills. According to the National Science Foundation and the Congressional Research Service, the foreign student population earned approximately 36.2% of U.S. doctorate degrees in the sciences and approximately 63.6% of the doctorate degrees in engineering in the U.S. in 2006. Much of this talent is cultivated in our universities.

Michigan excels at attracting and educating global talent for high-demand careers, and international students make a significant contribution to our state's economy. In 2010, Michigan ranked 9th highest among states hosting foreign students at public universities. Moreover, the net contribution to the state's economy by foreign students during 2010-2011 was more than $705 million, according to the Institute of International Education. We cannot afford to lose these valuable members of our talent base to overseas competitors after years of development here.

While foreign talent can readily obtain a student visa, remaining a member of the Michigan community is made extremely difficult for those desiring to do so under current immigration laws. The difficulty also significantly disrupts businesses that rely on these skilled and talented individuals. The federal government sets a cap of 65,000 on new H1-B temporary work visas, and there are only an additional 20,000 new H1-B visas available to individuals with U.S. advanced degrees. These caps are arbitrary and fail to recognize the harm done to local economies when states are forced to send away talent they have spent years developing. Today, I am asking Members of Congress to work to permanently raise the cap on immigrant professionals and eliminate the cap for those holding a master's degree or higher from U.S. universities.

Lastly, and perhaps most urgently, I encourage Congress to focus directly on addressing our critical skills gap, and pass proposed legislation to create a STEM education "green card." Creating an avenue for permanent residency status, through green cards, for foreign-born students who have earned graduate degrees in science, technology, engineering and mathematics (STEM) fields will allow us to retain the best and brightest foreign students. In doing this we can slow the practice of STEM professionals being educated in our schools and going back to their home countries to compete against U.S. firms.

A recent study sponsored by the American Enterprise Institute and the Partnership for a New American Economy found that for every 100 Science Technology Engineering and Math (STEM) foreign workers added to the workforce, an additional 262 jobs were created for U.S. natives during 2000-2007. It is time to enact this legislation and allow these valuable members of our higher-education communities to become permanent, contributing members of our companies and communities.

The simple truth is that tomorrow's opportunities cannot be realized with yesterday's skills.

Michigan's greatest assets are the adaptability, ingenuity, and intellect of its people. These qualities, coupled with our abundant natural resources, industrial might, and technological leadership, will make Michigan a formidable force in this century's global economy. The challenge we face is to align the aptitudes and career passions of job seekers with the current and evolving needs of employers. The solution is to reinvent the way in which we prepare our children for successful, fulfilling careers, reshape the manner in which our citizens look for work, and redesign the way in which employers obtain the skills they need.

Attacking this challenge demands the unyielding commitment of stakeholders across the board. The Administration, Congress, states, businesses, communities, nonprofits, schools, parents, and universities must embrace the shared responsibility of helping young people build connections to the world that let them—and our state—flourish. Based on their history of selfless contributions to the betterment of our state, there is no doubt that they will step up to the plate.

Chairman KLINE. Thank you very much, Governor.

Governor Malloy?

STATEMENT OF HON. DANNEL MALLOY, GOVERNOR, STATE OF CONNECTICUT

Governor MALLOY. Chairman Kline, Representative Payne, and members of the committee, thank you for inviting me to testify today and to speak about what Connecticut is doing to get our economy going.

When I took office last January, Connecticut had the largest per capita deficit of any state in the nation, and we had had no job growth for 22 years, a distinction we shared only with Michigan. This is an unwanted distinction, I might add. [Laughter.]

Over the last 13 months, we have made tough decisions to get our fiscal house in order. We passed a budget that bridged a $3.5 billion deficit. We implemented Generally Accepted Accounting Principles, GAAP. We negotiated an agreement with our state's public employees that will save taxpayers $21.5 billion over the next 20 years. And we cut spending by $1.7 billion, and we raised revenue.

Just last week, we announced a commitment to increase the size of our pension payments, a move that will avoid a balloon payment of $4.5 billion in just 20 years, and one that will save taxpayers nearly $6 billion over the next 20 years.

We have set our state on a road to recovery. And while I know we still have a long way to go, we are seeing signs of improvement. Our unemployment rate has fallen to 8.2 percent, the lowest point in 2.5 years, and by over 1 percent during the last year. During the last year, we also experienced job growth—9,000 new jobs—for the first time since 2008.

In Connecticut, as is the case across the nation, the issue obviously remains job creation. One of the first actions we took on the jobs front was an initiative called First Five. First Five is designed to attract large-scale business development projects by augmenting and combining the state's best incentive and tax credit programs for the first five companies to create 200 jobs within 2 years or invest $25 million and create 200 jobs over the next 5 years.

We convened a special session on jobs. We passed a bipartisan bill, with only one negative vote in each of the chambers,that will move Connecticut forward.

Our jobs bill includes a Small Business Express Program, where we are investing $50 million per year to help Connecticut's small businesses access much-needed capital. The investment is already paying off. The first company to access the credit is planning to double its workforce as a result of the funding.

We enacted a Job Expansion Tax Credit program, providing a $500 tax credit to employers for each new employee, or a $900 credit for new hires if that employee is disabled, unemployed, or a veteran. And I must say, I am particularly concerned about helping our returning veterans, and especially our disabled veterans, find jobs upon their return from service.

We expanded the capacity of our Manufacturing Reinvestment Account program, allowing small manufacturing companies to deposit domestic gross receipts into interest-bearing accounts to use for business expenses.

But when it comes to job creation, we didn't stop there. Early on, I announced a plan to develop Connecticut's version of a research triangle, focused on bioscience. This research triangle is coming to life more quickly than any of us thought possible.

Shortly after my Bioscience Connecticut initiative was announced, we began to have conversations with Jackson Laboratories, a world-renowned, Maine-based research institute that does pioneering work in the field of personalized medicine. Just 2 days ago, in fact, our Bond Commission authorized $291 million in state funding for Jackson Laboratory's new $1.1 billion personalized medicine project on the campus of the University of Connecticut Health Center in Farmington. The Jackson Laboratory for Genomic Medicine will accelerate the development of new medical treatments tailored to each patient's unique genetic make-up. Permanent jobs associated with the facility are projected to total more than 6,800 over 20 years, including thousands of new construction jobs.

During the coming 2012 legislative session, we will tackle the next component of our economic development strategy: education reform.

In the next few days, I will announce a set of proposals that will put my state in the forefront of this debate. From reforming tenure to addressing how we help students in low-performing districts, everything is on the table. If our kids are going to compete in the 21st-century marketplace, we can't put these reforms off any longer.

I am encouraged and optimistic about the progress we have made in Connecticut and the prospects for future growth. We still have much work to do, and I will be tireless in pursuing pro-growth economic strategies while being a responsible manager of the state's budget.

Chairman Kline, thank you very much, to the committee members and yourselves, for allowing me to testify, and I look forward to your questions.

[The statement of Governor Malloy follows:]

Prepared Statement of Hon. Dannel P. Malloy, Governor, State of Connecticut

Chairman Kline, Ranking Member Miller, and Members of the Committee, thank you for inviting me to testify about what we in Connecticut are doing to accelerate economic recovery and foster job creation.

When I took office last January, Connecticut had the largest per capita deficit of any state in the nation and we'd had no net job growth over the last 22 years, an unwanted distinction that my state shares only with Gov. Snyder's state of Michigan. Over the last thirteen months, we've made tough decisions to get our fiscal house in order. We passed a budget that bridged a $3.5 billion deficit, implemented Generally Accepted Accounting Principles, and reached an agreement with our state's public employees that will save taxpayers twenty one and a half billion dollars over the next 20 years. We cut spending by $1.7 billion dollars and raised revenue. Just last week, we announced a commitment to increase the size of our pension payments, a move that will avoid a balloon payment of $4.5 billion dollars in just 20 years, and one that will save taxpayers nearly six billion dollars over the next twenty years.

We've set our state on the road to recovery, and while I know we still have a long way to go, we are seeing signs of improvement. Our unemployment rate has fallen to 8.2%—the lowest point in two and a half years—and last year we experienced job growth—9,000 new jobs—for the first time since 2008.

In Connecticut, as is the case across our nation, the issue of the day is and remains job creation.

One of the first actions we took on the jobs front was an initiative called "First Five," a package of tax incentives intended to spur job creation. First Five is designed to attract large-scale business development projects by augmenting and combining the state's best incentive and tax credit programs for the first five companies that create 200 new jobs within two years, or invest $25 million and create 200 new jobs within five years.

But First Five was just one part of what needed to be a wholesale change in the way we approached job creation. Working with our partners in the legislature, we took the extraordinary step of convening a special session on jobs, the result of which was a bipartisan bill that we believe will make Connecticut more competitive in the global marketplace. That bill passed in one day legislative session, with just one no vote in each chamber of our General Assembly.

Our jobs bill includes the Small Business Express Program. We're investing $50 million per year to help Connecticut's small businesses access much-needed capital. The investment is already paying dividends, with the first company to access the credit planning to double its workforce as a result of the funding.

We enacted a Job Expansion Tax Credit program, which provides a $500 tax credit to employers for each new employee, or a $900 credit for new hires if that employee is disabled, unemployed, or a veteran. I'm particularly focused on helping our returning veterans, particularly our disabled veterans, find good jobs upon their return. For their service, we are all in their debt, and we should do everything we can to help their transition to civilian life.

And we expanded the capacity of the Manufacturing Reinvestment Account program, which allows small manufacturing companies to deposit domestic gross receipts into interest-bearing accounts to use for business expenses.

These initiatives encourage the private sector to create jobs and make Connecticut a more attractive place to grow or start a business.

But when it comes to job creation, we didn't stop there.

Early on, I announced a plan to develop Connecticut's version of a research triangle. By utilizing the world-class resources we have in two of our state's most iconic institutions—the University of Connecticut and Yale University—that research triangle is coming to life more quickly than any of us thought possible.

Shortly after my Bioscience Connecticut initiative was announced, we began to have conversations with Jackson Laboratories, a world-renowned, Maine-based research institute that does pioneering work in the field of personalized medicine. Just two days ago, in fact, our Bond Commission authorized $291 million in state funding for Jackson Laboratory's new billion dollar personalized medicine project on the campus of the University of Connecticut Health Center. A collaborative effort between Jackson Laboratory, the State of Connecticut, the University of Connecticut and Yale University, the Jackson Laboratory for Genomic Medicine will accelerate the development of new medical treatments tailored to each patient's unique genetic makeup. Permanent jobs associated with the facility are projected to total more than 6,800 over 20 years, including thousands of new construction jobs.

During the 2012 legislative session, we'll tackle the next component of our economic development strategy—education reform. In the next few days, I will announce a set of proposals that will put my state at the forefront of this debate. From reforming tenure to addressing how we help students in low performing districts, everything is on the table. If our kids are going to compete in the 21st Century marketplace, we can't put these reforms off for another day.

I am encouraged and optimistic about the progress we've made in Connecticut and the prospects for future growth. We still have much work to do and I will be tireless in pursuing pro-growth economic strategies while responsibly managing the State's budget.

The federal government is and should continue to be a partner with States in this effort.

As your committee considers legislation to reauthorize the Workforce Investment Act and the Elementary & Secondary Education Act, I encourage Members of both parties to work together and with your counterparts in the Senate to reach consensus so that legislation can be signed into law this year.

Regarding WIA, don't consolidate programs or cut funding for programs simply to meet a deficit reduction target. Consolidation of programs may allow states more flexibility to deploy resources to meet the needs of our workforce, but not if you cut overall funding. For the long-term unemployed, in particular, the need for current job skills is paramount. And as I said before, I'm particularly concerned that we do everything we can to assist our returning veterans. The unemployment rate among these heroes is unacceptably high. We should not scrimp on retraining our unemployed and underemployed workers to fill jobs in high-growth industries. And those jobs are out there waiting to be filled. I hear that all the time from Connecticut employers. But they need a highly-trained workforce. Only then will we achieve sustainable economic growth that benefits all Americans.

In his most recent State of the Union address, President Obama outlined sensible, pro-growth policies that dovetail with what we're striving to achieve in Connecticut: Returning our primary and secondary education system to preeminence; Ensuring that our community colleges, technical schools, and job training programs work hand-in-hand with business and industry to train workers for the jobs that our employers need to fill right now; Encouraging businesses, particularly manufacturers, to continue their operations in the United States or return their operations to our shores; Addressing the high cost of energy by diversifying our portfolio and investing in new, alternative energy technologies; and strategically Investing in research and development.

As a nation, our economy is growing and jobs are being created. Congress can help accelerate this process. Business profits are back to their highest point since the Great Recession started. But national unemployment remains high and is depressing domestic demand for the goods and services our nation's businesses are producing. Stimulate that demand. Congress can extend the Payroll Tax cut and federal Unemployment Insurance benefits through the end of this year and keep money in the hands of people who will spend it now. In addition, I urge Congress to pass legislation that incentivizes companies sheltering profits overseas to repatriate those profits if they translate into more jobs. Given the economic and fiscal turmoil in Europe, and the lingering effects of the tsunami in Japan, the United States is a safe haven economy among the developed nations of the world and we should take advantage of that. In addition, to accelerate job growth in construction trades and to help clear the stock of homes on the market, the first time homeowner tax credit should be restored and extended.

Finally, I recognize that the overarching debate in the Halls of Congress is the budget deficit. This problem wasn't created overnight, and fixing it will be a long-term process. This must be a bipartisan process that recognizes that neither side can get everything it wants; else deficit reduction and long-term economic growth will not be sustainable. That is the course I pursued when I set out to close the largest per-capita state budget deficit in the nation. But the political fights over the past year that have driven the federal government both to the brink of shutdown and default do not serve our country well. The uncertainty stemming from those tumultuous fights reverberated among State and local governments, in financial markets, and around the kitchen tables of our citizens. It is not too late to proceed in a sensible, strategic, and bipartisan fashion. I urge both sides to do so.

Chairman Kline, Ranking Member Miller, members of the Committee, thank you for the opportunity to testify. I look forward to addressing your questions.

Chairman KLINE. Thank you very much, Governor, both governors. We really do appreciate your time and your insight. It is fascinating that you share a distinction that maybe a lot of people wouldn't want to share, but it looks like you are addressing it in exciting ways.

Because we have people coming and going, I am going to defer my question period. I understand Mrs. Foxx has agreed to defer hers for a few minutes. And so I will recognize Mr. Walberg for questioning.

Mr. WALBERG. Thank you, Mr. Chairman. And had I been given the opportunity to defer, I might have, but I appreciate the opportunity to go.

Governor Snyder, again, thank you for being here. Appreciated your opening comments, as you talked about developing employment talent, the three C's, having a B-12 education system, so forth and so on, that we are certainly concerned with and, from my perspective, would much rather see states embodying all these concepts and moving the knowledge and talent and workforce P forward as opposed to the federal government so involved.

And so let me ask you if you could develop even further your ideas, as well as concerns, along the line of what federal education regulations are making it harder for you to accomplish your goals in Michigan, and in what ways on the positive side can we be of greater support, encouragement, aid and comfort to you as a state executive and with the state legislature, moving that whole idea of developing a workforce that is trained and ready and expanding.

Governor SNYDER. Well, I appreciate your question, Representative Walberg, because it is a real challenge that there are many federal programs—there are dozens of federal programs. And we actually spend a lot of time on administration, overhead, a lot of additional costs, rather than actually helping people. And in too many cases, we are giving people skills and training where there may not even be employment opportunities.

And so this is where the connecting part comes in, as I mentioned. We have 70,000 open jobs in Michigan. We have a lot of people that want to find a job. But, one, that mechanism didn't previously exist in terms of a role the government can play, in terms of a clearinghouse coordinator, not a money spender. And then, secondly, the piece of that is, is we should never tell people what they have to study, but shouldn't we create a path where they can find success by having good information?

So on this Web site, for example, we have a career skill matchmaker, and we have a career investment calculator, so people can literally look at different careers to say what they should go into, because there are opportunities and jobs.

So, again, if you were to redo programs instead of making them prescriptive, but to have programs that say we are going to hold you accountable for connecting with jobs, if you were going to hold us accountable to see how many employers are we working with and developing joint programs with, those are all great metrics, and then just give us the flexibility to deliver on that and partner with you on doing that.

Mr. WALBERG. In my role as the chairman of the Workforce Protection Subcommittee, we provide oversight to various aspects of the Department of Labor. One of those primary programs within the Department of Labor is OSHA.

In the course of some of our hearings, we have found out that many states have, like Michigan, MIOSHA, Michigan OSHA, that is given the primary responsibility for regulating the onsite workforce protections program, working with job providers, employers.

In my travels around the district, I have talked with many employers who are finding great benefit, great help, great partnership with MIOSHA, as the inspectors work with them, as—and in the past have been much more partnering with them, as opposed to citing them and fining them.

In recent days, we have been hearing an uptick specifically coming from OSHA encouraging MIOSHA to be more involved with citing and finding and hearing the concept of regulation through shaming, as it were. If that has been noticed by you, how are you continuing to focus the real partnership that a state regulator can be in helping employers and employees in making sure that, while we have a safe workplace, we have a workplace to come back to the second day?

Governor SNYDER. No, excellent question. And what I would say is this is something that I found even at the state government, because MIOSHA is performed over OSHA in Michigan by far, in terms of that, but that was not good enough, that there is too much of a culture even out of Lansing—because most employers don't want to have someone show up and say, "I am from Washington," or, "I am from Lansing, and I am here to help."

As a practical matter, what we are trying to do now is create an environment where the goal of our people is to perform their fiduciary duty and to do that very responsibly, but it is not to punish people. It is to have people succeed.

And so the philosophy that we are doing training with all of our workforce people, all our MIOSHA and all state employees, is to empower them more, where actually they feel that they are a value-added contributor in partnership with their employers and helping most employers to succeed.

The average businessperson is a good, honest person. There are some bad people out there, and we should really go after them. But instead of trying to create barriers, let's help them solve their problem.

And in one program I would recommend people might want to look at is something we did in Michigan in the agricultural sector. It is called MAEAP. It is the Michigan Agricultural Environmental Assurance Program, which was to help farmers actually get precertified. They go through a certification program and they get a credential to say, this means you are doing essentially best practice. And if you have an issue, before we can penalize you, we are going to review your records on how we can help you be successful before they even have to worry about being punished, because they have made a good investment, and being smart and thoughtful.

Chairman KLINE. The gentleman's time has expired.

Mr. Payne?

Mr. PAYNE. Let me thank you for your very interesting testimony.

Let me ask both of you this question. We all know too well that many public schools and community colleges across the country are in desperate need of repairs, and the folks who can make those repairs are ready, willing, and able to work, very anxious. Every governor knows the challenges—and we do, too, in Congress—is paying for it.

The Americans' job act directly addressed this need with a commonsense approach to both fix schools and put folks back to work. It is a win-win across the board. Specifically under the AJA, the president seeks to invest $25 billion in school infrastructure that will modernize at least 35,000 schools, putting thousands of unemployed Americans back to work.

Both Michigan and Connecticut stand to benefit from this proposal, and I am confident that both of you support it, and that is going to be my question. Under AJA, Governor Snyder, Michigan will receive nearly $1 billion for school repairs and would support as many as 12,000 new jobs in your state.

And, Governor Malloy, under the AJA, Connecticut stands to receive nearly $200 million in funding for school infrastructure and will support as many as 2,400 jobs in Connecticut.

I just wonder if—starting with you, Governor Snyder—doyou support this act? And Governor Malloy? And perhaps why?

Governor SNYDER. Thank you for that question. What I would say is a couple things. One is, is there are infrastructure requirements where we do need to invest. Our schools, our colleges, we have many other places with our communities where they need to invest.

A couple things, though, that are typically missing are the right metrics and, again, measures. You have to forgive me. I am an old accountant, so I like to measure things in terms of knowing what we are doing. But one of the challenges is, is we have had numerous cases in the past where people would build capital facilities without having the operating sources to actually use those facilities or apply them.

So in many respects, we need to be much more thoughtful about making sure, what are the highest and best asset allocations, as opposed to simply making sure we are doing projects, and that they are going to the jurisdictions that can need them most? We have certain school district that would take part potentially in these programs that really don't need those resources, that have great facilities, and others that are crumbling.

How can we make sure they are there? And how do we make sure those follow-up funds for maintenance, for all those things are in place? Because one of the great things I have found in our budget that has been overlooked is proper maintenance for even state facilities from prior years. And we are getting caught up on that.

Governor MALLOY. Let me be clear. I would be more than happy to take $200 million. And I will take part of the governor's billion dollars if he doesn't want to use it.

I constantly hear from the businessmen in my state, when they travel around the rest of the world, how great other countries' infrastructure is, and specific reference many times made to China, as well as certain European countries. There is a reality about the United States that we have failed to invest properly in the maintenance of our infrastructure, but also building new infrastructure.

We are suffering from a 25 percent unemployment rate in some of the building trades. Any program that would allow us to put contractors and construction workers back to work would be a good program on its face. But the idea of tying that to improving our educational system is an exemplary idea.

Mr. PAYNE. Thank you. Similar question. The American Society of Civil Engineers awarded the United States a D in the condition of our infrastructure, as you have been mentioning. The—in 2009, ASCE estimated that the U.S. must spend $2.5 trillion over 5 years to meet the country's most basic infrastructure needs, not to catch up, just the basic needs.

By conservative estimates, every $1 billion in public infrastructure investment creates 23,000 well-paying jobs. The Congressional Budget Office estimates that every dollar of infrastructure spending generates on average a $1.60 increase in our overall GDP. Critical transportation and energy projects have even larger multiplier effects.

Giving this, I would like to ask you both, how are you partnering with the federal government and leveraging existing public investment in transportation to upgrade roads, rail, ports, and reinvest in the overall infrastructure in your state?

Governor SNYDER. Yes, we do need to invest more in infrastructure. And I did a special message in October of last year on that topic to our state. In roads and bridges, for example, I said we needed $1.4 billion more a year in investment in our state, and that is an important component.

Again, the issue is, how do we partner on doing that? And I would like to compliment Secretary LaHood for his efforts in the state of Michigan. He has been very proactive and good, talking about helping develop a regional transit authority in southeastern Michigan that we are now asking for state legislation to move forward on that, because Detroit and metro Detroit has been lacking in that for decades. So there is an opportunity to partner on that.

What I would also say is, again, I would make the approach that there are better ways to do things than we currently do things, with the prescription measures that you can find in some of the highway bills, though, compared to giving us more flexibility. We still have multiple situations where we may be making a great investment in a rest stop that we don't really need as opposed to a bridge. And the ability to have flexibility in making those decisions would be helpful to our state.

Governor MALLOY. Let me comment—recently, a community in our state—Stamford happens to be my hometown—received the TIGER grant in an approximate amount of $10 million. That federal government support will be matched 5 to 1 by the private sector.

I will also tell you that Connecticut is spending more of its own dollars in rebuilding its train system on a matching basis than any other state in the nation. I am quite certain that if you send infrastructure investment dollars to the states, we are capable of putting thousands of construction workers and private contractors back to work.

Chairman KLINE. The gentleman's time has expired.

Dr. Bucshon?

Mr. BUCSHON. Thank you, Mr. Chairman.

Governor Snyder, thanks for being here, and the same to Governor Malloy.

The state legislature in Indiana has recently—and this is a state issue—taken up right-to-work, which is a controversial subject, as you know. Governor Snyder, are there any discussions in your state, which neighbors me, concerning this type of action at the state level?

Governor SNYDER. It is under discussion. There are a number of legislators that are promoting that. In my perspective, as I have made it clear, it is not on my agenda.

Right-to-work is an issue that is a very divisive issue people feel very strongly about. And as Mr. Walberg mentioned, I am the relentless positive action person, so we have many problems in Michigan that are much more pressing that I want to find common-ground issues we can work together on before we get into divisive issues. And we are showing great success.

We balanced the budget. We did tax reform. We went through a whole list. Important items this year that I would prioritize include the transportation package I mentioned about infrastructure, and we have a package on public safety. We need to do a better job on that area in our state.

So right-to-work is an issue that may have its time and place, but I don't believe it is appropriate in Michigan during 2012.

Mr. BUCSHON. Well, because we have had to deal with that issue, as you probably know, on this committee as it relates to South Carolina. And do you think that—and I don't want to put you on the hot seat—but do you think there is evidence out there to show that it creates—that it helps states compete not only with—with other states within the United States, but compete globally for—for businesses? Do you think a right-to-work-type situation is helpful?

Governor SNYDER. I think there is a lot of information out there. And one of the things I am interested in is trying to understand what is factual information and what is kind of perception, because in many respects, I would use some of the success in Michigan as an example. The auto industry is a very competitive industry now, in terms of their labor agreements and such. So on the face of it, I don't automatically have an answer, but I believe it is something that we should all take the time to understand before simply people kind of revert to their traditional positions on it.

Mr. BUCSHON. Thank you. I just want to make a final closing comment, and then—thanks for your answer.

You know, we hear a lot about the United States comparing ourselves with other parts of the world. And I would just—at this point, comparing what we do here to—to Europe's probably not something I would recommend, because even though I do have business leaders also telling me that infrastructure is better in other parts of the world, their financial situation is dire, as you know.

And in China, comparing ourselves to China in a lot of areas, realize that they are rebuilding their country on the American taxpayers. Right now, we are paying tremendous amounts of interest on our debt to China, and they are using that money to rebuild their infrastructure.

So I think, until we can honestly address our mandatory spending programs in this country and to have an honest discussion about what the direction this needs to—country needs to go in financially, we are going to continue to find that we struggle to find money for things that all of us agree that we need to spend money on, including our infrastructure.

I yield back.

Chairman KLINE. Thank the gentleman.

Mr. Scott?

Mr. SCOTT. Thank you, Mr. Chairman.

I thank both of our governors for being with us today. Governor Snyder, you mentioned 70,000 job openings in Michigan. Have you reviewed these openings to ascertain whether your workforce has the education or the qualifications for those jobs or whether investments need to be made in education so that people—so there will be a match between the workforce and the job openings?

Governor SNYDER. Yes, of the 70,000 opening jobs, I would emphasize to you—and I encourage you to go look—these are—most of these are good jobs. You are talking like nurses, computer programming, accountants. These are well-paying jobs, and the skilled trades—one I always talk about is welder. If you are a welder in Michigan, you can get a job in about 20 minutes in any corner of Michigan.

So there are a couple of aspects. One is, is this is the missing element from workforce development. That is why I call it talent and connecting, is we launched mitalent.org to make that connection, because there is a mismatch of where people might be and where those jobs are that people simply didn't—weren't aware of them.

The second thing is, is the site is just not about transactions, which is just finding a job. It is about career planning. And to go to your point about saying, if we have employers signing up to participate in this program that they see, there is a lot of demand and we are not seeing those filled, we should be working with our community colleges, in particular, our skilled trade unions, other programs to say, how can we get in alignment to get those people the proper training so they can succeed?

Mr. SCOTT. Governor?

Governor MALLOY. I just would like to comment on that. It clearly—for a long period of time in our country, we have failed to properly train a replacement workforce, particularly as some of our states are rapidly aging. And anything we can do to support our community colleges, in particular, which have the fastest turnaround, as well as the ability to offer certification programs, would be greatly appreciated.

Mr. SCOTT. Well, are we finding that employers can't find people qualified for the job openings?

Governor MALLOY. I think, in precision manufacturing—and I think the governor would agree—that that is a particular problem. And, unfortunately, too few of our schools became invested in training that replacement workforce.

Mr. SCOTT. And so investments—what I am hearing is investments in community colleges to make sure that our workforce can qualify for the job openings would be an important aspect of this committee's work.

Governor MALLOY. I believe that is true, as well as support of vocational programs in our high school level, as well.

Governor SNYDER. You know, one thing I would add is I would also encourage you to look at two programs we have in Michigan. One is called Shifting Gears, and the new version is called Shifting Code. So these are for very experienced workers that were in large companies, for example.

Shifting Gears was geared for people that were middle-level and higher in terms of professional, managerial technical, and large companies. And our goal is to encourage entrepreneurship. And so we created this program, and it has been very successful to say, you can't ask someone from a large company to go join a start-up overnight and have a chance to succeed.

So it is almost cultural adjustment training, because they have all the skills they need to be successful in being entrepreneurs or being parts of start-up companies. So we have done that with Shifting Gears, and it has gone so well, we are now creating one called Shifting Code, because there are computer programmer jobs readily available. And this would work well for people that are my age, very experienced people, and to get them successful in a new career.

Mr. SCOTT. A couple of years ago, we had the Recovery Act that gave a lot of money to states. The only way the state can balance its budget is essentially to fire people or stop funding projects so somebody else can fire people. Can you say a word about how much money each of your states got and what would have happened to your state budget had you not gotten aid under the Recovery Act?

Governor MALLOY. Well, in my case, the monies that flowed to the state did, in fact, replace state funds. Obviously—and I would argue that my government in the state of Connecticut did too little to respond beyond using those funds.

Having said that, there is no doubt that we would have fewer teachers in our school system today if we had not received those funds and that we would have continued a process long underway in Connecticut of shifting the burden to local communities, who rely almost exclusively in our state on property taxes to survive.

It is one of the reasons that in balancing a $3.5 billion deficit, which was structural in nature, because all of the surplus funds from past years were being used, as well as the ARRA money was being used, to displace state expenditures,that I had to take a different kind of approach to balancing that budget.

Governor SNYDER. Yes, what I would say is, unfortunately, in my view, too much of those dollars were used for replacement dollars for operating government. As a practical matter, we faced $1.5 billion deficit when I came because they weren't there, and we cut the deficit.

What I would have preferred to have seen is actually those dollars could have gone to infrastructure or other investments that were more treated as one-time funds that could have made a difference in the long term.

Mr. SCOTT. But you would have had to cut your budget even more than you cut your budget had you not had those funds. Is that right?

Governor SNYDER. Again, if you look back at the prior few years, though, I view it as a foregone opportunity.

Chairman KLINE. Gentleman's time has expired.

Mrs. Roby?

Mrs. ROBY. Thank you so much, Mr. Chairman, and thank you to both of the governors for being here today. We appreciate your time. We know it is valuable.

So, Governor Snyder, I just want to talk to you a little bit about Medicaid, kind of switching gears to health care, and as we know that, the new health care law significantly expands Medicaid, and it is going to put a real financial burden, not just on the federal government, but of course, on the states, as well. And it is significantly underfunded. And many of us are concerned that states cannot afford to devote these scarce resources to their Medicare programs.

So I am just curious if you can comment on any particular consequences that you see this current health care law having in Michigan from your perspective in state government. And how are we going to pay for these increased costs, not just on the federal level, but how are the states going to be able to handle this? And have you talked to your other colleagues, governors, other governors, as well, about Medicaid expansion and the impact that that is not just going to have on your state, but all across the country?

And with that, I will listen to your answer.

Governor SNYDER. No, I appreciate that question. And two dimensions in particular. I did a special message on health and wellness last September, because it is critically important. One, it is critically important to the quality of life of our citizens, but it is a huge societal cost and what it is doing to our budget situation, in terms of the growth of health care costs.

There are things that I don't believe have been addressed enough why it has been a focus on other issues in Medicare and Medicaid, in particular the dual-eligible situation is one where if people were working better together, there is an opportunity to hopefully provide better care at a much lower cost, if we had more flexibility or partnered better with the federal government.

The simplest thing I say on health and wellness, though, that people often overlook is just personal responsibility and wellness. I launched a program called Four-by-Four. And to be blunt, I signed up to lose 10 pounds. I gave all of my statistics out that they wanted on blood pressure and cholesterol. And if you ever want to see your blood pressure during the middle of a press conference, it does go up. [Laughter.]

And the point was, really, if you looked at in the state of Michigan, we have a dashboard where we show 32 percent of our population is obese. If we brought that down, if we dealt with obesity and overweight and did basic things on health and wellness that we have personal responsibility for, we could probably cut our health care costs in this country by half. So a lot of this should be us focusing on doing things that we can all do together and playing a coordinating clearinghouse role, leadership role, and not a spending role.

Mrs. ROBY. And from the state budgetary process of where you are, knowing that this is the current law of the land, what direction are you heading in preparing for the impact that these increased costs are going to have, despite the, you know, broad brush strokes of what we know, personal responsibility, but there are specifics that can be done, as well?

And I am just curious. I am from the state of Alabama. And this is a huge concern for us, for our governor and our state legislatures. They move into this next session about the negative impact that this is going to have on our state budgets.

Governor SNYDER. Yes, it is a major question, because, again, it gets back to the concept of unfunded mandates. And I hear that from our local governments all the time. So it is that food chain question.

And we are struggling with that, because it is like you have to make choices, and we have to be fiscally responsible for the long term, because that is really the question now. And to help deal with that, we have done a lot of reforms to essentially deal with our long-term liabilities, like post-retiree medical and other costs.

But, again, this will just make it more difficult for us to operate.

Mrs. ROBY. Mr. Chairman, I yield back.

Chairman KLINE. The gentlelady yields back.

Mrs. McCarthy?

Mrs. MCCARTHY. Thank you, Mr. Chairman. And thank you for having this hearing. I think it has been very interesting hearing from both governors. You certainly agree on an awful lot of things, and the way that you both have been working toward your state to get your people back to work and looking at the different initiatives is—to be very honest with you, that is the initiative that we need to see here. And I hope that, as we go into this New Year, that Congress can work together to get things done for the country, not for political parties. And I think both of you are perfect examples of that.

Governor Snyder, I think one of the things you brought on constantly was to have the flexibility to work between your state and the federal government, which is important. And I know that, you know, we have been hearing an awful lot on some of the resources that we gave out to try to bring this recession back has been working.

So I guess my first question to you is on the flexibility point. Do you believe that the federal government, the intervention in the auto sector infringed on this principle, the principle meaning about the flexibility and working together in the partnerships? The decision is widely recognized as a success and one that did save thousands of jobs. Would you characterize this particular program as a success?

Governor SNYDER. Yes, with respect to the auto question, which is critically important to Michigan, because we are—I am proud to say, we are the auto capital of the world—if you looked at it in terms of perspective, what I have said and what I believe is, if it would involved one individual company, it wouldn't have been appropriate, because that is what bankruptcy processes are for.

This was a situation that merited additional involvement and attention, because it wasn't about two companies. Those two companies would have brought down the entire industry, that I am not sure Ford would have survived if the supply base would have collapsed. So it was a broader issue.

Then you get into the specifics of how it was done. And what I would say is, is one choice was taken. There are other choices that were viable. And I don't see any value from my perspective of trying to second-guess or quarterback after the fact on those.

It was important something was done and that our industry's viable now. And so that was a success in that regard.

Mrs. MCCARTHY. And I agree. Listen, you know, this particular recession I think caught everybody way off-guard. And, you know, some were looking at solutions that were done in the 1930s. That is not the world we live in today. There is a global economy out there, so we have to work together.

The other thing that both of you have stressed is education. That is why many of us sit on this particular committee, the future. And you talked about the different initiatives that—the educational needs, and especially for those that are out of work.

I spend a lot of time with my schools in BOCES, which, unfortunately, an awful lot of parents think it is not good to send their child to a vocational school. And yet when I went and visited them and saw the jobs that they were training for, mainly because they have partnerships with the businesses in the area, where are the jobs going to be in 3 years, 4 years, 5 years? That is something that I think that we need to see a lot more done with that.

But I also—reading the testimony, Governor, I saw that you had said that consolidating programs or cut funding for programs simply to meet a deficit reduction target, consolidation of programs, allow more states more flexibility to deploy resources to meet the needs of our workforce, but not if you cut overall funding.

And I think that is important, especially as we are seeing the states right now cutting back on education, making decisions on whether they are even going to cut back on school time, which this is not the time to do it. If you could address that, I would appreciate it.

Governor MALLOY. Well, as someone who has served in different governmental capacities for a number of years—and frequently had to interface with the federal government—I came to understand that the combining of programs normally was attached to the reduction of funds flowing for the stated purpose.

If you are combining programs to create synergies and there is a desire to maintain the funding, I am sure we can spend the money very effectively in our states to put people back to work. But if we are combining programs simply to cut money out of those programs, I can assure you, we need that money.

I would also like to tell you that in Connecticut, we call the president's effort around the auto industry "Obama-car." And I want to comment that I think it was a strategic investment—that it had implications even in our own state. The support of manufacturing in the United States is terribly important. And I absolutely agree with the governor that the assistance given to that industry reverberates in all of the states where there is precision manufacturing currently taking place.

Chairman KLINE. The gentlelady's time has expired.

Mrs. MCCARTHY. Thank you.

Chairman KLINE. Mrs. Foxx?

Mrs. FOXX. Thank you, Mr. Chairman.

And I want to thank both of the governors for being here today, also, and I want to pick up on something that my colleague, Mrs. McCarthy, brought up a minute ago. I would also highlight that comment in Governor Malloy's presentation where he said, 'don't consolidate programs or cut funding for the program simply to meet a deficit.'

If you or someone on your staff will read carefully the WIA bill which we have prepared, it shows very clearly that we don't intend to cut any funding. However, we intend to get a lot more value for what is being spent. And I think it is really important that we point that out, because there is no intention to cut the funding there.

I will, though, also point out that federal dollars are not manna from Heaven. They are taxpayer dollars which are simply brought to the federal government, a lot of them wasted, and then some of them sent back to the states. I believe that in most cases the money could be spent much more effectively if they were simply going to the states to begin with.

But, anyway, let me, again, thank you all for being here. And I want to say, particularly to Governor Snyder, I appreciate the very positive comments you made about the new WIA bill, which has been introduced, and which we hope will move forward in this session.

I want to point out in the summary that I have about the bill that it mentions—allows governors, empowers governors, all throughout that bill, we do a lot to give much more authority to the states. We allow competitive grants, consultation with the governors. Throughout, again, we have changed, I think, the entire perspective of how we would operate these programs.

And I appreciate the fact that you have talked about talent development or creating talent, because I rail against using the term "job training" and training individuals, because as my colleagues have heard me say often, you train dogs and you educate people. And I like the idea of talent. And I think that is a good word we need to try to put into the bill somewhere, if we can, along with the term "workforce development." And I like that perspective. And I would say to you, we need a lot more accountants and more people who want accountability and results and bring a fresh perspective to this issue.

I would like to ask each of you—and I know you are not prepared to answer this question today—but I was in the State Senate in North Carolina for 10 years. And one of the things that the Republicans proposed over and over was the consolidation of all of these workforce programs so that we could save money at the state level in administrative costs.

And particularly, Governor Malloy, I would like to get some feedback from you, when you go back to Connecticut, and from Governor Snyder, also, on how much money could you save at the state level with this consolidation? And what efforts would you see the state being able to promote that you are not able to promote now under the existing structure?

Because I want us to start this consultation with the governors right now. Please give us your feedback. The state of North Carolina would have saved a lot of money even 10 years ago when we talked about this. And so I would like to ask you, would you, Governor Malloy, send that information back?

Governor MALLOY. Sure.

Mrs. FOXX. Governor Snyder?

Governor MALLOY. Sure. I am sure my staff behind me has already made a note of your request, and we certainly will attempt to do that.

Let me be very clear: I believe in consolidation. As governor of the state of Connecticut, in my first budget, I proposed a consolidation of 30 separate state agencies, actually doing that by over a third. And in this budget that I am presenting on February 8th, we do it again.

And I want to be very clear: Consolidation for the purposes of identifying funds to attack problems that exist and to do away with duplicate requirements is something that I absolutely support.

Having said that, with respect to the WIA program, we have used that program very effectively in a number of different ways around job funneling, job training, and talent acquisition. So I look forward to working with the Congress of the United States on that very point. I think we can, in fact, do that.

I am not against flexibility, but I have to share my experiences garnered over a 25-year period of time. Frequently when I have seen the federal government combine programs, it has led to reductions in the monies available to apply to local issues, where I served for 14 years as the mayor of Stamford, and now I fear on a statewide basis in state government.

Mrs. FOXX. Mr. Chairman, I would just like to say to Governor Snyder, thank you for highlighting the fact that there are 70,000 open jobs, because I think that is the case all over this country. And more needs to be said about that to show that we need to match talent. We need to educate people as to where the jobs are. And I think—I hope you will continue to do that.

Chairman KLINE. The gentlelady's time has expired. I know that Governor Snyder was itching to comment, and I am sure you will get a chance coming up here.

Ms. Woolsey, you are recognized.

Ms. WOOLSEY. Thank you, Mr. Chairman. And thank you to both of our governors. I am sorry I left. The Science Committee has just—the Republicans have just disallowed ABC, HBO, and an independent news network from covering the fracking hearing. So as a member of that subcommittee, it was important to go up and try to turn that around. We did not prevail. So I am sorry I missed your testimony.

So, Governor Snyder, Michigan, thank you for having a successful independent state OSHA, and because—so does California. And I think our OSHA program is steps ahead of the federal program, and the feds continue to learn from these state programs.

I understand that, while I was gone—that is why I told you why I was gone—Chairman Walberg—I am the ranking member on his Subcommittee of Workforce Protection—mentioned that there is an overlay of federal regulations over state regulations. And I don't know if he specifically referred to OSHA.

But just recently, he has said that he was in his district, he visited one of his companies who had just been visited by the state OSHA program, and right behind that, the feds' OSHA came. Well, we have done an investigation. I mean, we have tried to find out what company that was and why they were there, because that would not be appropriate.

Have you looked into that at the state level? I mean, why would that happen? Why would we be wasting money in that regard? And do you know any more about it than I do sitting right here today?

Governor SNYDER. No, not that particular situation.

Ms. WOOLSEY. Well, okay, I think it is worth looking into. We have asked over and over for the chairman to tell us what the company was and—so we can figure out how that all happened. So I think that would be an example of great waste of funds and the wrong use of federal regulators. But thank you for responding.

Governor Malloy, you in Connecticut are on the cutting-edge in so many ways. And you have a progressive—you have progressive work-life policies and a new law that requires businesses to pay sick leave when employees can't work due to illness. I would like to hear straight from you if the state economy has been compromised or if the state economy and health care system have benefited in regard to this sick leave policy? I mean, have you lost jobs?

Governor MALLOY. No. Since the passage—and ultimately, the enactment—of that law, we have actually gained jobs and lowered our unemployment rate in the state of Connecticut. It is a special program. It takes a period of time for employees to earn the right to paid sick time.

But let me be very clear: We did it not as a matter of convenience, but we made the ultimate decision that having people who prepare your food come to work sick doesn't make any sense. People who care for your parents or grandparents in a nursing home coming to work sick doesn't make any sense. And people caring for our children in daycare programs coming to work sick does not make any sense.

Ultimately, we decided that we would be a healthier state, a safer state if we moved in that direction with respect to service employees. And that is exactly what we did.

Ms. WOOLSEY. And the cost to the state?

Governor MALLOY. I don't believe there ultimately is a cost to the state. The idea that people are going to abuse a program simply because it exists really is not supported by the data.

Ms. WOOLSEY. Thank you. Thank you very much.

And just quickly, Governor Snyder, do you agree that the federal government plays a major role in helping improve the economy? Did the feds not help the auto industry in Michigan?

Governor SNYDER. Well, the auto industry was a unique circumstance, and that was successful, and I was asked that earlier, so I appreciate the question.

What I would say is that one of the things holding back our economy very clearly, talking to any Michigan employer, is the challenge of dealing with the federal deficit here. And that is an issue that needs to be resolved, because as a former businessperson myself, the number-one thing you want from government is certainty and confidence that you know what you are dealing with. And if you don't know what the rules are, you are not going to take undue risk.

And this is a risk sitting out there for all our employers. So I really encourage Washington to address that issue, because that is holding back job creation in our state.

Ms. WOOLSEY. Absolutely, and the lack of customers is also holding back.

Chairman KLINE. The gentlelady's time has expired.

Dr. Heck?

Mr. HECK. Thank you, Mr. Chairman, and thanks to both of you being here today. And I appreciate your testimony.

Governor Snyder, I was really interested in your comments on workforce investment and your job connection program. Being one of the—having the companion WIA bill along with Mrs. Foxx, my bill deals with governance and policy over WIA.

And the question I have is, how were you able—or what kind of response did you get to the idea that you were going to have to move people from the jobs they might have been in to jobs that were going to exist?

And I ask that because I represent southern Nevada. We have the dubious distinction of having the highest unemployment rate in the nation, driven largely in part by the 70,000 construction jobs that we have lost over the last several years.

But we had a field hearing on workforce investment out in Las Vegas. And I asked one of the local analysts, economists what they thought about those 70,000 jobs, and would they ever come back? His answer was, no, we will never be back to that level of construction in Nevada where we will have those jobs.

Next to him on the panel was a representative of one of the buildings and trades unions. And I asked that gentleman, what was he doing to prepare his members for the jobs that will exist, since it is apparent the jobs that did exist aren't all coming back?

And the answer was, well, we just need you to spend more money on infrastructure so we can put them back into jobs that did exist.

So what did you do differently in Michigan to get the buy-in of moving people from what did exist to what will exist?

Governor SNYDER. Well, I appreciate the question, Representative. And I appreciate your sponsorship, along with several other members here, of the ideas about putting metrics in workforce investment. And I clearly support that.

It is an ongoing process. It is not done yet. But a lot of it is, is getting the facts out to people. And I will go back to an illustration that I mentioned earlier about a welder being a job that anyone— if you are a welder, you can get a job in 20 minutes in Michigan. And how many people knew that?

But the other part is, is if you go to the average parent or the average student or someone even out in the workforce, do they actually know what a welder does? Do they actually know how much a welder makes? Do they actually know where a welding program is? The answer is no.

And so that is why this portal concept of this Web portal that— mitalent.org is so powerful, because we are putting those career skill tools on there and then we are going to try to encourage people to get the facts.

And I will give you one question that is really interesting, if you go back to the auto industry illustration, that the auto industry is hiring, and they are actually concerned about having enough workforce for the future, but now they have to get over the perception that you don't want to be in the auto industry because it goes through difficult financial times.

And if you want a job in an auto plant nowadays, you can't simply just say, "I am coming out of high school, and I am going to work." Quite often, you need to go to a community college and get a couple of years of technical training to work on the floor of an auto plant today.

So those are all kinds of things that is an ongoing process, but I am proud to say I think we are helping lead the country in being proactive. And that is why I encourage—workforce development is great, but it is not enough. Talent, the three C's, connecting, collaborating, and creating.

Mr. HECK. Again, and, Governor Malloy, any similar efforts in Connecticut? Or how are you moving, getting people from jobs that may have existed in Connecticut to the jobs that you foresee in the future in Connecticut?

Governor MALLOY. We attacked this issue—by the way, I agree with the governor on this point, as I have on many of the points that he has made. In our bipartisan jobs bill, we actually allocated funds to take an award-winning program at one of our community colleges, Asnuntuck, which has been in existence this program for 12 years, training in precision manufacturing and re-training folks who may have lost their jobs in lower-lever manufacturing to be in precision manufacturing, with a 98 percent to 100 percent placement rate upon completion of that program.

But what I found when I became governor is that that program had not been replicated in any of the other community colleges in the state. In our bipartisan job program that we passed and I referenced in my prior testimony, we are going to replicate that program in three additional community colleges, with operating dollars, and we are going to replicate it in three of our vo-tech schools in the state, so that we will actually graduate people from high school or from community colleges who will be prepared to take those precision manufacturing jobs. Why that connection was never made, I don't understand.

But I want to make one quick point on that. One of the reasons I consolidated our community colleges, of which we have 12, with our four regional universities within the state and our online university is to make sure that our higher educational program in the state of Connecticut is more responsive to the needs of the companies, start-ups, and long-term companies that are finding it difficult to get the right talent-matched set.

And so I think both the governor and I are working on that program, having identified it as a tremendous need. We have thousands of precision manufacturing jobs going unfilled in Connecticut right now as we speak. I hope that that will not be the case in a relatively short period of time, and that is why we are putting so much emphasis on rebuilding and redirecting our community college programs.

Mr. HECK. Thank you. And thank you both. I congratulate you on your innovative programs.

Thank you, Mr. Chair. I yield back.

Chairman KLINE. The gentleman's time has expired.

Mr. Hinojosa?

Mr. HINOJOSA. Thank you, Chairman Kline and Congressman Don Payne.

I am pleased to see such a distinguished first panel of governors here for our committee discussion on job creation. Today, I want to urge my colleagues to work in a bipartisan manner on a jobs agenda that creates jobs at home, educates our young adults, and reignites the American dream. I certainly support that last discussion that you had on supporting the federal investment made in community colleges.

As you know, U.S. Congress has not reauthorized WIA, which we passed in 1998. I think that is shameful. Governor Malloy, in your testimony, you urge us to reauthorize it. What are your top—and this question is to Governor Malloy—what are your top three priorities that we in Congress should look at to reform WIA and improve the job training program for the next 5 years?

Governor MALLOY. Well, let me say that WIA is an important program, which I think Connecticut has used quite effectively. And so I am not here to criticize the program. What I am saying is,we have done the right thing. We have used the dollars to train and continue to train folks to take positions that they were formerly unqualified for.

We have an award-winning program around the employment of veterans, which is of special concern, given how many veterans are returning from the two wars that we have been engaged in.

I am sure that this committee is capable of making that a stronger and better law, but I, again, will reiterate that it needs to be sustained. Flexibility is okay as long as flexibility is not coupled with a reduction in the funds that are made available.

I think both—the governor of Michigan and myself are capable of directing those funds to be properly spent in our states. We both identified a common problem that we recognize. And so I just would really urge the committee to get its job done. And let's get a law renewed and let's make sure that those dollars are flowing to our states so that we can put people back to work and train them properly.

Mr. HINOJOSA. Well, you need to know that, in the 13 years that we have operated with that 1998 WIA act, we saw lack of accountability and we saw that in some areas, some regions of the country, the WIA money they got, used 60 percent of it for fixed costs, administration, all sorts of fixed expenses, and only 40 percent or less was used for training of the adults.

And so I think that that needs to certainly be reformed and that we could put a cap at, say, 40 percent or less for the fixed expenses and have 60 percent for actual training.

But you mentioned returning veterans. And I am pleased, because I agree with you that we must do everything possible to assist these veterans in acquiring good jobs and careers, with so many of them already coming—have come back from Iraq and then a few will start coming back from Afghanistan. We really need your thoughts on how you plan to reduce the unemployment rates for veterans in your state.

Governor MALLOY. Well, I am sure the governor and I both agree that this is an important societal issue. People are returning from the two wars and deployment, in many cases with very good skill sets, but, again, those skill sets may not match what is needed. So we need to make it affordable and easy for our returning service personnel to access programs in our community colleges, certificate programs or programs that will qualify for degrees, and we actually just need to make a special effort.

Our Labor Department in our state is doing that. I have asked all my commissioners to be mindful of that. We are talking to all of our private and public universities to make sure that they understand that this is a special obligation that we owe to the people who have served us.

Mr. HINOJOSA. I agree with you.

Let me ask a question of Governor Snyder. You know that we are very concerned about our young teenagers and young adults, particularly Latinos and African-American. Their unemployment rate is so very, very high. What are you doing in your state to address that problem and that group so that they can get jobs?

Governor SNYDER. That is a very timely question, because we are doing our budget message next week, and one element of that that will be included is something geared at the structurally unemployed. Because you are right on, in terms of saying, particularly our young people in our urban areas, we need to do something.

And so part of our view is, is let's put a very focused effort on that. One area in particular that I think is worth drilling down on is the concept of supply chain analysis. And that is an illustration of asking our current larger employers to say, who do you buy from? Who do you do work with? And there are opportunities to make things work.

One illustration that we use was as simple as laundry. We have a very large health care community in metro Detroit that does tons of laundry. We actually found that some of them actually have their laundry done out of state. And why aren't there opportunities for entrepreneurs that create organizations that would be very good at employing entry-level-type positions to create jobs right in some of these communities?

So in one of those ways, again, it is not about the government, but us playing that coordinating resource to say, can we work with companies and their supply chain analysis? And we have created a program statewide called Pure Michigan Business Connect, but can we put that in particularly challenged areas?

Mr. HINOJOSA. Your suggestions are good, but I want to be sure that you all are on the same page with us, that the African-American young teenagers and young adults and the Hispanic are the two that have the highest unemployment rates, and we have got to focus those efforts that you just gave us on being able to address them.

Chairman KLINE. The gentleman's time has expired.

Mr. Ross?

Mr. ROSS. Thank you, Mr. Chairman.

Speaking of economic development, I want to thank Governor Snyder, because my hometown is Lakeland, Florida, the spring training home of the Detroit Tigers for the last 75 years, and we are at that time of year now where your constituency is migrating to my area for economic development purposes, and I thank you for that. [Laughter.]

To both governors, the NLRB decision in specialty health care case allows for the creation of many unions. Like-kind vocations can now unionize, as well as the NLRB's promulgation of rules that expedite the voting for unions from 90 days to 14 days. These are significant impacts for organized labor. And I think it would have significant impacts on job creators.

And my question to both governors—and I will start off with you, Dr. Snyder—is, do you support these efforts by NLRB? And how will they, if they happen, impact your efforts as a job creator?

Governor SNYDER. Yes, one of the challenges—it would be much like some of the other issues—is I view that as just creating divisiveness, because all you are going to do is create environments where people are at conflict. And we shouldn't be wasting time on things where we are going to get into conflict. We have too many important issues to solve. We waste way too much time on arguing about things rather than finding common ground and solving problems.

Mr. ROSS. Would you see any reason to change the status quo, then?

Governor SNYDER. No. My view is, is let's find areas where we agree on. I mean, if you listen to the testimony here, you can hear about infrastructure issues, so many things, workforce development, on showing results. Let's find—again, relentless positive action is my motto. Let's find common-ground solutions where we agree, solve our problems, show results, and we will find we are closer together. And we have got a lot of things to work on before we get into fights.

Mr. ROSS. Governor Malloy?

Governor MALLOY. You know, I just want to say that I believe the right to unionize is actually guaranteed by our Constitution. And taking steps to allow individuals to come together for the purposes of collective bargaining should not be seen as an evil, just as I would not argue——

Mr. ROSS. No, I agree. But in terms of changing the status quo, I think—would that not negatively impact your efforts as a job-creator?

Governor MALLOY. Well, you know, if you look at the history of this discussion, there was a movement around card-check, which was not successful. Card-check came about because of the frustration of folks who would want to become organized, that once they got to the point where an election was to be held, there was no timeliness in the holding of that election or of that vote. So anything that would speed the vote taking place I think actually works to the favor of the work environment. You get a yes or a no. People——

Mr. ROSS. So you have no problem with expediting it to 14 days for union elections?

Governor MALLOY. No, I think an expedited process—the exact time of which, I think, could be open for——

Mr. ROSS. And you don't feel that would impact your efforts as a job-creator?

Governor MALLOY. I don't. Actually, the gentleman from South Carolina talked about the right-to-work state or movement. Quite frankly, Connecticut's unemployment rate—as I sit here today—is lower than South Carolina's. And we have a more unionized workforce. So I think that people will make an argument around their belief, but they are not always substantiated by the facts.

Mr. ROSS. Let me ask both governors. You have the requirement for a balanced budget, don't you, in Michigan and in Connecticut?

Governor MALLOY. All states do.

Mr. ROSS. You—okay.

Governor SNYDER. Yes—not good enough, though, if you look at what——

Mr. ROSS. I agree with you. And something else that we have, on the federal level, state level, and local levels, of course, is our pensions. And my question—and you addressed, Governor Malloy, in your opening statement, and I appreciate that, with making reforms. Is your pension plan in Connecticut a defined benefits plan or defined contribution plan for state employees?

Governor MALLOY. It is a defined benefits plan.

Mr. ROSS. And is that something that you think needs to be changed to a defined contribution plan so that there is an opportunity to make sure that it is fully funded?

Governor MALLOY. No, I would—my approach is different. If state government had honored its commitment and properly funded the program over a period of time, I would not have inherited a program that was 41 percent, 42 percent funded.

Mr. ROSS. But the fact that they cannot fund it, is that not indicative of the fact that it was not an appropriate measure that the state should have taken and now should renegotiate, because how else are you going to fund these?

Governor MALLOY. No, I fundamentally disagree that defined benefit programs are, by definition, an evil. They do——

Mr. ROSS. Well, I have not said it was an evil. I am just saying that it is a burden on your state, in terms of funding.

Governor MALLOY. They do require discipline. And in the absence of that discipline—for instance, one of my predecessors had negotiated language that did not require the pension plan to be funded on a true actuarial basis. In fact, in my opening remarks and in my testimony, I point out that we would have had a $4.4 billion balloon payment on that pension obligation negotiated by one of my predecessors. Obviously, that is wrong.

Mr. ROSS. One quick question before I go, because I see my time is running out.

I firmly believe in states' rights, and I think that that is very important. There is a measure recommended by the president's debt commission, the Simpson-Bowles commission, which eliminates all corporate tax loopholes and would reduce the corporate tax rate flat to 28 percent.

Now, I believe that something like that would not only be an incentive for economic development within our country, but it would allow states to leverage to use tax policy to compete with other states for economic development. How do you both feel about that?

Chairman KLINE. The gentleman's time has expired. I am sorry.

Mr. Tierney?

Mr. TIERNEY. Thank you, Mr. Chairman.

Mr. Chairman, as you know, Governor Deval Patrick of Massachusetts was invited today to testify but was unable to make it. I would ask unanimous consent that his written testimony be allowed onto the record.

[The information follows:]

Prepared Statement of Hon. Deval L. Patrick, Governor, State of Massachusetts

TO THE MEMBERS OF THE COMMITTEE ON EDUCATION AND THE WORKFORCE: I regret that I am unable to join you today in person to discuss this critical subject of expanding opportunities for job creation. Job creation is the single greatest challenge facing our Commonwealth and our Nation. Thank you for accepting written testimony in my absence.

Like every state coping with the Great Recession, we cut spending and headcount, and slimmed down or eliminated programs. But we also chose to invest in education, in health care and in job creation—because we all know that educating our kids, having health care you can depend on, and a good job is the path to a better future. Indeed, having spent most of my career in private business, I understand that growth comes from investment, not cuts, and that government must do its part to help people and businesses help themselves.

As a result of that strategy, we moved from 47th in job creation in 2006 to 5th in the nation in the last two years. Our state's economy is growing faster than the national rate. Our students lead the nation in overall achievement and the world in math and science. We lead the nation in health care coverage with over 98% of our residents insured. And we have not only closed our budget gaps, eliminated our structural deficit, and achieved the highest bond rating in our history, but also—with labor at the table—made the kinds of meaningful reforms in the public pension system, in municipal health benefits, in our schools, and in our transportation bureaucracy that had eluded my predecessors for decades.

I would like to explain briefly why this strategy of public and private investment and collaboration is working in Massachusetts, has worked under President Obama, and could do even more with closer collaboration between the Congress and the administration.

Under President Obama, our country is growing jobs again and steadily recovering from the global economic recession. We have added a total of 3.2 million private sector jobs over the last 22 months. American manufacturing is creating jobs for the first time since the 1990s and our American auto industry is stronger than ever. Today, American oil and gas production is the highest it's been in eight years.

Thanks in large part to the good news on the national level, Massachusetts is making gains in our economic recovery. In the past year, Massachusetts has added 45,600 private sector jobs and our unemployment rate dropped to 6.8%, well below the national rate of 8.5% and the lowest monthly rate since December 2008.[1] A recent Business Journal analysis ranked Boston first in the nation and Worcester third in the nation for job growth for the second quarter of 2011.[2] Of the top 20 cities in America for economic recovery, according to the Brookings Institution, three are located in Massachusetts: Boston, Worcester and Springfield.[3]

None of that is by accident. It's because we have a strategy built on making both investments and reforms for the future.

We invest in education because it is the single best investment government can make. In each of our state budgets since I took office in 2007, we have set new records for support for our public schools. The ARRA funding enabled us to keep this commitment through the worst of the Great Recession. In addition, as a top scorer in the National Race to the Top Competition, Massachusetts was awarded $250 million and an additional $50 million through the President's Early Learning Challenge. We use these funds to bolster our efforts to increase educator effectiveness, turn around underperforming schools and provide educators with the tools they need to ensure that all students are prepared for success in the classroom and beyond. We will continue to invest in our education because we believe it is an investment in our collective future.

One of the most pressing challenges facing our Commonwealth and this country is a skills gap. Jobs (especially middle skills jobs) go unfilled because many of those seeking work lack the skills to join the new, knowledge-based economy. I share President Obama's belief that community colleges are uniquely qualified to fill that gap. I am proud to partner with the President on his initiative to utilize the talent and resources of our community colleges to develop programs that fit the needs of the modern workplace and help people get back to work.

Our Commonwealth chooses to invest in innovation because we know it is how we will compete and win in the global economy. For example, through our $1 billion, 10-year Life Sciences initiative, we have already invested over $200 million in public resources and generated more than $700 million in private investment and thousands of new jobs.[4] Our clean energy sector has seen a near 7% growth rate over the course of a year,[5] thanks in part to the near quarter of a billion dollars in clean energy and weatherization investments through the American Recovery and Reinvestment Act (ARRA).[6] In these and other innovation sectors, state and federal government support for basic and applied research has been critical. Continuing these efforts, the President outlined a series of energy proposals in his State of the Union last week and I look forward to working with him and the Congress to move these forward.

Finally, we invest in infrastructure because it is the foundation upon which everything is built. Through $1 billion in ARRA funding for transportation related projects,[7] and a robust state capital program, we have invested in critical infrastructure: road, rail, bridge, broadband and other projects in every corner of our Commonwealth. These have created jobs for thousands, and also a platform for private sector growth into the future. Like every other state, the list of neglected maintenance and modernization is long. The Congress could help the economy now and beyond by substantially increasing investment in public infrastructure.

ARRA has undoubtedly helped. Since the beginning of the program, over 93,300 individuals have received an ARRA-funded paycheck in Massachusetts.[8] Even as the ARRA winds down, we were able to report to the President just this week that during the last quarter, nearly 9,900 individuals received an ARRA-funded paycheck. On a national scale, ARRA is responsible for producing or saving as many as 4.7 million jobs in 2010.[9] These were meaningful jobs as teachers, public safety officers and construction workers, doing meaningful work. Rarely in neither my business life nor my public one have I met serious business persons and entrepreneurs who believe that the government has no role to play in economic development in good times, let alone economic recovery in tough times like these.

At the same time, we have seized the moment to make significant reforms in state government, to deliver services more efficiently and effectively.

Three years ago we streamlined our sprawling transportation bureaucracy saving the state millions while improving customer service and accountability.[10] Though our transportation system is still underfunded, we are better positioned to make the case for new funding because we can show that chronic and conspicuous waste and duplication has been eliminated.

In 2010, we passed the next chapter in education reform to set new standards for teachers, encourage a greater level of classroom innovation, and close persistent achievement gaps. We are seeing the results all around the Commonwealth in higher test scores and better performing schools.

Last year, I signed the third phase of pension reform legislation that raised the retirement age and ended the ability for state employees to "double dip." This reform will generate over $5 billion in pension fund savings over 30 years, including an estimated $2 billion for cities and towns,[11] and make the system sustainable into the future.

Last summer, we passed municipal health care reform to deliver meaningful savings to cities and towns to help them better maintain services for their residents while preserving quality and affordable health care for municipal employees. The reform allows cities and towns to redesign employee health care plans to get the same or better coverage and more advantageous cost. We are on track to far exceed the initial estimate of $100 million in savings for local governments statewide, a portion of which is shared with employees through health reimbursement accounts, wellness programs and other similar initiatives.[12]

These reforms have or will deliver meaningful cost savings. Many have been proposed in the past, but we have been able to get them done. Collective bargaining is not an obstacle to reform. Indeed, labor has been at the table as true partners to help achieve these results.

In no case is that more evident than the story of Massachusetts health care reform. In 2006 then-Governor Mitt Romney, working together with a Democratic state legislature, a Democratic United States Senator, and a broad coalition of business, labor and health care leaders and advocates came together to invent our health reform bill—and the coalition stuck together to adjust it as we implemented and refined it. That bill was an expression of shared values, our belief that health care is a public good and that everyone in Massachusetts deserves access to it.

Today, thanks to effective implementation, more than 98% of Massachusetts residents have health care coverage, including 99.8% of our children.[13] Many more private companies offer their employees insurance now than before the bill was passed. More than 90% of our residents have a primary care physician.[14] People no longer have to fear having their insurance cancelled when they get very sick and need it most, or that a serious illness will leave them bankrupt.

Health care reform is good for economic growth. Before health care reform, and before the recession, Massachusetts was 47th in the nation for job creation.[15] Five years later, with expanded coverage and in the midst of the recession, we rank 5th.[16] Matt McGinity, the CEO of a small technology company in Natick, outside of Boston, bought health insurance through a program created by the Commonwealth Connector, our version of the Health Exchange. The program, called Business Express, is an online service to help small businesses easily shop for private health care and find the best possible value. Using Business Express, Matt was able to compare health plans side-by-side and avoid a 23% premium increase his current insurer was proposing. He and his employees saved $9,300.

I met a young entrepreneur last year who moved his business up to Massachusetts from Florida because, with a young family, he wanted to be able to start his venture without worrying that his children would not have health insurance. Universal coverage helps our competitiveness and attracts new people to Massachusetts.

As the cost of health care rises nationwide, we have taken aggressive steps in government and in collaboration with the industry. To rein in sharp increases proposed two years ago, I directed the state's Commissioner of Insurance to reject excessive premium hikes. Insurers sharpened their pencils and rethought their approach. Two years ago, average premium increases were 16.3%. Today, they are 1.8%.[17] Hospitals and insurance carriers have reopened their contracts and cut rate increases, in some cases by more than half. We created limited network plans to give consumers opportunities to get great care in neighborhood settings at lower cost.

The rising cost of health care is not unique to Massachusetts and we have more to do to address it. We need to put an end to the "fee-for-service" model. We need to stop paying for the amount of care and start paying instead for the quality of care. Working with the legislature, we expect to pass health care cost containment legislation later in the year to give us more tools and flexibility to manage consumer costs without returning to rate regulation. Just as we lead the nation in health care reform, I believe Massachusetts will crack the code on health care cost containment.

We have a lot of good news to share, but there is more we can do. But the point is that our successes in Massachusetts are a direct product of our ability to work together—my administration and the Legislature, state government and federal government, government and business, labor and business. That's because we have decided to turn to each other, rather than on each other. On the whole, our state Legislature has given me the tools I have asked for. I can only imagine how much further we'd be if the Congress had given the President the tools he asked for, when he asked for them. According to at least one source, the U.S. economy would have received a two percent boost under the President's jobs plan this fall and the unemployment rate would be one percentage point lower than it is now.[18] We would be out of this recession sooner rather than later.

Nationally there are actions we must take:

We need prompt extension of the payroll tax cut, the Temporary Assistance for Needy Families (TANF) program, and federal funding for extended unemployment insurance benefits. These provisions provide high levels of economic benefit for millions of Massachusetts residents and are critical to our continued progress.

I ask Congress to work together in a bipartisan way to reauthorize the Elementary and Secondary Education Act and the Workforce Investment Act so that we can prepare our country for the jobs of today and tomorrow. Investing in education and skills training is how we will win the future.

I ask Congress to reconsider the proposed Infrastructure Bank, and other means to make significant re-investments in our public infrastructure.

We need to take a closer look at our tax code and use it to reward companies that create jobs in America, rather than punish those that do. We need to take action to encourage more businesses large and small, to invest or reinvest in the American workforce. We each need to invest in our people again.

I support proposals to reform our tax code, so that it is simpler and fairer. I believe that should also include a reasonable increase in the share that the highest-income Americans currently pay. Like the President, I celebrate the good fortune of others and am blessed to have had some of my own. The answer to good fortune is not guilt—it is responsibility. We all have a responsibility to ourselves, our communities and our country. Once we all accept that responsibility, we can better make the kinds of investments that will grow jobs and strengthen our economy, for now and for the future.

Why is all this important? Because I believe, as does the President, that government is not about solving every problem in everybody's life, but rather about helping people help themselves. I ask Congress to give the President the tools he needs to finish the job. In the midst of economic challenge, we can build a stronger country than we started with—not just for ourselves but for generations to come.

I look forward to hearing the committee's findings and I hope that together we can work together to grow jobs for our future.

ENDNOTES

[1] Executive Office of Labor and Workforce Development. Massachusetts Unemployment Rate Drops to 6.8%. 19 January 2012.

[2] Boston Business Journal. Boston is No. 1 in quarterly job ranking of major metros. 8 August 2011.

[3] Brookings Institute. MetroMonitor. September 2011.

[4] Massachusetts Life Sciences Center. Massachusetts: A Healthy Choice for Innovative Life Sciences Companies. Sept. 2011.

[5] Massachusetts Clean Energy Center. 2011 Massachusetts Clean Energy Center Industry Report. October 2011.

[6] Massachusetts Recovery and Reinvestment Office. Recovery Act Spending in Massachusetts. 31 Dec. 2011

[7] Massachusetts Recovery and Reinvestment Office. Massachusetts Funding Overview. 31 Dec. 2011

[8] Massachusetts Recovery and Reinvestment Office. Recovery Act Jobs in Massachusetts. 31 Dec. 2011.

[9] See, *http://www.cbo.gov/ftpdocs/119xx/doc11975/11-24-ARRA.pdf*

[10] Office of Governor Patrick. "Governor Patrick Signs Bill to Dramatically Reform Transportation System." 26 June 2009.

[11] Office of Governor Patrick. "Governor Patrick Signs Pension Reform Legislation." 18 November 2011.

[12] Office of Governor Patrick. "Governor Patrick Signs Municipal Health Care Reform to Save Millions for Massachusetts Communities." 12 July 2011.

[13] Commonwealth Health Insurance Connector Authority.

[14] Massachusetts Health Care Reform 2011 Progress Report. 2011.

[15] MassTaxpayer's Association. US States Job Growth:2002-2006. 2011.

[16] "We are fifth in job growth (as a percentage of total employment) for 8/09 to 11/11." Data compiled from the Bureau of Labor Statistics.

[17] Weisman, Robert. "Harvard Pilgrim Cuts Health Premium Rate Increase." Boston Globe. 31 Jan. 2012.

[18] Goldman Sachs Group Inc., Moody's Analytics Inc. and JPMorgan Chase & Co. 10 Sept. 2011.

Chairman KLINE. Without objection.

Mr. TIERNEY. Thank you very much.

Governor Snyder, Governor Snyder in particular, I note in Governor Patrick's written testimony here, he is quite proud of the fact that Massachusetts made certain gains, as you are with the work that has been done in Michigan. He has a quote in there, that growth comes from investment, not cuts, and government must do its part to help people and businesses help themselves. And he goes on to talk about Massachusetts was 47th in job creation in 2006. Now even during the last couple of years of recession, it has got to fifth on that. And he is proud that students lead the nation in overall achievement in both math and science and that we lead the nation in Massachusetts in health care coverage, covering over 98 percent of our people on that basis, that he has closed his budget gap, eliminated structural problems on deficit on that, and has a higher bond rating than they have ever had in Massachusetts on their own.

He talks about adding 45,600 private-sector jobs in Massachusetts and that the unemployment rate dropped from 8.5 percent to 6.8 percent, all on what he says is his strategy, building on investments and reforms, whether it is pension or health care, in those areas.

He talked about the Recovery Act, being helpful in allowing him to maintain his commitment to education, his commitment to innovation, where he put $1 billion over 10 years into life sciences and $250 million into clean energy, was able to work with basic and applied research issues and infrastructure on that.

But I noted in looking at michigan.gov, that you don't take a backseat to much of that, and you have done well on that with your recovery funds. Your governor—previous governor said that 54,000 jobs were created. And I noted that you had actually, back in May of last year, made note of the fact that there was a serious investment in your rail in Michigan.

And your quote was that accelerated rail service has the ability to enhance our economy, environment, and overall quality of life, and that an investment of that magnitude spurred economic development in your communities, in that you are able to say that it was critical to Michigan's recovery. Do you agree with that still?

Governor SNYDER. Yes, I have said—actually, I gave a message saying—calling for $1.4 billion of additional investment in transportation infrastructure in our state. The one thing that goes with that, because one of the challenges is, it is a difficult economic environment is—a lot of our citizens don't believe we have demonstrated best practice and how we are deploying those dollars.

So one of the things that goes along with that is us being more prudent about showing that we have metrics, we have measures, we are being held accountable, and we are being transparent in those features, but they go together.

Mr. TIERNEY. That is good. And I also noted that, on the Recovery Act, you had $1.35 billion in advanced battery grants, and now Michigan claims to be the leader in automotive batteries on that. Does that still hold true?

Governor SNYDER. What I would say on the battery credit is, it was done when I got there. One thing is, I am not a believer in picking winners and losers or using tax credits at the state level, in particular.

To go to the earlier representative's comments, we re-did our tax system to make it simple, fair, and efficient, so we have wiped out almost all tax credits that we offered to corporations and eliminated a tax that was on unincorporated entities and put in a flat 6 percent corporate income tax. And my belief is that it will be a better job greater than having the Michigan business tax, which was the dumbest tax in the United States.

Mr. TIERNEY. Well, the Recovery Act monies that you put towards the advanced battery grants, does that still remain in use?

Governor SNYDER. That is in use. Again, they are there. I hope they succeed. It is great to have them in Michigan. But one thing, when I looked at the budget this year and I have a budget for the next several years, I start at minus $500 million in the hole to cover the cost of those credits.

Mr. TIERNEY. How many teachers do you think you were able to retain on the payroll and your various cities and towns in Michigan as a result of the Recovery Act money that was allocated to education?

Governor SNYDER. I view that as just speculation, because the question—and, again, this is the way I felt about the dollars, in many respects, is too often we use those for operating costs as opposed to good capital investments that were one-time dollars that we could have put in the long term, while at the same time we adjusted our cost structures, because we now shown we can adjust those cost structures, be more efficient, and give better service to our customers, and actually hopefully provide better education.

Mr. TIERNEY. And, Governor, do you agree with that?

Governor MALLOY. Well, what I would say, specifically, in a budget that I inherited, a prior administration had used $270 million of ARRA money to cover a cut to local governments in support of local education—or education, pre-K through 12, in the state of Connecticut.

That $270 million, if I had not covered that in reworking the budget and addressing the $3.5 billion deficit, would have led to a loss of thousands and thousands of jobs for teachers, administrators, and paraprofessionals in our school system, our school systems. So let me assure you that it was one of my highest priorities to make sure that we bridged that gap that had occurred, which is another way of saying they used the ARRA money to keep teachers employed.

Mr. TIERNEY. Thank you.

Chairman KLINE. The gentleman's time has expired.

Mrs. Biggert?

Mrs. BIGGERT. Thank you, Mr. Chairman. Thank you for holding this hearing. And thank you both for being here.

Governor Snyder, I certainly share your frustration with the highly skilled international students who have gone through our graduate schools and then—I call it the brain drain, reverse brain drain, and they are having to go home and do the creativity and the innovation that we need in those foreign countries, rather than remain here. And I hope that we will be able to—Congress will put aside the partisanship and really work out a way to keep them here.

But I am also very concerned about our students and why they aren't meeting the requirements that we think they should, and particularly I think we all—most of my colleagues and I really think that the STEM education is really important. And we need to find a way to get more students interested in that.

And I was—one of the studies that—the gathering storm, the National Academy has put out, was saying that we need to have the creativity and that innovation if we are going to be competitive in the global economy.

And I don't think we are when we see Finland as the number-one school in that area. And I think the United States ranks 24th or 28th, I forget which, but it is very low, that we need to do something about that. And you talked about the significant lack of college students in Michigan in the STEM type of program. Why do you think that that has happened?

Governor SNYDER. Well, one, it comes back to the concept of accountability and measurement and student growth. What I have said clearly in Michigan—and we did education reform this last year on a significant basis—because it needed to be done as—we spend a lot of money there, but we are not getting outcomes that are acceptable. Only 17 percent of our kids were college-ready. If you go to our community colleges, about 60 percent of the kids have to take a remedial class before they are qualified to take an entry-level class. That is a travesty.

And a lot of it, if you look at it, there is not enough emphasis on student growth, and it is not just about standardized tests. My view is, is students should have a portfolio of work that travels with them that they can really be assessed.

And our goal is, is not to create competition between districts, but the measure we want to have in Michigan is to say, what do we need to do to create an environment where we can measure to see that each and every student is getting at least 1 year's worth of education each and every year, and then giving them some of these other tools with connecting, about showing them where careers actually are?

Because, to be blunt, most parents and kids think of doctor, lawyer, teacher, nurse, all the standard things, and how many people ever thought about being a marketing person or accountant or a computer programmer, where the jobs are? So that is where we need collaboration to work together, so that is where I talk about talent and the three C's.

Mrs. BIGGERT. Do you think that we—when do you start that? I mean, would you start in preschool, kindergarten, to really——

Governor SNYDER. Yes, I re-characterize it. I don't use the term early childhood, K-12, community college. I call it P-20. Our goal is literally prenatal through lifelong learning. And we have erected barriers and silos to make it difficult for these kids to go through our system that are mainly artificial constructs of either money or old institutions and lack of innovation.

And so we are working hard on creating a fairly seamless system for people to move through it. We call it anywhere, anyplace, anytime, any way that you get your education, and it is a great opportunity. Cyber schooling, cyber learning in particular, married with traditional education, done right is a huge opportunity.

Governor MALLOY. I would agree with the governor. And that is exactly what we are doing in Connecticut, as I appear before you. We need a seamless system. We need to make it easy for people to acquire the skill sets necessary for our corporations, our employers to succeed.

I do want to join your comments with respect to the ability to retain talent that we are training in this country. It really is a travesty that we are not retaining that talent once we have educated it here and have people who express a desire to remain here and to be part of our filling a void that currently exists.

I do want to also say that I think we need to speak to our young people differently about what it takes to be successful in the world. We have precision manufacturing jobs in both of our states that pay in excess of $100,000, and yet we are unable to pay those. We have children who say they want to be a pilot someday, but we don't explain to them that that is going to require STEM skills.

We need to have a different conversation from our earliest moments, but certainly from the time a child arrives in our school system, and we need to help direct those young people to areas that are going to lead to full employment. We have not done that. And that is why we have a structural deficit with respect to the skill set or the talent set necessary to match the employment needs that our country currently has.

We can't do that rapidly enough to fill that void. It is one of the reasons that we are, in fact, giving a credit to new hires or for new hires, because we as a state understand that not having done a good job in training a replacement workforce, it is not—it is in our best interest to subsidize an employer being engaged in that training.

Mrs. BIGGERT. I thank you both.

Chairman KLINE. The gentlelady's time has expired.

Mr. Altmire?

Mr. ALTMIRE. Governor Malloy and Governor Snyder, thank you both for being here. I realize—we all realize this is a difficult time for you, budget season coming up. You are going to be called upon to make very difficult decisions, as we are here in this committee and in this Congress.

I wanted to revisit a difficult decision that we had to make, Governor Snyder, which you have addressed a couple of times now, and you mentioned in response to Mr. Tierney's question about the need for best practices in deploying taxpayer dollars and how critically important that is, to make sure that it is a wise use of taxpayer dollars.

And in answering the question earlier, you emphasized your support for paying attention to the deficit, making sure that we are reducing the deficit. I supported the balanced budget. I voted for it when it was on the House floor, and I think that was the right decision.

But we do occasionally have to make extraordinarily difficult decisions on allocating federal resources, one of which was the auto recovery plan. And you have talked about it a couple of times, but I just wanted to get your sense in thinking about whether or not, was that an appropriate use of taxpayer resources? Did this Congress do the right thing in promoting the auto recovery plan?

Governor SNYDER. Yes. As I had mentioned, Representative, already, that in many respects, it wasn't about one individual company. It was actually the entire auto industry that was in jeopardy, and that would have been a major catastrophe for our country.

The solution was successful. It is great to see the success of the auto industry.

In hindsight, you can go back to say there could have been other ways to do it that probably would have been more efficient. I don't waste time on that analysis. It is done. And the exciting part we should be proud about is the auto industry is moving ahead.

And we need to be supportive of that, but that is the point about making sure they have the right skill trades to succeed. So that is why I am excited to testify here today is, is they have a major talent question. And to be open, workforce development on its own is not a good enough answer. We need to do a better job of collaborating and connecting with them.

Mr. ALTMIRE. I appreciate that. And I asked that question once again to ask this question to both of you. A couple of decisions we are going to have to make in short order deal with the extension of unemployment insurance and transportation and infrastructure on a federal highway bill.

Starting with unemployment insurance, could I ask Governor Malloy and then Governor Snyder, how important is that to your individual states that that gets done? What is your opinion of what we should do? And if it does not get extended, what would be the impact to the citizens of your state?

Governor MALLOY. Well, let me begin with the quick answer. If it is not extended, 51,000 people will be without benefits in the state of Connecticut at the end of February. That number will grow to 71,000 by August. It would have an extremely detrimental effect on our state's economy, and it might be a destroyer of relationships, of homes, cause apartments and houses to be lost. I urge you to address this issue as rapidly as you can.

I can't imagine being one of those 51,000 people in my state who is on the verge, potentially, of losing that benefit, the sole benefit that keeps family and home together. And obviously, the lost purchasing power of 51,000 people in my state would be reflected in all aspects of commerce in our state.

You know, we have an extraordinarily—for our state—high unemployment number, even at 8.2 percent, and even having fallen by over 1 percent in the past year. But we are making progress. There is a better day ahead of us, but to suddenly cut 51,000 people, or 71,000 by August off, I think would actually slow the recovery very substantially.

Mr. ALTMIRE. Governor Snyder?

Governor SNYDER. Yes, what I would say is, is I don't believe it is really appropriate for me to make that call, in many respects, on unemployment, on transportation, because there are so many good things. You can go individually and take one of these things and make a good argument.

But the challenge is to prioritize, because we need to be like a family, where we don't have unlimited resources, and so the challenge isn't to say they are all good things, but what has to be done and what do we have to give on? And that is where I encourage Congress to work together with the administration to come up with a solution.

That is what I had to deal with last year, when I had $1.5 billion deficit. We partnered with the legislature on making tough calls. We made tough cuts to some programs that in many respects ask for sacrifice from people. At the same time, I am proud to say we stood firm on Medicaid reimbursement and actually adding dollars to child services.

Were the other things we cut also good things? They were probably good things, but we had to do our job in a difficult circumstance, and I encourage everyone to work collectively to make that happen.

Mr. ALTMIRE. Thank you, Mr. Chairman.

Chairman KLINE. I thank the gentleman.

I thank you both governors for your time, and your testimony, and answering our questions, and sometimes re-answering the question. I applaud your efforts in trying to connect education and job training to the jobs that are out there.

And, Governor Snyder, you used the word "talent." I think that word, "talent," is going to start bubbling up here all over the place and three C's and so forth, but both of you trying to make that connection, which we have seen broken, frankly, all across the country.

We have held field hearings in Pennsylvania and in New York and Nevada, as Dr. Heck said. And so often what we hear is that the community colleges, the for-profit colleges, the universities are not connecting with where the jobs are and what businesses need. You have both addressed that issue. And we are going to continue to look at that.

Again, I thank you both very, very much. And we look forward to talking to you again. And we will ask the second panel to come forward.

It is now my pleasure to introduce our second distinguished panel of witnesses.

Ms. Kellie Johnson is president of ACE Clearwater Industries, a company of 210 employees that builds complex, formed and welded assemblies for the aerospace and power generation industries. Ms. Johnson serves on the board of the National Association of Manufacturers and as the chair of National Association of Manufacturers' Small and Medium Manufacturers Group. She also serves as a member of the U.S. Department of Commerce's Manufacturing Council.

Welcome.

Dr. Jared Bernstein is a senior fellow at the Center on Budget and Policy Priorities. Prior to this position, he served as chief economist and economic adviser to Vice President Biden and was a member of President Obama's economic team. Before joining the Obama administration, Dr. Bernstein was a senior economist and the director of the Living Standards program at the Economic Policy Institute in Washington, DC.

Between 1995 and 1996, he held the post of deputy chief economist at the U.S. Department of Labor. Dr. Bernstein holds a PhD in social welfare from Columbia University.

Dr. Matthew Mitchell is senior research fellow for economics at the Mercatus Center at George Mason University. His primary research interest include economic freedom and economic growth, government spending, state and local fiscal policy, public choice, and institutional economics. That is fairy broad.

Dr. Mitchell currently serves on the Joint Advisory Board of Economists for the Commonwealth of Virginia. Dr. Mitchell received his PhD and his master of arts in economics from George Mason University. He received his undergraduate degrees in political science and economics from Arizona State University. And I have no idea what those school colors are, so we will move on.

Before I recognize each of you to provide your testimony, let me again explain our lighting system. I think most of you were here before. It is a green, yellow, red system, green when you start, yellow when you have got a minute left, and red when your 5 minutes are up. Please try to wrap up your testimony when you see that red light, to sort of finish your thought, and then we will go, as we did before, through members and have a chance to ask questions.

So we will start—we will go in the same direction. Ms. Johnson, you are recognized.

STATEMENT OF MS. KELLIE JOHNSON, PRESIDENT, ACE CLEARWATER INDUSTRIES

Ms. JOHNSON. Thank you, Chairman Kline, and distinguished members of the committee. I greatly appreciate the invitation to participate in the hearing today.

As Chairman Kline mentioned, I am Kellie Johnson, president of ACE Clearwater Enterprises. We manufacture complex components for the aerospace and power generation industries at three locations in Southern California. The company was started by my grandfather more than 60 years ago, and we employ over 200 of the best men and women in our industry.

Today, I would like to discuss the issues that are facing the small and medium manufacturers in the United States. And as a manufacturer, I was heartened by the considerable emphasis President Obama put on manufacturing and competitiveness in his State of the Union address. And if we are to make good on President Obama's pledge to make America the best place on Earth to do business and the premier location for manufacturing investment, we must take immediate action to reclaim manufacturing as the foundation of the American economy.

When jobs are the number-one issue on everyone's mind, we know that manufacturing is a known and proven solution. It is a catalyst that generates American jobs across many industry sectors. We know it is what has helped create and sustain the middle class. And it is a hard-working engine that drives our economy.

But manufacturers in America faced a competitive crisis. It is 20 percent more expensive to do business in the United States than it is compared to our nine major trading partners. It is 20 percent more expensive, and that excludes labor.

And this cost gap is not the work of our competitors, but it has been self-inflicted by Washington. It has been self-imposed, this cost gap. We have added to our cost burdens. We have erected new regulatory barriers and done little to spur the innovation that has for so long been America's greatest advantage in the global economy.

There is an enormous and growing set of threats to manufacturing competitive, and our success will depend on the method and extent to which we work together to address these issues. Many of the problems are not new, but what has been missing is a shared strategy for decisive action. Now is a time for urgent attention and action if we are going to prevent more American manufacturers from closing their doors.

There is a perception from manufacturers that we are operating in a hostile work environment with the overreach of the NLRB and the EPA. As manufacturers, we need a positive message from Washington. Manufacturing is at a pivotal point in our country's history, especially for the small and medium manufacturers that make up the supply chain.

As an aerospace supplier, we operate in an environment where tightly integrated supply chains need to be the reality. We have become integral partners, not just suppliers in the value chain. But increasingly, my customers will migrate to places that care about manufacturing and where the most robust infrastructure and supply chain exists to conduct their business.

The uncertainty of our regulatory and economic environments makes it almost impossible for short-or long-term growth, especially for capital-intensive industries like manufacturing. As manufacturers, we know firsthand our regulations are challenging, time-consuming, complex, redundant, and change a lot. Taxes, fees, mandates, and regulations are currently enacted without considering their cumulative and dynamic impact. The more unpredictable the business environment, the less likely it will be a competitive place to do business. We need stable and predictable pro-growth policies to create jobs and remain competitive.

ACE Clearwater last year spent $250,000 on compliance costs, environmental compliance costs, in addition to over $40,000 in consulting fees. We have more than 42 labor laws that we comply with that have their own set of sub-tier compliance standards, as well, which requires us to use third-party administrators on many of our programs and to retain legal services that amount to more than $52,000 annually.

And I mention all of this because the compliance costs for small business is about 125 percent more than it is for large companies. We do not have the advantages of the economies of scale, and so therefore our costs are disproportionately higher. And the reality of these costs are driving innovation out of the supply chain, because we are doing all we can just to stay in business.

And innovation, as we know, in this global economy is a strategic must. If we lose our ability to innovate, we lose the ability to manufacture. And without manufacturing, innovation is just a good idea.

As manufacturers, we have been running hard for the past decade to stay competitive. We have cut our costs from our supplies to our energy usage. We have leaned out our processes, and we have made huge investments in people and technologies.

Over the last 8 years, ACE Clearwater has invested more than $1 million each year in people, facilities, and equipment. And during that time, many states, like California, my home state, lost a large percentage of their industrial base and earned anti-business reputations.

My concern is, as California goes, so goes the rest of the country. Our utility costs are 50 percent higher. We have lost 33 percent of our industrial base over the last decade. And once the home of aerospace for the United States, we no longer has an OEM headquartered there.

But I believe government can play an extremely important role along with business in shaping the competitiveness of manufacturing. The NAM recently released a manufacturing renaissance, four goals for economic growth, and I believe we could find common ground on how to achieve these goals in order to lower the cost of doing business in the United States and make us more competitive.

I see that my red light is almost on, so I will make it really short. I just want to end by saying that, in my written testimony, I have many ideas and suggestions for improvements going forward, and I would just ask you please to take a look at those, and that we need to bring rationalization and balance to manufacturing, because our competition is global, relentless and unforgiving. But we are resilient, tough, innovative, and driven to succeed.

If we act with a common purpose to fuel innovation and rebuild our industrial base, we will ensure American manufacturing remains the best in the world.

Chairman KLINE. Thank you, Ms. Johnson.

Ms. JOHNSON. Thank you.

Chairman KLINE. And all of your written testimony will be included in its entirety in the record.

Ms. JOHNSON. Thank you.

[The statement of Ms. Johnson follows:]

Prepared Statement of Kellie Johnson, President, Ace Clearwater Enterprises

Good morning Chairman Kline, Ranking Member Miller and distinguished members of the Committee. Thank you holding this hearing today.

I am Kellie Johnson, president of Ace Clearwater Enterprises based in Torrance, California. Established in 1949, Ace Clearwater employs 205 people who manufacture, in three facilities located in Southern California, complex formed and welded assemblies for the aerospace and power generation industries. I have been leading Ace Clearwater since 1985 and am proud of the fact that it has become the manufacturer of choice for some of the United States' largest aerospace companies.

I also serve as a member of the National Association of Manufacturers' (NAM) Executive Committee and Chair of NAM's Small and Medium Manufacturers Group. In addition, I am the Co-Chair of the Manufacturing Council's Subcommittee on Competitiveness. On behalf of small and medium-sized manufacturers, thank you for the opportunity to discuss the current concerns and struggles facing manufacturers today. The United States is the world's largest manufacturing economy, producing 21 percent of global manufactured products. Manufacturing supports an estimated 17.0 million jobs in the U.S.—about one in six private-sector jobs. Nearly 12 million Americans (or 9 percent of the workforce) are employed directly in manufacturing—this is roughly the equivalent of the entire populations of Pennsylvania, Illinois or Ohio.

Based on these numbers, the NAM developed a "Manufacturing Renaissance," setting forth a four-point plan for economic growth and jobs, which will enable the U.S. to compete and succeed in the global economy. The plan focuses on "investment, trade, the workforce and innovation. It sets a path for sustained global competitiveness." The goals are as follows:

• Goal 1: The United States will be the best place in the world to manufacture and attract foreign direct investment.

• Goal 2: The United States will expand access to global markets to enable manufacturers to reach the 95 percent of consumers who live outside our borders.

• Goal 3: Manufacturers in the United States will have the workforce that the 21st-century economy requires.

• Goal 4: Manufacturers in the United States will be the world's leading innovators.

I would like to focus my testimony today, however, on the issues facing small and medium-sized manufacturers. There are several structural cost disadvantages that our largest trading partners do not face. These costs and disadvantages stem from the imposed costs from Washington through constantly changing regulations. As an example of the disadvantage, according to the Small Business Administration the costs for small business to comply with these regulations are 110 percent higher than those of medium-sized companies and 125 percent higher than large companies.

We need a positive message from Washington and our success will depend on the method and the extent to which we can cooperatively address the concerns and consequences of these regulations affecting manufacturers like Ace Clearwater. The uncertainty of our regulatory and economic environments makes it almost impossible for short or long-term business growth, especially for a capital intensive industry like manufacturing. As a result, my customers may make the decision to migrate to places they believe care more about manufacturing.

The regulations coming out of Washington are challenging, time consuming, complex, sometimes redundant, constantly changing and uncertain. For example, take the health care law passed two years ago. There is so much uncertainty about how this law will be implemented it makes future planning for businesses and employees nearly impossible.

As manufacturers, we need stable and predictable pro-growth policies to create jobs and remain globally competitive. We find ourselves, however, stuck between the rock of crushing economic circumstances and the hard place of inflexible and proliferating regulations. The result and consequence of the current environment is that innovation is being driven out. If we, as manufacturers, lose our ability to innovate, we lose the ability to manufacture.

Particularly troublesome, the National Labor Relations Board (NLRB) has issued a number of decisions and new rules, which alter the landscape of employer-employee relations. In some cases, the Board overturns decades-old precedent of labor law. This is creating friction in employer-employee relations where it need not exist and adds confusion and uncertainty into the workplace.

The National Labor Relations Board has issued two rules in the last year that bring into question whether it is acting within its authority and following the charge given to it by Congress. First, the posting notice rule was issued despite the Board having no notice posting authority authorization. In a further overreach, the Board fabricated an entirely new unfair labor practice and extended the statute of limitations on all unfair labor practices if there is non-compliance on the posting notice. The National Association of Manufacturers filed suit against the Board for this overreach and was later joined by the Coalition for a Democratic Workplace, The National Federation of Independent Business and the National Right to Work.

The second rule employers have serious concerns about, compresses the time from which a petition for representation is filed and the actual election is held. Commonly referred to as "quick-snap" or "ambush" elections, the effect of this new rule is to stifle open dialogue between employers and employees and restrict or outright strip rights employers currently have to ensure fair elections are held. Most importantly, it denies employees a reasonable amount of time to consider all the information they need to make a fully-informed decision about whether they want to join a union. The U.S. Chamber of Commerce and the Coalition for a Democratic Workplace, of which the NAM is a leading member, have filed suit against the NLRB implementing this rule.

Other actions of the Board, including its decision to file a complaint against Boeing Company for building a new facility in South Carolina, are also of great concern to manufacturers. Many have indicated they are considering them when making decisions about hiring new employees and investing in new facilities here in the U.S. Indeed, the NAM surveyed its members and found nearly 70 percent said these actions would make it more difficult to expand and hire new workers.

Actions of the Occupational Safety and Health Administration, (OSHA) are also on the minds of manufacturers. OSHA is not only proposing to make reporting requirements more cumbersome, duplicative and costly, but their methods of enforcement have become more adversarial rather than trying to form cooperative relationships with business owners. This approach only frustrates and confuses employers and lends itself to an environment of skepticism.

To be compliant with the newest regulations and rules takes time away from running the day-to-day operations of a business. Resources are constantly rerouted away from customers, resulting in lower productivity and lower customer satisfaction. As a result, customers will go to other places that will be able to fully devote attention to their customers.

Manufacturers are also confronting an avalanche of additional rules and regulations from the Environmental Protection Agency (EPA) which are further preventing manufacturers from creating jobs and spurring economic growth. Many of the EPA's regulations impact electric utilities thus increasing the costs of energy for manufacturers and consumers. As an energy-intensive sector, even slight energy cost increases can have a big impact on our members' global competitiveness and ability to create jobs. Furthermore, manufacturers are dealing with a host of regulations directly impacting their own facilities. These regulations increase the cost of doing business by requiring manufacturers to install expensive pollution control technology or cut back on production.

I would like to highlight the following EPA regulations as key examples of the agency's overreaching regulatory agenda and its impact on manufacturers:

• Utility MACT and Cross State Air Pollution Rules—Manufacturers are extremely concerned about the EPA's recently-finalized Utility MACT rule, which put strict limits on emissions from power plants. Some plants have already announced they will have to shut down as a result of the new rule, and there also may be grid reliability problems as utilities work to comply with the rule. Even the EPA admits there will be a significant negative impact: according to its own analysis, the regulations could cost on average $10.9 billion a year and could result in the loss of hundreds of thousands of jobs.

In today's tough economy and competitive global marketplace, not all manufacturers will be able to absorb the increase in electricity costs that result from this expensive regulation. Some plants may shut their doors while others will sharply decrease production or abandon plans to expand the facilities.

• Recently, manufacturers were pleased that a federal court recently stayed implementation of the Cross-State Air Pollution Rule (CSAPR) which would require power plants in 28 states—including states in the South, Midwest and Mid-Atlantic—to reduce emissions that contribute to ozone and fine particle pollution. Had the court not granted the stay, the rule would have gone into effect on January 1, an extraordinarily short period of time between the finalization of the rule and its implementation.

CSAPR, coupled with the Utility MACT rule, will have significant impacts on the economy. The National Economic Research Associates (NERA) recently modeled the combined economic impacts of both the rules. Costs for the electric sector to comply with the two rules are projected to be a staggering $18 billion per year. The study estimates that nationwide average retail electricity prices rise by 11.5 percent, and heavy manufacturing states such as Ohio can expect prices to rise by approximately 23%. Manufacturers find it extremely difficult to plan for future investments when utility sector regulations threaten to increase the price of the electricity.

• Boiler MACT Regulations—Manufacturers must also deal with a MACT regulation that imposes stricter emission standards on industrial and commercial boilers and process heaters. An industrial boiler—a closed vessel found in a factory, refinery, or large institution that is fired to generate steam—is critical to the manufacturing process. As a result, these regulations will cut across many sectors of the NAM membership, including the forest and paper, chemical, agri-business, steel, and petroleum refining sectors.

The development of these regulations has created significant uncertainty for manufacturers. In December of last year, the EPA issued reconsidered rules, but they still need significant work to be achievable by business sectors across America. In fact, the overall capital cost of the Boiler MACT rule remains over $14 billion for manufacturers, and, as a result, over 200,000 jobs will put at risk. Many manufacturers will have trouble retrofitting their existing boilers to meet the tight three-year compliance time frame.

Serious legal uncertainty also exists because of a January 9th court decision which overturned the EPA's stay of the March 2011 rules. This decision has resulted in confusion about the regulations and will force companies to comply with rules that the EPA is already working to change through the reconsideration process.

Manufacturers believe that legislation is really the only way out of this confusing regulatory morass. The NAM applauds the House for passing The EPA Regulatory Relief Act of 2011 (H.R. 2250), and we strongly urge the Senate to pass the companion bill, S. 1392. These bills would stay the March 2011 rules, extend the compliance timeframe from three to five years and provide the agency with an additional fifteen months to reissue achievable and affordable rules. We believe this legislation will provide manufacturers with the certainty they need to do what they do best—make things and create jobs.

• Regulating Greenhouse Gas Emissions Under the Clean Air Act—If the traditional challenges with air quality regulations were not enough to discourage manufacturers from hiring new employees or investing in new equipment, then the decision to regulate greenhouse gas emissions as a pollutant under the Clean Air Act certainly will. This is unlike any regulation manufacturers have ever experienced. In the past, technology has helped to develop cheaper methods to "scrub" pollutants from our smokestacks. But greenhouse gases cannot be scrubbed from emissions; it can only be reduced through reductions in output or fuel switching.

The easiest way to reduce greenhouse gas emissions from stationary sources is to reduce economic output. That is a recipe for job losses. And although these regulations start with the largest new and modified facilities including energy intensive manufacturers and utilities, the stage has been set to regulate even the smallest manufacturers and possibly existing facilities through the New Source Performance Standards—or NSPS—program. The possibility creates an overhang of uncertainty that casts a dark shadow on the future of manufacturing in this country. We thank the House of Representatives for passing the Energy Tax Prevention Act of 2011 (H.R. 910) to prevent the EPA from regulating greenhouse gas emissions under the Clean Air Act.

Manufacturers face tremendous uncertainty during this period of unprecedented regulatory overreach from the Environmental Protection Agency (EPA). Regulations that raise electricity costs and production costs will prevent the manufacturing sector—the nation's job creators—from leading us through these tough economic times. The Agency must use its discretion to pull-back on these job-killing regulatory proposals.

Government can support manufacturers and play an extremely important role in shaping our competitiveness. For this to happen, I believe there needs to be a real transparency to the regulatory process, as well as an independent economic analysis for the potential impact and unintended consequences for newly proposed regulations. Additionally, Congress should provide a predictable review process for out-of-date, duplicative, redundant, and ineffective regulations.

Education and job training is another area where effective government policies could assist employers, but often miss the mark. We have created an education system that is almost completely separate from the economy at large. Traditionally, it was the job of schools to educate children and assist in creating responsible citizens, and it was the job of companies to train employees.

Today, companies, especially smaller businesses with fewer training and HR resources, cannot afford the luxury of time-intensive training programs for their workers. They need employees who have the knowledge and skills to contribute right away. We need to look at federal workforce training opportunities that often do not address the skills that are in demand by employers. Programs such as the Workforce Investment Act need to train workers to credentials that are in-demand by the private sector.

The only way to address this challenge is to align education, economic development, workforce and business agendas so they work in concert to develop the talent necessary for business success in the global economy. To address this need we should focus workforce funding towards industry-recognized credentials that empower companies to know they are hiring someone with the skills to succeed.

The NAM, through its Manufacturing Institute, is working with community colleges, vocational institutes and other post-secondary institutions across the country by organizing, aligning and translating those credentials into corresponding educational courses that can be integrated into high school and community college degree programs of study. So, an individual can see that if he or she takes the following classes, they will have the skills to earn a nationally-portable, industry-recognized certification and be qualified to work in the following jobs at the following salaries.

As the world's largest manufacturing economy, the United States requires long-term investments in transportation and a comprehensive 21st infrastructure strategy to help ensure our future competitiveness in international markets. Competitors in Asia, Europe, and South America continue to ramp up investments in all types of infrastructure while we struggle to maintain crumbling highways, obsolete bridges, aging public transit, overstressed water and wastewater systems and outdated air traffic control technology.

While our nation faces many fiscal challenges, making key investments in infrastructure should not be delayed. Manufacturers rely on a productive system of roads, rails, ports, inland waterways and airports for receiving raw materials and shipping finished products to customers throughout the United States and the world. The nation loses 4.8 billion hours of extra time a year due to traffic tie-ups and traffic congestion costs Americans $115 billion a year in wasted time and fuel.

The needs of the system are enormous and require innovations that include capital budgeting and planning, prioritizing and funding transportation projects of regional and national significance, a welcoming climate for private infrastructure investment, new federal bonding approaches, environmental permit streamlining and elimination of redundant state and federal regulations that promote greater flexibility to the states.

Thank you for the opportunity to testify before the Committee today and to provide manufacturing's perspective of the concerns with the current environment and processes facing manufacturers today and also to provide you with insight on how we can move forward in the right direction to ensure American manufacturing remains the best in the world.

Chairman KLINE. Dr. Bernstein?

STATEMENT OF DR. JARED BERNSTEIN, SENIOR FELLOW, CENTER ON BUDGET AND POLICY PRIORITIES

Mr. BERNSTEIN. Chairman Kline, Ranking Member Miller, members of the committee, I thank you for the opportunity to testify today and applaud you for holding this hearing on the issue that matters to most Americans right now, opportunity, jobs, and the living standards of the broad middle class.

The current economy continues to expand in real GDP terms, as has been the case since the second half of 2009. Employment growth turned positive in March of 2010, and since then, the private sector's added 3.2 million jobs on net.

As my submitted testimony shows, the rate of GDP contraction and job losses diminished shortly after the interventions of both the federal government, through the Recovery Act, and the Federal Reserve, through monetary stimulus. Moreover, nonpartisan research has shown that government and Federal Reserve policies have played an integral role in this reversal.

Yet, while the economy is moving in the right direction—and has even developed some momentum in recent months—the unemployment rate fell by—and the unemployment rate did fall by almost 1 percentage point over the past year from 9.4 percent to 8.5 percent, the underlying growth rate of the expansion is still too slow to deliver middle-class families the economic opportunities they need to meet their family budgets, much less to get ahead.

Moreover, given the importance of restoring middle-class economic prosperity, we must recognize that growth itself is necessary, yet not sufficient. GDP or productivity growth alone has not sufficiently lifted the incomes and living standards of the middle class.

In the business cycle expansion of the 2000s, productivity grew 19 percent, real GDP grew 18 percent, but the real income of middle-class working-age households actually fell in real terms. Middle-class income trends were much more favorable in the 1990s, as median incomes of working-age households increased 10 percent, an addition of about $5,600 in today's dollars. Employers added about 23 million jobs over the 1990s cycle, compared to 5.5 million over the 2000 cycle.

I raise this comparison here for a few reasons. In the 2000s, policymakers aggressively adapted supply-side, trickle-down measures characterized by large tax cuts favoring the wealthy, deregulation, under the assumption that financial markets would self-monitor and persistent budget deficits even during an expansion.

Today, such supply-side trickle-down arguments are resurgent, despite the evidence noted above. One is tempted to recall the admonition that those who forget the past are doomed to repeat it.

Fiscal and tax policies were especially different in the 1990s, as taxes were raised on the wealthiest and cut for the poorest among us, and the fiscal budget achieved multi-year surpluses for the first time since the 1950s.

The trickle-down regulatory agenda—what I have called YOYO economics—"you are on your own"—presumes that the growth chain starts at the top of the wealth scale and trickles down to those at the middle and the bottom of the scale.

But there is a much better theory suggesting that to generate robust, lasting, and broadly shared growth, an economically strengthened middle class is essential.

In my written testimony, I present evidence to this effect. Let me use the rest of my time, however, to talk about policies that I think help in this regard.

Every one of the policy areas I am about to mention—some of which complement my colleague, Ms. Johnson's, ideas—are arguments that members of the committee can use to help reduce income security, push back on income inequality, and improve the mobility of the middle class.

Extend the payroll tax holiday and unemployment insurance. Policymakers of both parties have widely agreed upon the need for this relief through the end of the year. Failure to provide it would add to the underlying fragility of the nascent expansion.

Invest in infrastructure investment. It is my understanding that a bill to repair and modernize the nation's public schools and community colleges will soon come to the floors of both chambers.

This plan is called FAST, Fix America's Schools Today. It addresses three big problems: the backlog of maintenance repairs in strapped school districts across the nation; the high unemployment among construction workers and other laborers who do this type of work; the energy efficiency in many public schools, where billions of taxpayer dollars are wasted through bad roofing, aging boilers, and poorly insulated windows. I urge legislators to give this idea a close look.

Manufacturing policy, as my colleague has mentioned, skills enhancement, which was a large part of the earlier conversation, improving workers' bargaining power. As with international trade and taxation, the union organizing playing field is badly tilted against those who would like to exercise their right to collectively bargain.

A recent rule change by the National Labor Relations Board will help workers who have petitioned to form a union to have a more timely election. In a climate where employers who oppose unions can and do block them—block such elections with impunity, this rule removes some of the above noted tilt.

I thus urge the committee to take the policy steps to re-link the economic prosperity of the American middle class with the productivity and growth they themselves are helping to generate.

Thank you.

[The statement of Mr. Bernstein follows:]

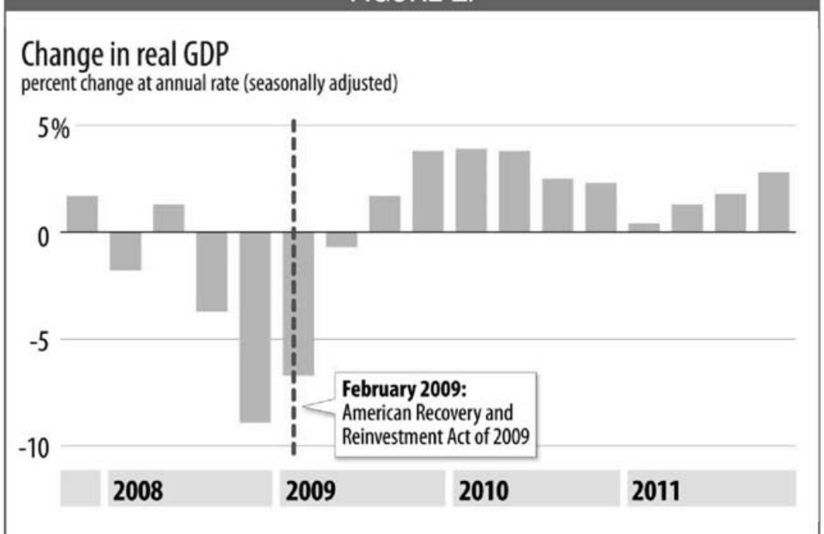
Prepared Statement of Jared Bernstein, Senior Fellow, Center on Budget and Policy Priorities

Chairman Kline, Ranking Member Miller, and members of the Committee, I thank you for the opportunity to testify today and applaud you for holding this hearing on the issue that matters most to most Americans right now: opportunity, jobs, and the living standards of the broad middle class.

Introduction: Current Conditions and the American Middle Class

The current economy continues to expand in real GDP terms, as has been the case since the second half of 2009. Employment growth turned positive in March of 2010, and since then the private sector has added 3.2 million jobs on net; including the public sector, net job growth is 2.7 million. As the two figures below show, the rate of GDP contraction and job losses diminished shortly after the interventions of both the federal government through the Recovery Act, and the Federal Reserve, through monetary stimulus.

FIGURE 1:

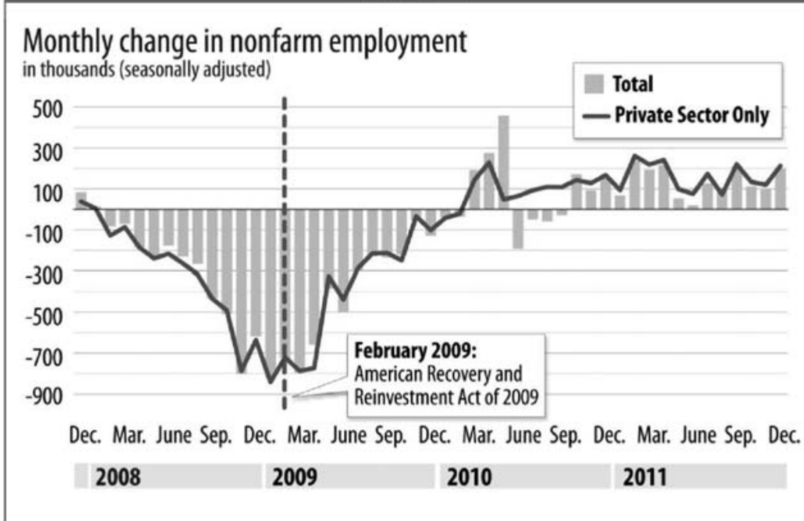


Source: Bureau of Economic Analysis

Moreover, nonpartisan research like that of the Congressional Budget Office has shown that government and Federal Reserve policies have played an integral role in this reversal.

Yet, while the economy is moving in the right direction, and has even developed some momentum in recent months—the unemployment rate fell by almost one percentage point last year, from 9.4 percent to 8.5 percent; the more comprehensive underemployment rate fell by 1.4 points, from 16.6 percent to 15.2 percent—the underlying growth rate of the expansion is still too slow to deliver middle-class families the economic opportunities they need to meet their family budgets, much less to get ahead.

FIGURE 2:



Source: Bureau of Labor Statistics

As the President stressed in his State of the Union address, private sector employers have been adding net new jobs every month for close to two years, over three million so far. Of course, many more jobs were lost in the great recession, and I suspect that every policy maker in this room wants to see that growth rate accelerate.

Growth and the Middle Class: Necessary But Not Sufficient

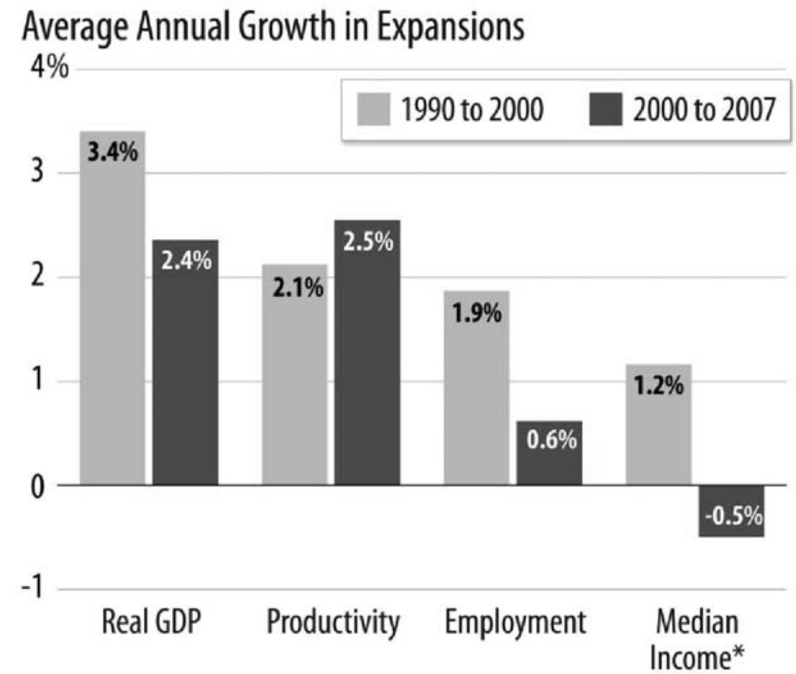
Yet, if we're talking about middle-class economic prosperity, we must recognize that the growth is necessary yet not sufficient. GDP or productivity growth alone has not sufficiently lifted the incomes and living standards of the middle class (the next section explore the feedback loop between middle-class prosperity and a stronger economy). This is a long term problem, though it was especially evident in the business cycle expansion of the 2000s. Measuring from annual peak-to-peak years of the cycle—2000-2007—productivity grew 2.5 percent per year on average (19% overall) in those years and real GDP grew 2.4 percent per year (18% overall) but the real income of middle-class, working-age households fell half-a-percent per year, or 3.4 percent (see figure).

Middle-class income trends were much more favorable in the 1990s. Though the real income of working-aged households fell in the recession of 1990-91, it soon reversed course and grew 10 percent—an addition of about $5,600 dollars in today's dollars—over the full cycle. Employers added 22.7 million jobs over the 1990s cycle, compared to 5.5 million over the 2000s cycle.[1]

I raise this comparison here to a few reasons. First, the national economic policy backdrop was very different over these two decades. In the 2000s, policy makers aggressively adapted supply-side, trickle-down measures, characterized by large tax cuts favoring the wealthy, deregulation under the assumption that financial markets would self-monitor, and persistent budget deficits even during an expansion.

[1] Since income data from the Census is an annual measure, those comparisons use annual data. These job growth comparisons are from monthly cyclical peaks, as defined by the National Bureau of Economic Research.

FIGURE 3:
GDP, Productivity, Jobs, and Incomes over Two Business Cycles



Note: Income shown is median income for non-elderly households

Source: CBPP calculations from Bureau of Economic Analysis, Bureau of Labor Statistics and Census Bureau data

Fiscal and tax policies were especially different in the 1990s, as taxes were raised on the wealthiest and cut for the poorest among us, and the fiscal budget achieved multi-year surpluses for the first time since the 1950s.

Second, these observations are highly germane to the current national debates over jobs, oversight of financial markets, and tax policy. Supply-side, trickle down arguments are particularly resurgent, despite the evidence noted above. One is tempted to recall the admonition that those who forget the past are doomed to repeat it.

Third, these comparisons raise the critical question of what measures would be most advantageous for this committee to pursue in terms of reconnecting growth, productivity, and middle class prosperity. I will speak to this question in the last part of my testimony, but first, let us examine the other side of that question.

Middle Class Prosperity and the Health of the Economy

The trickle-down, deregulatory agenda—what I have called YOYO, or "you're on your own" economics—presumes that the growth chain starts at the top of the wealth scale and "trickles down" to those at the middle and the bottom of that scale. But there is another theory, supported by evidence like that above, suggesting that a much better way to generate robust, lasting, and broadly shared growth is through an economically strengthened middle class.

At the most basic level, this growth model is a function of customers interacting with employers, business owners, and producers. A recent article by highly successful venture capitalist Nick Hanauer described this interaction as follows:

I've never been a "job creator." I can start a business based on a great idea, and initially hire dozens or hundreds of people. But if no one can afford to buy what I have to sell, my business will soon fail and all those jobs will evaporate.

That's why I can say with confidence that rich people don't create jobs, nor do businesses, large or small. What does lead to more employment is the feedback loop between customers and businesses. And only consumers can set in motion a virtuous cycle that allows companies to survive and thrive and business owners to hire. An ordinary middle-class consumer is far more of a job creator than I ever have been or ever will be.

How does this dynamic interaction show up in the macroeconomy? Economist Alan Krueger, currently serving as Chair of the President's Council of Economic Advisers summarized these findings in a recent speech, in a section on the consequences of economic inequality.

• Less robust (or debt-financed) consumption. Seventy percent of the US economy is accounted for by consumer spending, so if that part of GDP lags, economic growth slows. It is also the case that the propensity to consume out of current income is higher among lower-income households (i.e., compared to wealthier households, they're more likely to spend than save their income).

Based on an estimate of these relative propensities and the large shift in the share of national income that accrued to the top 1 percent over the past few decades, Krueger calculates that aggregate consumption could be 5 percent higher in the absence of such large income shifts. Applying rules of thumb on the relationship between aggregate growth and jobs, and assuming both economic slack and that this income was not simply replacing demand elsewhere in the economy, this extra consumption growth could reduce unemployment by 1.75 percentage points, implying about 2.6 million more people with jobs.[2]

Krueger cites an important caveat about this type of calculation. In the face of stagnant earnings in the 2000s, many in the middle class borrowed to make up—or more than make up—the difference, in which case middle-class consumption did not fall as much as it would have absent this leverage. To point out that this method of improving middle class living standards is both unsustainable and extremely risky is an obvious understatement.

• Inequality and longer term growth. Krueger also points to recent research showing that "in a society where income inequality is greater, political decisions are likely to result in policies that lead to less growth." Nobelist Mancur Olsen also hypothesized about this relationship decades ago.

As more income, wealth, and power is concentrated at the top of the income scale, narrow coalitions will form to influence policy decisions in ways less likely to promote overall, or middle-class, well-being, and more likely to favor those with disproportionate power and resources. In the current economics debate, we clearly see these dynamics in a tax code that bestows preferential treatment on those with large amounts of assets, like capital gains and stock dividends, relative to wage earners.

• Trickle-down economics, inequality, and incomes. Another piece of evidence with implications for rebuilding a strong middle class comes from new work by economists Emmanuel Saez et al. As shown in the figures from their paper (see Appendix), they use international evidence from a wide variety of advanced economies to examine two key links in the logic of the supply-side chain.

First, they look at the relationship between the top marginal income tax rate in these countries and the change in income inequality. They find a strong negative correlation: in countries like ours that cut the top marginal tax rate, income is a lot more skewed (and note that this refers to pretax income, so the result is not a direct function of the tax policy changes).

But the critical question for supply-side is whether these high-end marginal tax rate reductions lead to faster income growth (we've already seen that they lead to more income inequality). The bottom figure shows that they do not. Real per capita income growth across these countries is unrelated to the changes in tax rates.[3]

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[2] As consumption is 70% of GDP, and each point of GDP above trend reduces unemployment by half a point, this calculation is .7*.5*5%, or 1.75%.

[3] Note that the income measure in their research is a broad average (real per-capita GDP growth); given that this measure is itself driven upwards by the growth of inequality, a median

Continued

The above points emphasize an economic rationale for a growth model more favorable to the middle class. More broadly shared growth would not only score higher on a fairness criterion; it would provide a more reliable and durable structure for overall growth itself. It is no accident, in this regard, that the era of heightened inequality coincides with the arrival and persistence of what I've called "the shampoo economy:" bubble, bust, repeat.

But our emphasis on growth should not crowd out that of fairness, and in this regard, some of the most important recent work in this area has stressed the relationship between inequality and mobility, the latter being the extent to which individuals' and families' economic positions change over the life cycles. Again, I will briefly summarize the relevant findings.

- Economic mobility. Some policy makers, often in seeking to dismiss the inequality problem, argue that the US has enough income mobility to offset increased inequality. We may start out further apart, they argue, but we change places enough that it doesn't matter. This argument fails, however, both in terms of logic and evidence. The existence of mobility cannot offset increased inequality; for that to occur, mobility itself must be accelerating. There is no evidence to support such acceleration and some new, high-quality work suggests a slight decline in the rate of mobility.

The US has considerably less income mobility than almost every other advanced economy. In particular, as stressed in a recent New York Times article, parental income is a stronger predictor of the success of grown children in the U.S. relative to other advanced nations—i.e., we have less intergenerational mobility than other nations.

Putting some of these themes together, I have hypothesized that there are causal linkages between inequality and immobility. To the extent that those who have lost income share in recent years suffer diminished access to the goods, services, and general living conditions that would enhance their mobility, we would expect to see economic results like those cited above.

Here, I'm thinking about everything from access to quality education, starting with pre-school (such early educational interventions have been shown to have lasting positive impacts), to public services, like decent libraries and parks, to health care, housing, and even the physical environment. The new research linking mobility and inequality may well find that as society grows ever more unequal, those falling behind are losing access to the ladders that used to help them climb over the mobility barriers they faced.

Policies Designed to Rebuild the Middle Class

It is widely maintained by some policy makers that it is up to the private sector to provide the middle class with the opportunities they need to get ahead. Given that most economic activity and jobs are not directly associated with government, this is of course true. But the idea that this implies no role for government is both wrong and dangerous, in the sense of ceding the playing field to our competitors who are not bound by such firm ideology. This insight is particularly germane given the trends presented above regarding job and income growth, inequality, and mobility.

In fact, government must enforce fair rules of the road, whether it comes to the selling of financial products or the rights of workers to collectively bargain with their employers. There is a role for government to ensure that basic needs, such as access to affordable health care and a secure retirement, are most efficiently met. Government must also offset market failures, including recessions, insufficient supply of skills in the workforce, and barriers to entry for potentially expanding industries. Finally, the system of funding government must be fair in the sense that middle class families do not face a proportionally larger tax federal tax burden—higher effective tax rates—than those with many more financial resources.

Every one of these policy areas provides policy makers like the members of this committee with the opportunity to help reconnect growth and middle class prosperity, restore some degree of income security, and push back on the inequality and immobility trends documented above.

The massive market failure of the great recession provides important lessons to policy makers, both regarding the lack of financial oversight that helped to inflate the housing bubble and the stimulus measures, most notably the Recovery Act, that helped to generate the historically large swings from negatives to positives in growth and jobs as shown in the first table above.

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measure (insensitive to large accumulations at the top of the scale) would likely be even less correlated to tax changes, if not negatively correlated.

But more such measures are needed. While the economy is improving and unemployment is slowly coming down, at current growth rates, it will take many years to reach full employment. The following measures can help build on the momentum we have and accelerate the recovery:

• Extend the payroll tax holiday and unemployment insurance. Policy makers of both parties have widely agreed on the need to payroll relief through the end of the year ; failure to do so would add to the underlying fragility of the nascent expansion.

• Invest in infrastructure investment. As part of the American Jobs Act, the President proposed a national program to repair and modernize the nation's public schools and community colleges. This plan is now a legislative initiative called FAST—Fix America's Schools Today—soon to be introduced in both chambers. FAST addresses three big problems: 1) the backlog of maintenance repairs in strapped school districts across the nation, 2) the high unemployment among construction workers and other laborers who do this type of work, and 3) the energy inefficiency in many public schools where billions of taxpayer dollars are wasted through bad roofing, aging boilers, and poorly insulated windows. I urge legislators will give this idea a close look.

• Manufacturing policy: In his State of the Union address, the President presented some ideas, including tax incentives and trade enforcement measures, to help incentivize the insourcing of manufacturing work in America. In fact, manufacturers have added over 300,000 jobs over the past 21 months, and anecdotally, some producers say that perhaps they have overplayed the outsourcing idea and are interested in producing closer to where they sell (rising transportation costs and narrower international wage differentials may also be in play here).

In this regard, policy makers could help tap this development by closing international tax loopholes that incentivize multinationals to build factories abroad. The President's most recent budget recommended to the so-called super committee in September, proposes $110 billion in loophole closures that would both level the playing field for domestic manufacturers and help relieve our fiscal situation.

Trade enforcement, including actions against countries that manage their currencies to artificially support their exports and block our imports, is another essential piece of this puzzle.

Note that these measures simply level the playing field and are in no sense protectionist—they do not provide unfair advantages to American firms nor do they block imports.

• Skills enhancement. This committee has a long history of interest in policies to ensure that the skills of American workers match those demanded by today's employers. Ranking Member Miller's Pathways Back to Work bill supports a subsidized employment program targeted at unemployed adults, modeled on a successful Recovery Act program that employed over 250,000 workers in 2009-10 (TANF Emergency Fund). This bill also provides work-based job-training for the long-term unemployed and summer jobs for younger workers.

President Obama also stressed the importance of workforce investment through what is typically called "sectoral employment strategies." As opposed to generalized training that too often leaves participants unprepared for actual jobs, sectoral strategies link trainers, often through partnerships with community colleges, with local employers who provide granular information about future demand needs. Research by Georgetown University professor Harry Holzer shows these programs to be far more effective than traditional training programs that are too often detached from what's happening in local labor markets.

• Improving workers' bargaining power: As with international trade and taxation, the union organizing playing field is badly tilted against those who would like to exercise their right to collectively bargain. A recent rule change by the National Labor Relations Board will help workers who've petitioned to form a union to have a more timely election. In a climate where some employers who oppose unions can and do block elections with impunity, this new rule removes some of the above-noted-tilt.

Finally, it is important to note one area of public policy that has incorrectly been singled out in recent years as a factor holding back job growth and hurting the middle class: the regulatory climate. While onerous regulations should always be rigorously reviewed for proof of their net positive benefits, it is clear from the evidence that it is weak demand, not regulation, that's preventing faster job creation.

Data from the BLS Survey of Layoff Events show low and declining shares of layoffs attributable to government regulations. A year ago (2010q3) less than half of one percent (0.44%) of layoffs were related to government regulations, according to employers. In the most recent quarter for which data are available, the share of layoff events attributable to government regulations fell to zero (technically, the number reported was too small to meet BLS sampling criteria), as did the shares of unemployment insurance claims and all other separations.[4]

Employers themselves, particularly small businesses, report in various surveys that poor sales (aka, weak demand) has been a much more important constraint then regulations. Recent analysis by the Treasury Department provides this summary:

- "In the September survey of small business owners by the National Federation of Independent Businesses, more than twice as many respondents cited poor sales (29.6 percent) as their largest problem than cite regulation (13.9 percent).
- In an August survey of economists by the National Association for Business Economics, 80 percent of respondents described the current regulatory environment as "good" for American businesses and the overall economy.
- [I]n a recent Wall Street Journal survey of economists, 65 percent of respondents concluded that a lack demand, not government policy, was the main impediment to increased hiring."

Conclusion

This testimony has stressed that, even as the economy is improving and the American people are digging their way out of the Great Recession, unemployment is still high and economic growth still relatively slow. Compared to the massive losses in early 2009, we're much improved. But compared to an economy that's providing what I believe members of this Committee would recognize as gainful opportunities for middle class workers and their families, we've got a ways to go.

Importantly, that view does not suggest that GDP growth alone is sufficient, though it is of course necessary. As recently as the business cycle of the 2000s, we saw middle-class, working-age households lose ground in terms of their real income, even while productivity growth was relatively strong. My testimony amplifies a number of policy ideas currently under discussion that I believe will help to reconnect growth and middle class prosperity.

But arguments and evidence above also point to the importance of a strong middle class for growth itself, positing a feedback loop. Businesses cannot create jobs without customers, and in a climate of high levels of income concentration, the customer base becomes too narrow. In this regard, I present above a set of arguments connecting higher levels of income inequality with less satisfactory growth outcomes. Similarly, there is reason to believe that high levels of inequality negatively affect mobility, by both lengthening the distance disadvantaged families have to climb and shortening their ladders.

While more research clearly is needed to get a better handle on these interactions between broadly shared prosperity and better growth and mobility outcomes, the circumstantial evidence is quite strong. I urge the committee to take the policy steps to re-link the economic prosperity of the American middle class with the productivity and growth they themselves our helping to generate.

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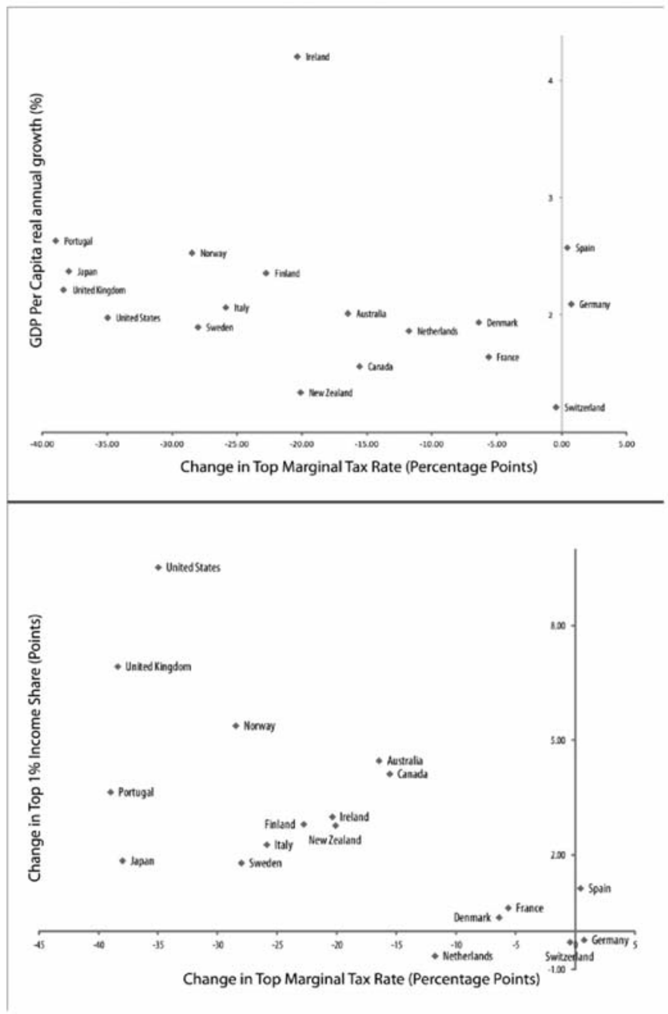
[4] A layoff is an event involving the filing of 50 or more initial UI claims by an employer during a 5-week period, with at least 50 workers separated from a job for more than 30 days. Separations include job losses from such an event, whether or not the worker claimed UI.

APPENDIX

Marginal Tax Changes, Economic Growth, and Income Shares



Note: Changes are based on averages from 1975-1979 and 2004-2008. In cases where data for those years were not available, the first five years after 1975 and the most recent 5 years are selected.

Source: CBPP analysis based on data from OECD and World Top Incomes Database. Figure originally appeared in Piketty, Saez, Stantcheva, 2011.

Chairman KLINE. Thank you.

Dr. Mitchell, you are recognized.

STATEMENT OF DR. MATTHEW MITCHELL, SENIOR RESEARCH FELLOW FOR ECONOMICS, THE MERCATUS CENTER AT GEORGE MASON UNIVERSITY

Mr. MITCHELL. Great. Good morning, Chairman Kline, Representative Payne, and members of the committee. It is an honor to speak with you today.

The economy is sick, and the natural question for both the economists and the well-intentioned policymaker is, what economic medicine will help? Unfortunately, economic understanding of how government can revive an ailing economy is limited. It is not unlike our knowledge of surgery in past centuries. The instruments are blunt, we are not very adept at using them, and there is a good chance that the intervention will cause more harm than good.

While we may not know how to instantly breathe life back into a sick economy, we do know a great deal, however, about how government can create the sort of environment which is conducive to growth. That is, we know the sorts of habits that make for a healthy economy.

Let me begin with what we can and can't do in the short run. You might not know it listening to some, but the truth is that there is a lot that we economists do not know about fiscal stimulus. While there is a general agreement that the increased debt associated with stimulus is costly and unproductive over the long run, there is less agreement about whether stimulus spending—the stimulus spending that it finances is helpful or harmful in the short run.

Reasonable economists using reasonable techniques have found that stimulus spending enhances private-sector growth, but reasonable economists using reasonable techniques have found that stimulus destroys or crowds out private-sector activity.

I cannot tell you what level of risk is acceptable to take with the American economy, but there is risk in further stimulus. One reason for caution is that the optimistic estimates seem not to apply to the current situation.

For example, economists find that stimulus is ineffective, one, when a nation is operating under a flexible exchange rate; two, when it is open to trade with other nations; and, three, when it is highly indebted. All three conditions apply or soon will apply to the United States.

Economists also find that multipliers are large only when stimulus is temporary. They also find that it is large only when stimulus measures are modest, that is, there are diminishing marginal returns to stimulus.

This is especially relevant in today's context, when government has already undertaken multiple massive stimulus projects. There are real risks associated with too much stimulus. A recent study of 91 countries found that, "those governments that use fiscal policy aggressively induce significant macroeconomic instability, and that instability in turn diminishes economic growth."

One problem is that there is a wide gulf in the way that stimulus advocates say stimulus ought to be implemented and the way that it actually is implemented. Lawrence Summers has noted that stimulus "can be counterproductive if it is not timely, targeted and temporary." In reality, however, it is very difficult to simultaneously meet all three criteria.

On timeliness, we know that 18 months after the 2009 stimulus passed, more than half of the money slated for investment had yet to be spent. As far as targeting goes, numerous studies have now found that the distribution of stimulus funds had no statistical relationship to local area unemployment rates. The funding simply didn't go to those areas most in need.

And as far as temporary goes, studies suggest that most stimulus spending boosts last far longer than intended.

Instead of implementing a quick fix, we should be creating the conditions that are necessary for long-run economic health. One of the most effective ways to do this is to permit our citizens a generous degree of what economists call economic freedom, that is, permit them choice, free and voluntary interaction, open-market competition, and the rule of law. These ideas may sound vague, but thankfully in the past several decades, economists have made them more concrete by developing and testing objective measures of freedom.

Could we please bring up my first slide?

One widely cited measure is that developed by Gwartney, Lawson and Hall. Their index rates 141 countries on factors such as the size of government, the extent of regulation, the stability of monetary policy, the degree of openness to trade, and the protection of property rights. This shows the positive and statistically significant relationship between freedom and per capita GDP.

Per capita income of the average person in the freest countries is more than seven times that of the average person in the least free. The per capita income of the poorest 10 percent in the freest countries is more than eight times that of the poorest 10 percent in the least free. In other words, economic freedom is valuable for the average person, but it is particularly valuable for those who are least well-off among us.

In contrast with the literature on stimulus, there is a remarkable consensus in the studies of economic freedom. One recent review of 45 studies concluded that, "Regardless of the sample of countries, the measure of economic freedom, and the level of aggregation, there is a solid finding of a direct positive association between economic freedom and economic growth."

Could we please bring up the next slide?

The literature demonstrates that the prosperity of the United States is neither accidental, nor inevitable. It is the result of decades of robust and expanding economic freedom. Unfortunately, that freedom has been in precipitous decline for about a decade.

It can be restored by making the tax code more efficient, equitable, and easy to comprehend, by bringing spending in line with taxation to make policy sustainable, by eliminating regulations that detract from or divert human capitol into unproductive activities, by lifting restrictions to international trade, and by reaffirming our commitment to equitable treatment of businesses. No bailouts, no handouts, no special treatment, and no special punishment.

In conclusion, millions of Americans are unemployed or underemployed. Millions more have given up looking for work altogether. It is only natural to want to perform emergency surgery on our sick economy, but we know from experience that intervention can sometimes cause more harm than good.

Thank you for the opportunity to testify today. I look forward to your questions.

[The statement of Mr. Mitchell follows:]

MERCATUS CENTER
George Mason University
TESTIMONY
BRIDGING THE GAP BETWEEN ACADEMIC IDEAS AND REAL WORLD PROBLEMS

WHAT CAN GOVERNMENT DO TO CREATE JOBS?
FEBRUARY 1, 2012

Matthew Mitchell, PhD
Senior Research Fellow, Mercatus Center at George Mason University

United States House of Representatives Education and Workforce Committee

Good morning Chairman Kline, Ranking Member Miller, and Members of the Committee. Thank you for inviting me to testify today. My name is Matthew Mitchell. I am a senior research fellow at the Mercatus Center at George Mason University, where I research fiscal issues including tax policy, budget policy, economic growth, and institutional economics.

INTRODUCTION

The U.S. economy continues to show tentative signs of recovery. In December, nonfarm payroll employment rose by about 200,000 and the unemployment rate dipped to 8.5 percent, its lowest level in 35 months.[1] This is good news. But it is cold comfort for the 13.1 million Americans who are still unemployed. It means nothing to the 5.6 million who have been without work for 27 weeks or more.[2] And it does little to ease the pain of nearly 1 million who have become so discouraged that they have stopped looking for work altogether.[3]

So the natural question for both the economist and the well-intentioned policy maker is this: what can we do to get people back to well-paid and fulfilling employment? In this testimony, I review the economic evidence concerning the government's ability to do this. I also describe the conditions that are necessary for long-run prosperity.

Unfortunately, economic understanding of how government can revive an ailing economy is quite limited. It is not unlike our knowledge of surgery in past centuries: the instruments are blunt, we're not very adept at wielding them, and there's a good chance the intervention will cause more harm than good.

This does not mean, however, that we know nothing about the causes of prosperity. We may not know how to instantly breathe life back into a sick economy, but economists do know a great deal about how government can create an environment which is conducive to growth.

[1] Bureau of Labor Statistics, *The Employment Situation – December 2011*, January 6, 2012.
[2] Ibid.
[3] Ibid. Since the recession began, the share of the working-age population with jobs or looking for jobs has declined dramatically. Because these people are not looking for work, they are not considered "unemployed" by the conventional BLS measure. If you count them as well as those who are in part time work for economic reasons and those who are marginally attached to the workforce, the unemployment rate would be above 15 percent.

WHAT WE DO (AND DON'T) KNOW ABOUT REVIVING AN AILING ECONOMY

There are many things on which economists agree (e.g., few dispute the merits of free trade or the long-run fiscal problems with our largest entitlement programs).[4] Unfortunately, there is very little consensus among economists on government's ability to jumpstart a sick economy: some believe that government interventions can restore growth and "create jobs"; others believe that interventions only make things worse, leading to stagnation and massive unemployment.

The lack of consensus is understandable. For perfectly sound reasons, policy makers will not allow macroeconomists to conduct controlled experiments with the economy. When a recession hits, we do not spend stimulus money in a random sample of states and compare the results with a control group. If we did, economists would have a better understanding of how stimulus works, but the policy makers who let us experiment would likely join the ranks of the unemployed.

As such, almost everything we know about stimulus comes from either theoretical models or from so-called "quasi-natural experiments" in which economists look at somewhat random changes in government spending to draw conclusions about its effects. From the perspective of a scientist, it would be handy if everything else that might affect the economy were held constant during these quasi-experiments. It would be nice if monetary policy, trade patterns, natural disasters, and credit conditions remained unchanged. But the world moves on, and these things do change. So macroeconomists must resort to econometric techniques that attempt to control for these factors after the fact. Economists try their best, but these techniques only tell us so much.

As a result, our understanding of government's ability to revive an ailing economy is quite limited. This is evident in a sample of recent estimates of the government purchases multiplier. The multiplier measures the amount by which an economy expands when the government increases its purchases of goods and services by $1.00.[5] It tells us, for example, how much of a return we can expect from public investments in infrastructure.

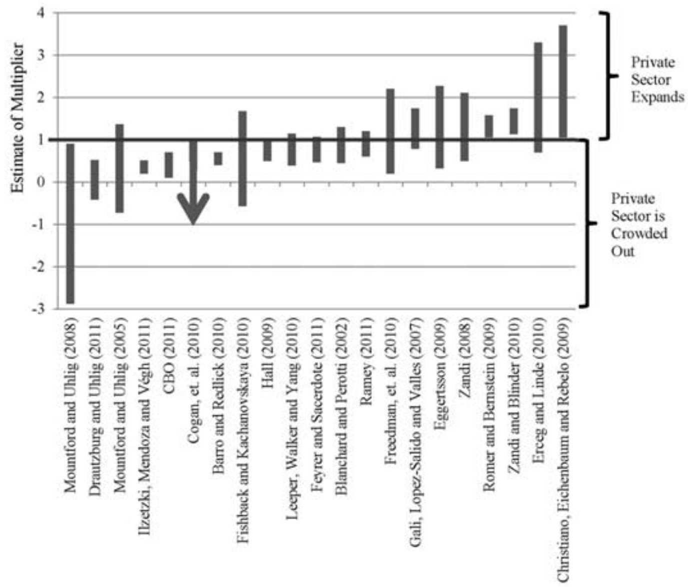
If the multiplier is larger than 1, then stimulus spending "multiplies," or stimulates private sector economic activity. On the other hand, if the multiplier is between 0 and 1, then stimulus displaces or "crowds out" private sector economic activity, but not by enough to counteract the increase in public sector economic activity. Last, if the multiplier is less than 0, government purchases crowd out enough private sector activity to offset any increase in public sector activity. In this case, stimulus shrinks the entire economy.

Figure 1 depicts a sample of recent estimates of the government purchases multiplier. Each bar shows the high and low-end estimate of a particular study.

[4] Robert Whaples, "Do Economists Agree on Anything? Yes!" *Economists' Voice* 3, no. 9 (November 2006): 1-6.

[5] It is important to remember that measured GDP includes government purchases and gross investments. In other words, a $1.00 increase in government purchases and gross investments *automatically increases measured GDP* by $1.00. This doesn't necessarily mean that the public sector activity is valuable, only that it is counted in measured GDP. To understand the effect on private GDP, one must subtract one from the multiplier.

Figure 1: Estimates of the Spending Multiplier[6]



Note: Cogan, et. al., do not give a lower bound, reporting that "in later years, multipliers turn negative."

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[6] Andrew Mountford and Harald Uhlig, "What Are The Effects of Fiscal Policy Shocks?" (National Bureau of Economic Research [NBER] Working Paper Series no. 14551, Cambridge, MA, 2008); Thorsten Drautzburg and Harold Uhlig, "Fiscal Stimulus and Distortionary Taxation," (National Bureau of Economic Research [NBER] Working Paper Series no. 17111, Cambridge, MA, 2011); Andrew Mountford and Harald Uhlig, "What Are the Effects of Fiscal Policy Shocks? (Humboldt-Universität zu Berlin working paper, Berlin, 2005); Ethan Ilzetzki, Enrique Mendoza, and Carlos Végh, "How Big (Small?) Are Fiscal Multipliers?" (National Bureau of Economic Research [NBER] Working Paper Series no. 16479, Cambridge, MA, 2010); Congressional Budget Office, *Policies for Increasing Economic Growth and Employment in 2012 and 2013*, (Washington, DC, November 15, 2011); John Cogan, Tobias Cwik, John Taylor, and Volker Wieland, "New Keynesian versus Old Keynesian Government Spending Multipliers," *Journal of Economic Dynamics and Control* 34, no. 3 (March 2010): 281-95; Robert Barro and Charles Redlick, "Macroeconomic Effects from Government Purchases and Taxes," (working paper, Mercatus Center at George Mason University, Arlington, VA, 2010); Price Fishback and Valentina Kachanovskaya, "In Search of the Multiplier for Federal Spending in the States During the New Deal" (National Bureau of Economic Research [NBER] Working Paper Series no. 16561, Cambridge, MA, 2010); Robert Hall, "By How Much Does GDP Rise If the Government Buys More Output?" (Brookings Panel on Economic Activity, Washington, DC, September 2009); Eric Leeper, Todd Walker, and Shu-Chun Yang, "Government Investment and Fiscal Stimulus," (International Monetary Fund [IMF] Working Paper Series, no. 10/229, Washington, DC, 2010); James Feyrer and Bruce Sacerdote, "Did the Stimulus Stimulate? Real Time Estimates of the Effects of the American Readjustment and Recovery Act (National Bureau of Economic Research [NBER] Working Paper Series no. 16759, Cambridge, MA, 2011); Olivier Blanchard and Roberto Perotti, "An Emperical Characterization of the Dynamic Effects of Changes in Government Spending and Taxes on Output," *The Quarterly Journal of Economics* 117, no. 4 (2002): 1329-368; Valerie Ramey, "Can Government Purchases Stimulate the Economy?" *The Journal of Economic Literature* 49, no. 3 (2011): 673-85; Charles Freedman, Michael Kumhof, Douglas Michael Laxton, and Dirk Vaughn Muir, "Global Effects of Fiscal

Note that there is a wide range in the estimates both across and within studies. If the optimistic scenarios are correct, an additional \$1.00 in deficit-financed government spending spurs \$2.70 in new private sector economic activity. But if the less-optimistic scenarios are correct, then an additional \$1.00 in spending destroys \$3.80 in private sector activity.[7]

The median estimate is 0.77. As I just noted, this implies that the only new economic activity that stimulus spurs is in the public sector; it actually crowds out economic activity in the private sector.
One reason for the large range of estimates is that the effectiveness of stimulus may be highly dependent upon context. For example, economists have found that multipliers are small or zero when a nation is operating under a flexible exchange rate, is open to trade with other nations, and is highly indebted.[8] All three conditions apply or soon will apply to the United States.

Others have found that multipliers are large when stimulus is relatively small, but that they quickly get smaller as more money is spent. Consider, for example, the second-largest estimate in table 1. The authors find that an additional dollar of stimulus may spur as much \$2.30 in private sector activity, but only if the government has not already spent a lot of money on stimulus. They write:

> [I]t is important to recognize that the marginal benefits of fiscal stimulus may drop substantially as spending rises, so that there is some risk that larger spending programs may have a low marginal payoff…."outsized" multipliers are only likely to apply to relatively small spending programs.[9]

This is especially relevant in today's context when government has already undertaken multiple massive stimulus projects, including the Economic Stimulus Act of 2008 (\$152 billion), the American Recovery and Reinvestment Act (ARRA) of 2009 (\$862 billion), and the Hiring Incentives to Restore Employment Act of 2010 (\$20 billion).

EXERCISE HUMILITY

Given the millions of Americans who remain unemployed, it may be tempting to look at some of the larger multiplier estimates and conclude that we ought to roll the dice and pursue further stimulus. Indeed, the president has recently called for \$30 billion to modernize schools, \$50 billion to improve surface transportation, \$10 billion to establish and fund an infrastructure bank, and \$15 billion to rehabilitate vacant property.[10]

Stimulus During the Crisis," *Journal of Monetary Economics* 57, no. 5 (July 2010): 506-26; Jordi Gali, David Lopez-Salido, Javier Valles, "Understanding the Effects of Government Spending on Consumption," *Journal of the European Economic Association* 5, no. 1 (March 2007): 227-70; Gauti Eggertsson, "What Fiscal Policy is Effective at Zero Interest Rates?" (Federal Reserve Bank of New York Staff Report no. 402, New York, November 2009); Mark Zandi, "Assessing the Macro Economic Impact of the Fiscal Stimulus 2008," (Moody's Economy.com, Washington, DC, January 2008); Christina Romer and Jared Bernstein, "The Job Impact of the American Recovery and Reinvestment Plan," (White House, Washington, DC, 2009); Alan Blinder and Mark Zandi "How the Great Recession Was Brought to an End," (Moody's Economy.com, Washington, DC, July, 2010); Christopher Erceg and Jesper Lindé, "Is There a Fiscal Free Lunch in a Liquidity Trap?" (Board of Governors of the Federal Reserve System International Finance Discussion Paper no. 1003, July 2010); and Lawrence Christiano, Martin Eichenbaum, and Sergio Rebelo, "When is the Government Spending Multiplier Large?" (National Bureau of Economic Research [NBER] Working Paper Series no. 15394, Cambridge, MA, 2009).

[7] The \$2.70 figure refers to the Christiano, Eichenbaum and Rebelo (2009) study which found a high-end multiplier of 3.7 (see fn 5 above). The \$3.80 figure refers to the lower-bound estimate by Mountford and Uhlig (2008).

[8] Ilzetzki, Mendoza, and Végh, op. cit.

[9] Erceg and Lindé, op. cit., 33-4.

[10] White House, "Fact Sheet: The American Jobs Act," September 8, 2011.

I cannot tell you what level of risk is acceptable to take with the American economy. But further stimulus at this point is indeed risky. In fact, there are compelling reasons to expect it would do more harm than good.

These are not just theoretical concerns. Studying 91 countries, economists Antonio Fatás and Ilian Mihov have found that, "Governments that use fiscal policy aggressively induce significant macroeconomic instability," and that, "The volatility of output caused by discretionary fiscal policy lowers economic growth by more than 0.8 percentage points for every percentage point increase in volatility."[11]

One problem is that there is a wide gulf between the way stimulus advocates say stimulus *ought* to be implemented and the way it actually *is* implemented in practice. Keynesian economist and former presidential economic advisor Lawrence Summers has offered a widely accepted summary of how—ideally—fiscal stimulus ought to be applied.[12] He notes that fiscal stimulus "can be counterproductive if it is not timely, targeted, and temporary." In reality, however, it is very difficult to simultaneously meet all three criteria. Consider each in turn.

TIMELY

We now know that 18 months after the 2009 stimulus bill passed more than half of the $275 billion that was slated for investment had yet to be spent.[13] It turned out that, as the president would later put it, "[T]here's no such thing as shovel-ready projects."[14]

In fact, the ARRA experience was not unique. In 1993, economist Bruce Bartlett reviewed four decades of stimulus efforts and found that, without exception, the funds were disbursed too late to make a difference.[15] Economists Olivier Blanchard and Roberto Perotti undertook a more technical analysis in 2002 and concluded that most counter-cyclical changes in fiscal policy do not peak until several quarters after initiated.[16]

TARGETED

We also know that it is very difficult to effectively target stimulus funds where they can do the most good. For example, Keynesian theory tells us that the money that went to the state governments should have been used to increase government purchases. Instead, states used the vast majority of it (about 98 percent) to decrease their own borrowing.[17]

Keynesian theory also tells us that to be effective, stimulus funds should be directed toward those areas hardest hit by the recession. Unfortunately, numerous studies have found that the distribution of ARRA funds had no statistical relationship to local area unemployment rates.[18]

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[11] Antonio Fatás and Ilian Mihov, "The Case For Restricting Fiscal Policy Discretion," *The Quarterly Journal of Economics* 118, no. 4 (2003): 1419-447.
[12] Lawrence Summers, "The State of the U.S. Economy," *Brookings Institution Forum*, December 19, 2007.
[13] Alec MacGillis, "Big Chunk of Economic Stimulus Yet to be Spent by State, Local Governments," *The Washington Post*, August 14, 2010.
[14] Stephanie Condon, "Obama: 'No Such Thing as Shovel-Ready Projects'," *CBSNews.com*, October 13, 2010.
[15] Bruce Bartlett, "How Not to Stimulate the Economy," *The Public Interest*, Vol. 112 (Summer 1993): 99-109.
[16] Blanchard and Perotti, op. cit
[17] John Cogan and John Taylor, "What the Government Purchases Multiplier Actually Multiplied in the 2009 Stimulus Package," (working paper, National Bureau of Economic Research, October 2010).
[18] Veronique de Rugy, "Stimulus Facts—Period 2," (working paper, Mercatus Center at George Mason University, Arlington, VA, 2010); Jason Reifler and Jeffrey Lazarus, "Partisanship and Policy Priorities in the Distribution of Economic Stimulus Funds," (working paper under review, September 2010); and Robert Inman, "States in Fiscal Distress," (working paper, National Bureau of Economic Research, June 2010).

Worse still, even when ARRA money did manage to lead to new hiring, most of those hired had *not* been previously unemployed.[19]

TEMPORARY

Last, we know it is very difficult to turn stimulus funding off once it has been turned on. Consider the closing remarks of the economists who produced the largest estimate in figure 1. Citing "political economy considerations," they declare, "We are keenly aware that it is much easier to start new government programs than to end them."[20] For this reason, they note, "It remains very much an open question" whether an increase in government purchases is the best way to respond to a flagging economy, even when interest rates are near the zero bound.[21] The data support their caution. In their study of historical stimulus efforts, Blanchard and Perotti found that in the typical case, 95 percent of a spending surge remains fully two years after an initial stimulus.[22]

Keynes himself shared these concerns. Toward the end of his life, he wrote:

> Organized public works…may be the right cure for a chronic tendency to a deficiency of effective demand. But they are not capable of sufficiently rapid organization (and above all cannot be reversed or undone at a later date), to be the most serviceable instrument for the prevention of the trade cycle.[23]

But not all is lost. We may not know how to revive an ailing economy, but economists *do* know quite a bit about fostering an environment that is conducive to growth. That is, we may not know how to instantly revive the patient, but we do know what habits make for a healthy lifestyle.

FREE ECONOMIES ARE HEALTHY ECONOMIES

One of the most effective ways to foster widespread prosperity is to permit citizens a wide degree of what economists call "economic freedom." That is, allow people to be free to choose and free to cooperate with others, provided they do not choose violence, theft, or fraud. Allow them to voluntarily exchange goods and services in a free and open market. Permit them to establish their own firms and compete with others on a level playing field. And—importantly—ensure that they are secure in their persons and their property.[24]

These ideas may sound vague, but thankfully, in the last several decades, a number of economists have attempted to put some rigor behind them by developing and testing objective measures of freedom. Gathering data across countries and across states, these economists have developed several indices of economic freedom. Professors James Gwartney, Robert Lawson, and Joshua Hall, for example, have developed a widely cited international index of economic freedom.[25] Each year, the index rates 141 countries based on factors such as the size of government, the extent of regulation, the stability and prudence of monetary policy, the degree of openness to trade, and the protection of property rights.

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[19] Garett Jones and Daniel Rothschild, "Did Stimulus Dollars Hire the Unemployed? Answers to Questions About the American Reinvestment and Recovery Act," (working paper, Mercatus Center at George Mason University, 2011).
[20] Christiano, Eichenbaum, and Rebelo, op. cit., 40.
[21] Ibid, 40.
[22] Blanchard and Perotti, op. cit.
[23] *The Collected Writings of John Maynard Keynes: Volume 27, Activities 1940-46: Shaping the Post-war World: Employment and Commodities*, ed. E. Johnson, D. Moggridge (Cambridge: Cambridge University Press, 1980), 122.
[24] James Gwartney, Robert Lawson, and Joshua Hall, *Economic Freedom of the World: 2011 Annual Report* (Canada: Fraser Institute, 2011).
[25] Gwartney, Lawson, and Hall, op cit.

Over the last decade and a half, scores of economists have used the economic freedom index to assess the impact of freedom on all sorts of measures of well-being, but especially on economic growth. Overwhelmingly, they have found that freedom makes a difference. Per capita GDP in the freest countries is more than 7 times that of the least free.[26] Differences among low-income workers are even greater: the poorest 10 percent in the most-free nations earn 8 times that of the poorest 10 percent in the least-free.[27] In marked contrast with the literature on stimulus, there is a remarkable degree of consensus in the studies of economic freedom. Economists Chris Doucouliagos and Mehmet Ali Ulubasoglu recently reviewed 45 studies examining the freedom-growth relationship and concluded that:

> [R]egardless of the sample of countries, the measure of economic freedom and the level of aggregation, there is a solid finding of a direct positive association between economic freedom and economic growth.[28]

Figure 2 shows the relationship between freedom and per capita income. There is clearly a positive and statistically significant relationship.

Moreover, because material wealth is positively associated with so many things that humans seem to care about—clean environments, quality health care, long life, and good education—economic freedom is also related to those things.[29]

The more freedom/more prosperity relationship doesn't just hold at the international level. There are also a number of state-level indices of economic freedom, such as the annual Freedom in the 50 States index published by the Mercatus Center at George Mason University.[30] In a recent review of several state-level indices, economists Jed Kolko, David Neumark, and Marisol Cuellar Mejia found that those states with greater degrees of economic freedom tend to experience larger gains in jobs, wages, and gross state product.[31]

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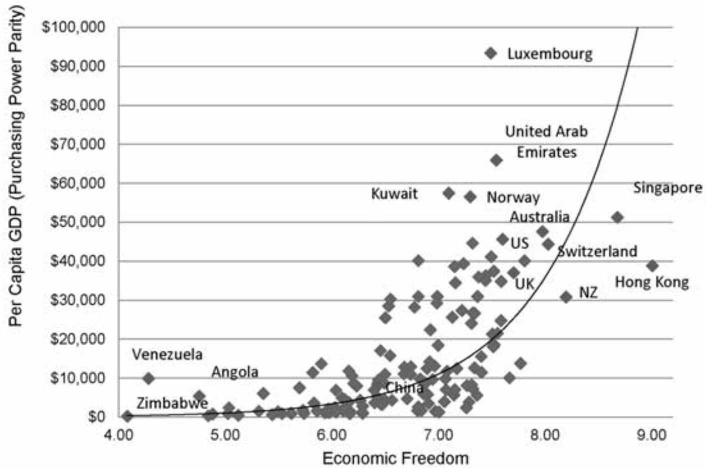
[26] Ibid, Exhibit 1.9.
[27] Ibid, Exhibit 1.12.
[28] Mehmet Doucouliagos and Chris Ali Ulubasoglu, "Economic Freedom and Economic Growth: Does Specification Make a Difference?" *European Journal of Political Economy* 22 (2006): 60-81, 78.
[29] Gwartney, Lawson, and Hall, op cit. See, also, Benjamin Friedman, *The Moral Consequences of Economic Growth* (New York: Random House, 2005).
[30] William Ruger and Jason Sorens, *Freedom in the 50 States: Index of Personal and Economic Freedom* (Arlington, VA: Mercatus Center at George Mason University, 2011).
[31] Jed Kolko, David Neumark, and Marisol Cuellar Mejia, "Public Policy, State business Climates, and Economic Growth" (National Bureau of Economic Research [NBER] Working Paper Series no. 16968, Cambridge, MA, 2011).

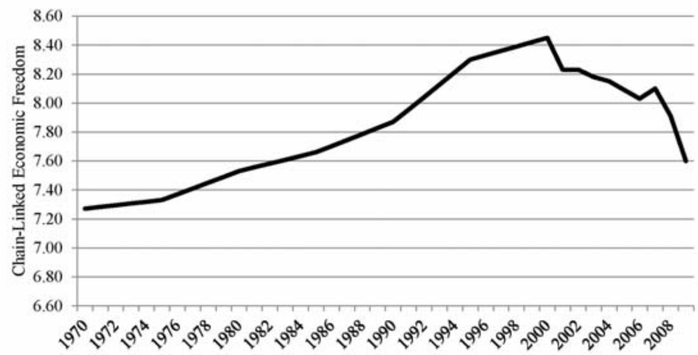
Figure 2: Economic Freedom and Per Capita GDP



Sources: Gwartney, Lawson, and Hall, op cit. and Alan Heston, Robert Summers and Bettina Aten, *Penn World Table Version 7.0*, Center for International Comparisons of Production, Income and Prices at the University of Pennsylvania, May 2011.

The economic freedom literature demonstrates that the remarkable prosperity of the United States is neither accidental nor inevitable. It is the result of decades of robust and expanding economic freedom. Unfortunately, as Figure 3 demonstrates, that freedom has been in precipitous decline for about a decade.

Figure 3: U.S. Economic Freedom: 1970-2009



Source: Gwartney, Lawson, and Hall, op cit.

CONCLUSION

Millions of Americans are unemployed or underemployed. Millions more have given up looking for work. It is only natural to want to perform emergency surgery on our sick economy but we know from experience that drastic interventions can sometimes cause more harm than good.

Instead of implementing a quick fix, we should be creating the conditions that are necessary for long run economic health; we should be enhancing economic freedom. This means that regulations should be informed by sound analysis to ensure that they do not detract from or divert human capital into unproductive uses. The tax code should be made efficient, equitable, and easy to comprehend. Spending should be brought in line with revenue to make policy sustainable. And international trade should be made freer.

Thank you for the opportunity to testify today. I look forward to your questions.

Chairman KLINE. Thank you all for your testimony.

Listening to the testimony, particularly of Dr. Bernstein and Dr. Mitchell, I was thinking back to many, many, many years ago—in fact, decades ago—when I was in school down in Houston, Texas, at Rice, and I was studying economics, was majoring in biology, and I took economics, because I thought it was an easy course. And you had to take some electives, and I enjoyed it. It was interesting to me. And then I got to be a senior and found out that I had to employ calculus to really make this work, and it got a whole lot more complicated.

And listening to both of you, it is clear what I knew even then, but has been underscored over the years, there can sometimes be very, very large differences in how economists look at sometimes exactly the same data to come up with very, very different conclusions. And we have some of that here.

And it causes me to have great sympathy for Ms. Johnson, who is trying to make a business work, while the economists and politicians are battling.

So my thanks to you for the great job that you are doing in keeping over 200 people employed and trying to struggle your way through this and struggling with all the issues of getting legal advice, and trying to decipher rules, and watching those rules and regulations change, and trying to keep up with it, and trying to have your business not only survive, but to grow.

But I am going to let the economists have a little bit of a discussion here. I want to go to Dr. Mitchell, because Dr. Bernstein introduced the concept of YOYO economics, "you are on your own." How would you characterize that, in comparison to the sort of free-market principles which I understand that you are advocating?

Mr. MITCHELL. Well, you know, it is interesting. On the topic, say, of trickle-down economics, I have to admit that there is no respectable economist that I know of, actually, who advocates anything close to trickle-down economic policies. So perhaps we are in agreement here.

There really isn't a school or an academic journal that publishes regularly or teaches its students that what we ought to be doing is, from the top down, directing resources to the wealthy somehow in the hopes that they will turn around and spend that.

There is a well-respected school of economics which says that we ought to treat all people equally and that we shouldn't single out some for particular special treatment one way or the other.

And so what I would actually say is, while there isn't any economic school that teaches some sort of top-down, trickle-down economics, unfortunately, governments do quite often practice top-down economics. And by that, I mean, you know, you studied biology, as you said. In some ways, I think a free-market perspective views the economy as an ecosystem. It is a bottom-up process that is largely driven by consumers.

Where that process—the signals get lost is when central planners attempt to direct capital and labor so that people don't—it is not consumers who are saying where the jobs of tomorrow are, but rather it is people in government trying to say where the jobs of tomorrow should be.

Chairman KLINE. Thank you. I have got another quick question for you. I am sure there will be a number of questions for Dr. Bernstein, and he can re-defend YOYO, if you would like to.

In your testimony, again, Dr. Mitchell, you expressed some skepticism that the president's call for another $105 billion—I have got that by adding several of his proposals together—adding another $105 billion in federal spending bill will result in real benefits for the American economy. In fact, he said it may be risky.

Would you like to expand on that?

Mr. MITCHELL. Sure. And, actually, this might be a good opportunity. I have an additional slide; we might bring that up. So I am going to try to make this as non-wonky as possible. Forgive——

Chairman KLINE. There is no calculus.

Mr. MITCHELL. There is no calculus, I promise. So one of the things that is important when you are trying to evaluate stimulus measures is what economists call the multiplier. Simply put, this just says it is—you can think of it as your return for government spending. So we are going to go into a deficit, we are going to borrow, and we want to know, what is the impact on the economy?

So what this chart shows—each one of these bars represents a separate study. And the important thing to keep in mind is, if the results suggest that the multiplier is larger than one, then that means government spending actually multiplies or adds private-sector economic activity. If it is less than one, however, it detracts from, crowds out, diminishes private-sector economic activity.

So the horizontal bar there is the one mark. Each one of these vertical bars represents the high and low estimate of the different study. This is just a sample of recent studies over the last several years.

Now, that does not at all to me look like a slam-dunk, we know that stimulus definitely always works and crowds in the private sector and makes—multiplies the private sector. To me, I look at that and I see an enormous amount of disagreement. I see even within studies there are estimates that suggest—that have a very wide range.

So if you look at that, you can see—by the way, I would note that the median estimate is below one, that stimulus actually crowds out private-sector economic activity, but in some of the worst examples, it can destroy—$1 of government spending can destroy as much as $2.80.

So that is what I mean when I say this is risky. I am not saying that there aren't well-respected economists who sometimes think stimulus is helpful. But it is a risk. It is not something that economists agree on.

And I would say one other quick point. There are many things on which economists do agree, benefits of free trade, the fiscal problems with the U.S. and over the long run. You are going to find widespread agreement. There are frequently polls of members of the American Economic Association on these matters, and you find lots of things on which economists agree. Fiscal stimulus just isn't one of them.

Chairman KLINE. Thank you. My time has expired.

Mr. Payne?

Mr. PAYNE. Thank you very much. And I commend you for your knowledge on this calculus business. I am going to stay away from it. It wasn't one of my strong suits in college.

But I would like to ask Ms. Johnson, I commend you for bringing forth the family business for 60 years and being successful. But looking at your testimony, you do bring up, of course, all these impediments, talk about how the OSHA, of course, is troublesome and bothersome and frustrating and confusing and many issues you have to keep up with. Of course, you certainly feel that we could do without the EPA and their programs of slowing down job creation, and on and on.

But let me—and I could ask a lot of questions about both of those—but let me just focus on your testimony regarding the National Labor Relations Board. You testified in your testimony, you contend that the NLRB unlawfully issued a rule regarding the posting of notices on employee rights. First, does your company post notices of employee rights regarding the minimum wage, OSHA, workers' compensation, and laws prohibiting discrimination?

Ms. JOHNSON. Yes, we absolutely do. As a federal contractor, it has been a requirement of ours.

Mr. PAYNE. Do you consider these postings to be burdensome?

Ms. JOHNSON. Burdensome in the sense that there are inspectors that would come through and verify that our posters are displayed, that they are the right size, that they are not hidden away in a dark corner somewhere, the fact that there doesn't seem to be trust.

Mr. PAYNE. And, you know, the good companies do suffer from the bad companies, because they are not all as great as your company seems to be. In some places, they do put them in the dark places or in a room where no one can get in, they tell me.

Let me just ask you this, that is posting one additional notice regarding employee rights under labor law burdensome?

Ms. JOHNSON. We have been doing it for many, many years, so it has become a practice of ours. I think that, for those companies that have not been required to, it could be a burden, yes.

Mr. PAYNE. Your testimony says that the NLRB acted without legal authority to require this notice posting regulation. And I just wanted to know—and you probably are aware—that the National Labor Relations Act states that the board shall have the authority from time to time to make, amend, and rescind such rules and regulations as may be necessary to carry out the provisions of the act.

What about the—what prohibits the NLRB from issuing a notice advising employees of their rights, even if it is another one, whether they are rights of the labor people or the employer?

Ms. JOHNSON. Well, I just think that it is just adding another burden to businesses and that it is an example of overreaching when there have been laws in place that companies have been complying with and then they decide that they are going to change it. It is a perception that businesses have that independent agencies are overreaching in their authority at times.

Mr. PAYNE. But wouldn't you agree that if all workers are—know the rules and feel that everything is posted, that really develops harmony? We ran a small business of about 50 people and had to put up all of those regulations and had to let the OSHA people come in, and they used to do tests on decibels of sound. It was a problem because we had rotating actions in a large printing operation, and the workers didn't want to wear the pieces, but it couldn't be over 80 decibels, so it was a problem, but it was to protect the worker——

Ms. JOHNSON. Absolutely.

Mr. PAYNE [continuing]. And we enforced that for the worker, even though it was a nuisance. But I think that, overall—and just the last thing, before my time expires—you also mention that you—in your testimony, that the NLRB issued regulations that compress time between the—when a petition for representation is filed and the actual elections are held. And you called this ambush elections. And I just wonder if you could elaborate on that.

Ms. JOHNSON. I would be happy to, because I first would like to go on record saying that, as a small business—and I know that this is a term that is overused—but people are our biggest asset. Our number-one priority is our workforce. That makes our company great. If companies have access to capital and can invest in technology, that is not going to make them a world-class company. It all comes down to people.

I am not aware of any attempts of organization, my company over the last 60 years—when people are our number-one priority, as is their safety. And in fact, on a weekly basis, our director of operations in his report, the number-one metric that he reports out on are any kind of safety occurrences or accidents. And in fact, last year, one of our key metrics was to improve our safety record by 50 percent so that it is less than two incidents per year. And that is a goal that we were able to achieve at one of our divisions last year, and we are going forward.

But without a doubt, people are our greatest asset. Their safety is number one.

Chairman KLINE. The gentleman's time has expired.

Mr. Walberg?

Mr. WALBERG. Thank you, Mr. Chairman. And thank you to the panelists for being here today. And appreciate your insights.

Ms. Johnson, it is a pleasure to hear from you again. I think you were here back in 2007. I sat and listened to you extol the wonderful opportunities and the passion of manufacturing. And I have used the illustration many times without asking your permission of you, going into middle schools and telling students what they could get experience in manufacturing and the opportunities that were there, and even seeing some of the parts that they produce go to the moon, or go into space.

And so I would like to foster that passion, as opposed to just dealing with excessive government regulation, impingements upon you doing those things. And I will inform you that I am going to use with manufacturers your quote, without innovation, manufacturing is just a good idea. So thank you for being here.

Let me ask you some questions, and in my district in Michigan, a manufacturing state that has gone through some tough times, and now just hearing from our governor how we are turning that around and seeing the value of manufacturing again.

I hear so often from my manufacturers and businesspeople, small-businesspeople, of the challenges they face with uncertainty and the ever-increasing burdensome regulations, not just simply regulations that are necessary, but the advancing and increasing and more and more regulations.

It was a little more than a year ago that our president announced his intentions to review and repeal a number of regulations. Have you seen any tangible evidences of this review? And is it the fact that it is working? Or has the review caused less uncertainty in your field?

Ms. JOHNSON. Thank you for that question. And I very much appreciate the compliments and the fact that you can remember me from 2007——

Mr. WALBERG. A guy my age, that is a very important thing.

Ms. JOHNSON. Same for my age. You know, no, I have not seen any of these rules being retracted. In fact, you know, I would just recommend to the committee that at this point in time we just, you know, stop, look and listen, you know, and take it all in, as we have been trying to climb out of this recession.

What we hear constantly in the news is more and more regulations coming our way. And we take the health care law, for example. The only thing that we know at this time is that our costs have gone up, when, in fact, you know, the regulations have not even been written yet.

And I was reading in the Wall Street Journal just last week that it says that President Obama's regulators are currently have some 149 major rules underway which are those that cost more than $100 million. So my experience is, no, I have not yet seen that.

Mr. WALBERG. Okay, let me continue on with that. You noted in your testimony that Washington regulations are time-consuming, complex, uncertain, changing. I guess from that, can you estimate how much it costs a business to hire experts or counsel to navigate your business through the maze of regulations?

Ms. JOHNSON. Well, currently we have two different consulting firms that we work with in regards to environmental compliance. And we have a labor attorney that is on a retainer. And between those three, it is well over $150,000.

Mr. WALBERG. Just for those areas?

Ms. JOHNSON. Yes. Yes.

Mr. WALBERG. Do you receive any positive help from the federal agencies in assisting you with compliance and understanding?

Ms. JOHNSON. Well, you know, and that is a great question to ask, because the times that I am in Washington and the opportunities I have to meet with different representatives of these agencies, there is so much work that is being done to inform employers what is going on in Washington and how they are there to help.

And I know, for example, at the manufacturing council meeting a couple of weeks ago, we met with representatives from the EPA, and they said that they are redesigning their website so that we could have real-time status of projects that are going on.

And I think that there needs to be some way to get this information outside of the beltway to the employer so that we understand it, but at this point in time, we have not sought out any help from the federal level.

Mr. WALBERG. Or found it available yet?

Ms. JOHNSON. Or finding that is available.

Mr. WALBERG. Okay. What percentage of your business is overseas?

Ms. JOHNSON. Very little of it. We are somewhat fortunate in the fact that, you know, we are split about 50/50 in terms of commercial and military and aerospace. And a lot of that has remained here.

However, you know, our fear is, as some of our customers are helping companies overseas develop their aerospace industry, that the supply chains are going to exist there, as well, and we have no intentions of moving our business overseas.

Mr. WALBERG. Thank you.

Chairman KLINE. Mr. Scott?

Mr. SCOTT. Thank you, Mr. Chairman.

Mr. Bernstein, we heard earlier today about investments in education needed to fill the 70,000 vacancies in Michigan. Can you tell me the economic benefits of investments in education?

Mr. BERNSTEIN. Sure. It is probably one of the best understood and most widely agreed upon relations in labor economics. For every extra year that a person has of formal schooling, their earnings are typically 7 percent or 8 percent higher. And the idea that education complements higher skills, higher earnings, has become all that more important in recent years as technology and employer skill demands have increased pace. So the fact that we are helping workers improve their levels of education is very closely linked to their employability and earnings.

Now, I will just say—let me just add one point—if you just have the education without the jobs, you are all dressed up with nowhere to go, so there is a supply side. We want workers with good skills. There is also a very important demand side. Right now, we have too many people chasing too few jobs.

Mr. SCOTT. Well, they indicated that the 70,000 jobs in Michigan—you know, it wasn't that clear, but it sounded like a lot of them were going unfilled because the employers couldn't find people properly qualified.

Mr. BERNSTEIN. Certainly heard that recently. I think there are definitely pockets throughout the country where there is a mismatch between the skills that the workforce on the ground has and the skills an employer demands, employers demand.

But speaking more broadly, we definitely have a demand-side problem, as well. I mean, historically there are one or two job openings per—or one or two unemployed people per job openings in recent months. That ratio was as high as six. Now it is down to four, for unemployed people per job opening. So it is a very tough game of musical chairs, broadly speaking. But, yes, sure there could be——

Mr. SCOTT. And it is also even worse when there is a mismatch.

Mr. BERNSTEIN. Exactly.

Mr. SCOTT. Now, if you invest in education,that has economic stimulative effect, too. If you gave money to a community college, for example, to improve educational opportunities, could you say a word about what that would do to employment? I mean, they would have to hire people.

Mr. BERNSTEIN. Well, for years—and this committee has been in the thick of it—the federal government has played a role in helping support training programs. What we now know—summarizing research that I reference in my submitted testimony—is that the type of program you describe, Congressman, are among the most effective.

We have found—it is called sectoral employment and training strategies. And Ranking Member Miller's Pathway to Opportunity bill also speaks to this, I think, sweet spot in education and training policy.

The idea is to link up employers at the most local level with community colleges so that the employers themselves can identify in the most granular terms the kinds of jobs they are going to be fielding in coming months and years. It is a very different approach to training than a kind of blanket, soft skills, basic, you know, here you go, some training, good luck out there. It is a much more granular look at the occupational demands of future labor opportunities. That kind of sectoral employment strategy, linking employment and community colleges, I think is the way forward.

Mr. SCOTT. And the community college, when it receives money to provide the training, has to hire adjunct professors, people have to buy books, and even that expenditure has short-term positive effects on the economy.

Mr. BERNSTEIN. I think that is right. I mean, clearly there is very much a demand for precisely this kind of training. And, in fact, if you look at one of the constraints that—we talk a lot about community colleges in this town. If you look at one of the real constraints community colleges face right now is that they are actually way overcapacity in many places throughout the country. Part of that is a function of the downturn, lots of people going back and getting more schooling, but part of it is very much the emphasis groups and committees like——

Mr. SCOTT. Let me see if I can get another question very quickly. The state and local governments have been laying off people because of their balanced budget requirements. Can you say a word about the importance of the federal government providing revenue-sharing so that they would stop laying people off?

Mr. BERNSTEIN. Absolutely. We have seen this almost every month for the past few years. We have added private-sector jobs, while the public sector has shed literally hundreds of thousands of jobs over the past few years, and it is because they are facing budget constraints.

One of the most successful programs in the Recovery Act was state relief for towns and cities, preventing layoffs, teachers, police, sanitation workers, firefighters, key workers in the community. And in the American Jobs Act, the president provided—introduced an extension of exactly that type of help, and it is very much in the interest of providing some boost for what is still a fragile recovery.

Chairman KLINE. The gentleman's time has expired.

Ms. Woolsey?

Ms. WOOLSEY. Thank you, Mr. Chairman.

You know, we are going to be hearing a lot more, as we have today, about burdensome regulations and how the federal regulations impact negatively on business. And I think one that we are going to hear about over and over is OSHA's proposal to develop an injury and illness prevention program, a rule that would require employers to implement a plan to routinely find and fix hazards before workers are hurt, instead of waiting for OSHA to find violations. And the opposition—the opponents will claim that this is simply going to pile up paperwork and it be a new regulation that we don't need.

Well, to justify the opposition, some have mischaracterized the study by RAND Corporation on California's injury and illness prevention program and stated that it had little impact on worker safety, because, indeed, it is preventative.

But what the RAND Corporation found, as noted in a memo that—a press release, actually, that they sent is that California's program can help prevent injuries to workers, but only if it is adequately enforced. Their press release said that when inspectors found failures to comply with provisions to train workers, identify and abate hazards, indeed, there is a 20 percent decline in accidents and injuries.

So, Mr. Chairman, 20 percent is not a minor impact. It is not a burdensome regulation. It saves $74 billion every year in workers' compensation-related costs. And, in fact, if employers could cut 20 percent off this cost, which—it would be about $15 million per year that would improve their competitiveness.

So I don't want to trivialize the value of injury and illness prevention programs. I want us to step up to the fact that there are regulations that help and will make a difference.

With that, Mr. Chairman, I respectfully request leave to place the January 26, 2012, RAND press release into the record.

[The information follows:]

California Workplace Safety Program Can Reduce Injuries When Inspectors Enforce It

For release Thursday, January 26, 2012

A longstanding California occupational safety program requiring all businesses to eliminate workplace hazards can help prevent injuries to workers, but only if it is adequately enforced, according to a new study by the RAND Corporation.

The first-ever evaluation of the California Injury and Illness Prevention Program found evidence that the program reduces workplace injuries, but only at businesses that had been cited for not addressing the regulation's more-specific safety mandates.

"We found the safety effects to be real, but not very large," said John Mendeloff, lead author of the study and a senior public policy researcher for RAND, a nonprofit research organization. "We think that the most important reason for the limited impact of this program is that inspectors often did not go beyond a review of the employer's written document."

When California Division of Occupational Safety and Health inspectors did investigate further and found failures to comply with provisions to train workers, identify and abate hazards, and investigate injury causes, the average injury rates at targeted businesses declined more than 20 percent in the following two years, Mendeloff said.

However, these provisions were cited in only about 5 percent of Cal-OSHA inspections, RAND researchers found. In the other 20 percent of inspections where a violation of the rule was cited, it was only for the section requiring the employer have a written program. Such a violation carries an average penalty of $150.

The California Injury and Illness Prevention Program, which became effective in 1991, requires all employers to adopt certain procedures. These include communicating to employees about risks, carrying out regular workplace surveys and abating the hazards that are found, training employees about how to work safely, and investigating the causes of the injuries that occur. In contrast, almost all other safety standards address specific hazards—for example, those dealing with protection against falls.

The program has been the most frequently violated Cal-OSHA standard in every year since 1991, being cited in about 25 percent of all inspections. The California program is also one possible model for federal OSHA's current rule-making effort to develop a safety and health program rule.

The RAND study notes that higher penalties for noncompliance with the program and more extensive activities to make employers aware of their obligations could enhance compliance. However, two other approaches could have a greater impact: having inspectors conduct more in-depth assessments of employer programs and having inspectors link the violations they find and the injuries that have occurred to the program by asking "Why weren't these prevented by your Injury and Illness Prevention Program?"

The study found that employers who were cited for violations of the Injury and Illness Prevention Program in one inspection usually came into compliance in future inspections. However, the overall percentage of inspections finding program violations did not change over time.

Moreover, the percentage of first-time inspections finding violations was the same in 2007 as it was in 1993. These findings indicate that information about the program requirements failed to reach many employers, they failed to be convinced to comply by the threat of penalties, or both.

The 20 percent reduction in injuries following citations for the specific requirements of the California Injury and Illness Prevention Program translates to about 1 injury per year at a workplace with 100 employees. Most estimates of the value of preventing a work injury are in the range of $15,000 to $50,000. The RAND study did not find evidence that the statewide workplace fatality rate had decreased after the introduction of the program standard.

The study of injury effects was carried out using several different injury data sets. In all cases, inspections were included in the data if "before and after" injury rates could be obtained for the inspected business. The study was limited to workplaces in the manufacturing, transportation, utilities, wholesale trade and health care sectors. It included inspections through 2006.

The study, "An Evaluation of the California Injury and Illness Prevention Program," can be found at www.rand.org. Other authors of the study include Amelia Haviland and Regan Main of RAND, Wayne B. Gray of Clark University and the National Bureau of Economic Research, and Jing Xia formerly of RAND.

The study was sponsored by the California Commission for Health, Safety and Workers' Compensation, a public body with management, labor and public representatives located in the state's Department of Industrial Relations.

The study was conducted within the RAND Center for Health and Safety in the Workplace, a research center within RAND Law, Business and Regulation. RAND Law, Business and Regulation, a division of the RAND Corporation, is dedicated to improving policy and decision making in civil justice, corporate ethics and governance and business regulation.

ABOUT THE RAND CORPORATION

The RAND Corporation is a nonprofit institution that helps improve policy and decisionmaking through research and analysis.

[The summary, as well as the complete document, "An Evaluation of the California Injury and Illness Prevention Program," may be accessed at the following Internet address:]

http://www.rand.org/pubs/technical_reports/TR1190.html

Chairman KLINE. Without objection.

Ms. WOOLSEY. Thank you very much.

Ms. Johnson, are you the beneficiary, as a small woman-owned business, of the women-owned small business federal contract program?

Ms. JOHNSON. Yes.

Ms. WOOLSEY. And has that worked for you, or has it been an undue burden? Is it difficult to comply with?

Ms. JOHNSON. Not necessarily. And I think that, in fact, it probably works more in favor for our customers, who have some offset programs where they have to divert or contract with their minority-owned or women-owned businesses.

Ms. WOOLSEY. So they contract with you——

Ms. JOHNSON. Correct.

Ms. WOOLSEY. So there are programs that actually work in favor of those like yourself and others?

Ms. JOHNSON. You bet there are. And I would agree with your injury and illness and preventative program, as well. There is no doubt that there are regulations that are necessary. We are not disputing that by any means.

But just we are talking about the difficult and uncertain economic times that we are in right now and that just with so much that we hear in the news and the media and the noise. It is just—we need to just stop for a second and figure it out.

Ms. WOOLSEY. All right, I appreciate you.

So, Dr. Mitchell, in figuring out, can you list the regulations that you would eliminate from the most to least important?

Mr. MITCHELL. Sure. And thank you for asking, because I think this gives us an opportunity to highlight, I think, something that is important to understand about regulations. Both on the left and the right, there is a tendency to think about the cost of a regulation is the burden of filling out the paperwork, right?

Ms. WOOLSEY. Yes, or——

Mr. MITCHELL. And I am sorry?

Ms. WOOLSEY. Or the savings is——

Mr. MITCHELL. Yes, and people will weigh that against the savings. So conservatives will go and count up, you know, the costs of compliance.

Ms. WOOLSEY. We are in yellow light. Will you list the regulations you would eliminate from most to least important?

Mr. MITCHELL. Okay. Well, I would say that the regulations that are most important to eliminate are those that favor entrenched interests, because that is the hidden cost of regulation.

Ms. WOOLSEY. So, example. What is the——

Mr. MITCHELL. Regulations almost always—and this is important that has won Nobel Prizes——

Ms. WOOLSEY. Okay, give me an example of that regulation.

Mr. MITCHELL. Sure. I mean, I think that there is a lot of opportunity in the health care law, for example, to look at ways in which regulations that were passed very quickly—and apparently subject to not particularly good analysis——

Ms. WOOLSEY. Well, an example. An exact example.

Mr. MITCHELL [continuing]. And privilege—they privilege favored industries.

Ms. WOOLSEY. Okay, like the insurance industry.

Thank you, Mr. Chairman.

Mr. MITCHELL. Yes, exactly.

Chairman KLINE. The gentlelady's time has expired.

We are wrapped up with our questions here. Before I thank and excuse the panel, I would like to recognize Mr. Payne for any closing remarks he might have.

Mr. PAYNE. Well, thank you very much.

I think that you have all added to the hearing today. I appreciate your coming and spending time.

I would also like to commend the governors. I thought that they had a very balanced approach. And I think that we really need to see how we can get America back on the job track. I think that a lot of the bickering that goes on is really discouraging to American people. And there are things that we can do together to help our nation in this time, and I just hope that at some point in time, the Congress will come together and try to put American people first.

Also, I would like to agree with one of the governors that mentioned Secretary LaHood was doing an outstanding job, and I have to agree that he is one of the more accessible and energetic and forward-thinking members of the cabinet. I just wanted that to be on the record.

Thank you. I yield back.

Chairman KLINE. I thank the gentleman. And, of course, Ray LaHood has been a friend of many of ours for a long time. It shows the value of the education you get here in Congress when you move to the cabinet.

I want to thank the witnesses. I think that it underscored some of the differences that we have and some places where we might come together. As I mentioned in my opening remarks, I think there may be an opportunity where we can come to agreement in streamlining and consolidating programs, as the president suggested, to make them work better, to match up the needs of employers with the output, if you will, of schools.

The testimony also underscored some fundamental differences. Sometimes it is bickering that we engaged in here. And that, I think, is really unfortunate. Sometimes it is fundamental differences and how we—what we think is best for the American people and best for the economy and the best way to get Americans back to work. That debate will continue. And you have been very helpful in our consideration of those things. Again, I want to thank the witnesses.

And there being no further business, the committee stands adjourned.

[Questions submitted for the record and their responses follow:]

U.S. CONGRESS,
Washington, DC, March 28, 2012.

Governor DANNEL P. MALLOY, *State of Connecticut,*
210 Capitol Avenue, Hartford, Connecticut 06106.

DEAR GOVERNOR MALLOY: Thank you for testifying at the Committee on Education and the Workforce's February 1, hearing on "Expanding Opportunities for Job Creation." I appreciate your participation.

Enclosed are additional questions submitted by Committee members following the hearing. Please provide written responses that answer the questions posed no later than April 16, 2012, for inclusion in the official hearing record. Responses should be sent to Benjamin Hoog of the Committee staff, who can be contacted at (202) 225-4527.

Thank you again for your contribution to the work of the Committee.

Sincerely,

JOHN KLINE, *Chairman.*

Question Submitted for the Record by Congressman Dennis A. Ross, a Representative in Congress From the State of Florida

Question: Governor Malloy, President Obama's bi-partisan fiscal commission, Simpson-Bowles, recommended in December of 2010 that corporate tax loopholes be eliminated and that the corporate tax rate be reduced from thirty-five percent to twenty-six percent. This proposal would allow states leverage in incentivizing economic development by allowing them more opportunities to attract corporations to do business. Do you support these recommendations made by the Simpson-Bowles Commission and why, or why not?

DANNEL P. MALLOY
GOVERNOR
STATE OF CONNECTICUT

May 29, 2012

The Honorable John Kline
Chairman
Committee on Education and the Workforce
US House of Representatives
2181 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Kline:

Fostering job creation and economic recovery in Connecticut has been my priority since taking office last year. Our strategy is working – 16,300 private sector jobs have been created in Connecticut since January 2011. Connecticut's unemployment rate has decreased for six consecutive months to 8.0 percent, its lowest level since April 2009. We continue to outpace the national average, which is a testament to the hard decisions we made last year to stabilize our state's finances and focus on job creation.

I appreciated the opportunity to highlight our economic development strategy in testimony before your committee on February 1, 2012. Thank you for forwarding me the question posed by Representative Ross subsequent to the hearing. In response, I would note that both the Simpson-Bowles Commission and President Obama have offered similar plans to address corporate tax rates and corporate tax loopholes. Both proposals recognize that our current corporate tax code is not efficient or optimal, and I agree. Therefore, Congress should – in a bipartisan fashion – negotiate an appropriate rate cut and identify appropriate tax loopholes to close.

Again, thank you for the opportunity to testify before your committee. I look forward to working with Connecticut's congressional delegation and your Committee on legislation to accelerate national job creation and economic growth.

Sincerely,

Dannel P. Malloy
Governor

OFFICE OF THE GOVERNOR • STATE CAPITOL
210 CAPITOL AVENUE, HARTFORD, CONNECTICUT 06106
TEL (860) 566-4840 • FAX (860) 524-7396 • www.governor.ct.gov
Governor.Malloy@ct.gov

Question submitted for the record by Congressman Dennis A. Ross of Florida's Twelfth Congressional District. This question was posed by Congressman Ross, but responses were cut short due to time.

Question:

Governor Snyder, President Obama's bi-partisan fiscal commission, Simpson-Bowles, recommended in December of 2010 that corporate tax loopholes be eliminated and that the corporate tax rate be reduced from thirty-five percent to twenty-six percent. This proposal would allow states leverage in incentivizing economic development by allowing them more opportunities to attract corporations to do business. Do you support these recommendations made by the Simpson-Bowles Commission, and why, or why not?

Answer:

As Governor, my focus has and continues to be on Michigan. Thus, although I am not entirely familiar with the specific provisions of the Simpson Bowles plan, in Michigan we worked to achieve a tax system that is simple, fair and efficient. I believe the same principals should inform the federal government in its approach to tax policy.

A good tax system at any level has three basic principles -- simple, fair and efficient. Our previous system violated all three of these principles for both businesses and individuals. Working together, we eliminated the Michigan Business Tax. In addition to failing the three principles, the MBT was a job-killer that imposed an unfair double tax burden on our best job creators -- our small- and mid-sized business owners. Although it didn't disappear until the end of 2011, many business people gained confidence in our future and have already taken action. We also completed a major reform of our individual tax system. We changed the personal tax system to one defined by fairness, one that doesn't treat anyone better than someone else. We leveled the playing field to give all Michiganders a fair shake

U.S. CONGRESS,
Washington, DC, March 28, 2012.

Governor RICK SNYDER, *State of Michigan,*
P.O. Box 30013, Lansing, Michigan 48909.

DEAR GOVERNOR SNYDER: Thank you for testifying at the Committee on Education and the Workforce's February 1, hearing on "Expanding Opportunities for Job Creation." I appreciate your participation.

Enclosed are additional questions submitted by Committee members following the hearing. Please provide written responses that answer the questions posed no later than April 16, 2012, for inclusion in the official hearing record. Responses should be sent to Benjamin Hoog of the Committee staff, who can be contacted at (202) 225-4527.

Thank you again for your contribution to the work of the Committee.

Sincerely,

JOHN KLINE, *Chairman.*

Question Submitted for the Record by Congressman Dennis A. Ross, a Representative in Congress From the State of Florida

Question: Governor Snyder, President Obama's bi-partisan fiscal commission, Simpson-Bowles, recommended in December of 2010 that corporate tax loopholes be eliminated and that the corporate tax rate be reduced from thirty-five percent to twenty-six percent. This proposal would allow states leverage in incentivizing economic development by allowing them more opportunities to attract corporations to do business. Do you support these recommendations made by the Simpson-Bowles Commission and why, or why not?

STATE OF MICHIGAN
EXECUTIVE OFFICE
LANSING

RICK SNYDER
GOVERNOR

BRIAN CALLEY
LT. GOVERNOR

May 7, 2012

The Honorable John Kline
Chairman
House Committee on Education and the Workforce
2181 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Kline:

As requested, I have attached Governor Snyder's response to Congressman Ross' question submitted for the record during your Committee hearing on "Expanding Opportunities for Job Creation" on February 1, 2012.

Please do not hesitate to contact me or Eric Brown on my staff at browne15@michigan.gov or (202) 624-5840.

Sincerely,

Bill McBride

Bill McBride
Director
Washington DC Office

GEORGE W. ROMNEY BUILDING • P.O. BOX 30013 • LANSING, MICHIGAN 48909
www.michigan.gov

[Whereupon, at 12:40 p.m., the committee was adjourned.]

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